SPIN MASTER CORP.
2018 ANNUAL REPORT

GROWTH STRATEGIES

INNOVATE USING OUR GLOBAL INTERNAL AND EXTERNAL R&D NETWORK

- Leverage competitive strengths and global networks to build a robust pipeline
- Continue to focus on strategic brand building
- Continue to invest in advanced technology, and licenses

DEVELOP EVERGREEN GLOBAL ENTERTAINMENT PROPERTIES

- Leverage current properties
- Launch at least one new property per year
- Strategically relaunch properties to capitalize on value of owned content library.
- Continue to build broadcast relationships
- Generate new licensing and merchandising revenue streams

INCREASE SALES IN INTERNATIONAL DEVELOPING AND EMERGING MARKETS

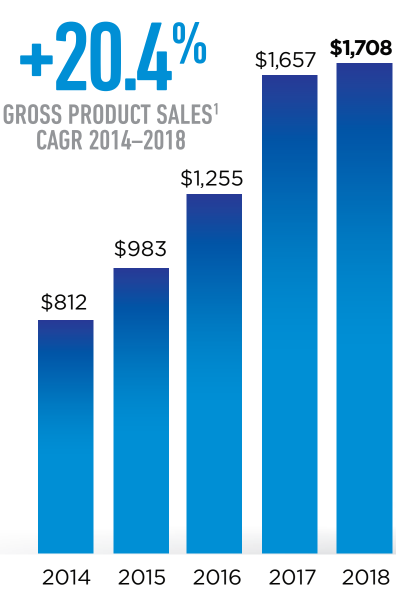
- Increase proportion of sales outside of North America to 40% in the medium term
- Focus on Asia: China and Japan

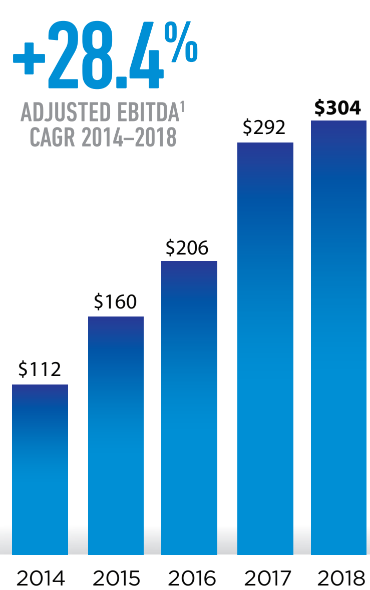
LEVERAGE GLOBAL PLATFORM THROUGH STRATEGIC ACQUISITIONS

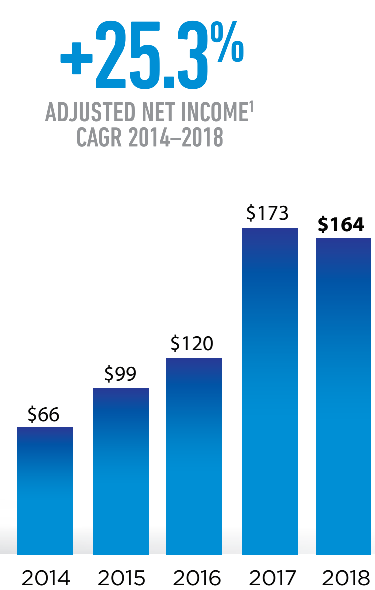
- Fragmented industry with opportunities for consolidation
- Strong balance sheet with financial flexibility

FINANCIAL INFORMATION

(US$ millions)







1. Non-IFRS financial measures. Non-IFRS measures do not have any standardized meaning prescribed by International Financial Reporting Standards ("IFRS") and are therefore unlikely to be comparable to similar measures presented by other issuers. Please refer to the section entitled "Non IFRS Financial Measures" in the Management Discussion and Analysis within Spin Master's public filings for a discussion of the definition, components and uses of such non-IFRS measures, as well as a reconciliation of such non-IFRS measures to IFRS measures (where a comparable IFRS measure exists).

LETTER TO SHAREHOLDERS

Spin Master is anchored by our dedication to innovation and our vision for growth. We have grown significantly over the past several years launching innovative products, expanding globally, building our entertainment franchises and making acquisitions. In 2018, we navigated through a challenging and disruptive year for the toy industry. Despite this challenging environment, we delivered solid financial and operational results for the full-year and demonstrated the underlying strength of our business. We executed well against our four growth strategies, which include: innovating our core portfolio of products; creating successful global entertainment properties; increasing international sales; and making strategic, accretive acquisitions. Our performance this year confirmed that our focus and strong execution on these strategies has positioned us to achieve long term success.

2018 was a year of consolidation for Spin Master. Grounded in our vision for long term growth, we navigated through a challenging year for the toy industry and achieved low single-digit growth, despite the bankruptcy of Toys 'R Us. We believe that the industry will level set in 2019, especially in the second half of the year. We are channel agnostic and will evolve as required to continue to grow and support a changing retail environment.

We executed well against our four growth strategies which include: innovating our core portfolio of products; creating successful global entertainment properties; increasing international sales and; making strategic, accretive acquisitions. These strategies continue to be the drivers of our long-term growth model and are the primary focus of Spin Master's management team. We maintained a conservative, flexible financial profile and finished the year with significant cash balances and no debt. We believe we are well positioned for long term sustainable growth.

We report Gross Product Sales[1] in five business segments: (1) Remote Control & Interactive Characters, emphasizing innovative, adrenaline-charged experiences as well as leading-edge robotics; (2) Boys Action and High Tech Construction, delivering high-quality products, including popular entertainment franchises, with engineering and robotics play; (3) Activities, Games & Puzzles and Plush, a wide range of products, games, puzzles and plush toys with global appeal, including innovative owned intellectual property as well as licensed brands; (4) Pre-School and Girls, products based on our internally created entertainment content as well as focused on specific girls' play patterns and trends; and (5) Outdoor, a diverse portfolio of innovative toys, floats and sporting goods for the backyard, pool and beach.

We reported Gross Product Sales[1] of $1,708 million, up 3% from 2017. Over the past 10 years, our Gross Product Sales[1] have increased at a compound annual growth rate of 9.6%. In 2018, we reported year-over-year increases in Revenue (up 5.2%), and Adjusted EBITDA[1] (up 3.9%). We maintain a capital-light business model that emphasizes variable costs over fixed costs. We do not own any material manufacturing assets, nor do we own any warehousing facilities or animation studios. Our asset light structure, leveraging best in class service providers, enhances our free cash flow generation potential, allowing us to focus on those areas that add the most value, thereby prioritizing the quality of the content and products we produce. From a manufacturing perspective, we have increasingly diversified our supply base from China to qualified low cost producers in countries such as Vietnam, India and Mexico.

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We stayed focused on our efforts to expand gross and EBITDA[1] margins through several initiatives, including: the generation of internally created intellectual property, which also allows us to generate alternate high-margin revenue streams; a goal of lowering sales allowances; productivity programs for strategic sourcing, volume rebates and reengineering and a disciplined approach to operating leverage.

Our strong profitability and free cash flow generation capability allow us to reinvest in our four growth strategies as well as invest in our people and processes to exploit future opportunities.

What follows is a review of the factors in 2018 that allowed us to advance each of our growth strategies and deliver strong financial results.

INNOVATION

Success in the toy industry demands constant innovation. Our ability to innovate has, over the years, been one of our core competencies and a key competitive advantage. Our global internal R&D, engineering and design teams, complemented by our global 3rd party inventor network, consistently create meaningful innovation for our consumers. The sustainability of our innovation is achieved, in part, from our rolling 36-month brand innovation pipeline. We regularly review our 36-month product pipeline to identify opportunities for innovation, capitalize on growing trends, fill gaps in the marketplace and diversify.

In December, we announced a significant multi-year deal with DC Comics and Warner Brothers for the DC characters, which will begin in early 2020. We are already developing an innovative, well-priced differentiated product line. It is an incredible testament to our team that Warner Bros have entrusted us to bring the DC characters to life for kids around the world.

We will continue to innovate in our product development and marketing initiatives as this drives our product pipeline and builds our brands.

DEVELOP EVERGREEN GLOBAL ENTERTAINMENT PROPERTIES

2018 marked the 10th year of our entertainment business having TV shows broadcast globally. We are focusing on developing our own entertainment content as we see opportunities for increased consumer engagement, extended product life, better margins and the ability to participate in incremental royalty streams. We partner with world-class content creators, animation studios and talent to develop television entertainment that is complemented by and developed in conjunction with the physical toy lines. Children's programming, especially animation, travels across geographies, cultures and ethnicities very easily. Many children's properties are based on animals or fictitious characters, increasing their appeal to all viewers.

Our goal is to turn *PAW Patrol* into a long-term global evergreen franchise, and after 5 full years, Spin Master is now recognized as one of the key global players in the licensed pre-school space. In 2018, we introduced a new season of 52 episodes and in the US, *PAW Patrol* was the #1 preschool show for kids 2-5 years old. We also launched a 44-minute special movie for the first time as well as two-minute episodes designed for YouTube, which increased viewership accessibility and drove sales.

2019 and beyond will see a continued emphasis on expanding formats and themes. We believe the combination of classic *PAW* episodes, mixed with dynamic themes is providing the platform for higher dual-gender engagement, multiple play patterns and age group expansion. 2019 will be a historic year for Spin Master in the pre-school category as *PAW Patrol* will be going on air in Japan, in partnership with TakaraTomy, TV Tokyo and Dentsu.

After many years of *Abby Hatcher* being in development, we were very pleased to deliver the show in late 2018 ahead of its launch on Nickleodeon in early 2019. We feel that *Abby Hatcher* has the ability to resonate with kids globally and we look forward to the global rollout as 2019 progresses.

After waiting seven years for the relaunch, we are excited to relaunch *Bakugan* globally to a new generation of kids. *Bakugan* was delivered in the fourth quarter of 2018 and launched in early 2019 on Cartoon Network. *Bakugan* is a fusion between entertainment content, action figures, transformation, game play and collectability. We will see the global relaunch occurring month by month in 2019, including Japan in April 2019 through our partnership with TakaraTomy and TV Tokyo.

Telling stories and creating engaging and aspirational characters that resonate with kids around the world is the on-going focus of our entertainment division with a number of exciting properties under development,

For further information about our 2019 product lines and entertainment content, please see the Business Segment Report available at www.spinmaster.com/investor-relations.php.

INTERNATIONAL EXPANSION

In 2018, European Gross Product Sales[1] increased 2%, with very strong sales contributions from some of our key European territories, such as Germany and Central Eastern Europe (Poland, Romania, Czech Republic, Hungary and Slovakia). In international markets Gross Product Sales[1] were up 20%, driven by strength in Mexico, China, and Australia.

We are making solid progress toward our medium-term goal of increasing our international Gross Product Sales[1] to 40% of our total Gross Product Sales[1]. In 2018, we grew Gross Product Sales[1] outside North America to 36.5% of total Gross Product Sales[1] from 34.7% in 2017. We did this by expanding our distribution networks, increasing our internal sales capabilities in existing offices, widening our product offering, and executing effective global marketing campaigns. Our global content as well as our innovative product offerings are opening new retail opportunities and strengthening our existing customer relationships. We remain under-represented compared to the industry as a whole and that represents an opportunity for growth.

We began selling our products in China in late 2017. 2018 was the first full year of sales in this large and growing market. Our go-to-market strategy is two pronged: selling directly to consumers through a growing e-commerce relationship with Alibaba/Tmall, and through a distributor for sales into bricks and mortar channels. We expanded our product lines in China in 2018, focusing on brands with global appeal led by *PAW Patrol*, *Hatchimals* and *Kinetic Sand*. Our results, while still immaterial overall, exceeded our internal expectations and we believe we have built a solid long-term foundation for future growth in China.

In 2019, we will be opening up new sales and marketing offices in Russia, Greece, Australia, and Switzerland, as well as Bulgaria and the remaining Balkan territories. The return on investment in converting a market is strong and we performed well above our internal expectations in these geographies. We plan to selectively convert further 3rd party distributor markets to direct sales where it makes sense strategically for us to do so.

ACQUISITIONS

We acquired *Gund* in the second quarter of 2018, further diversifying our product line and leveraging our global footprint. *Gund* is a heritage brand with 120-year-old roots in the plush business. The *Gund* acquisition provides us with a meaningful platform to innovate and grow in plush, one of the largest categories in the toy industry. *Gund* products are highly emotional, trusted purchases and many kids keep their *Gund* toys for decades. With the acquisition, we will now bring together *Gund*'s deep expertise in plush and our ability to innovate and scale internationally; it will also allow us to build a stable platform for expansion into the infant toy and specialty gift categories. *Gund* also has great growth potential driven by strong license support with key partners such as *Sesame Street* and *Pusheen*.

We continue to seek small, medium and large acquisitions leveraging our strong balance sheet and attractive free cash flow profile.

ENVIRONMENTAL, SOCIAL & GOVERNANCE (ESG)

At Spin Master, we are passionate about delivering inspiration, imagination and joy to children around the world. We created The Toy Movement in 2013 as a way to ensure that children are provided with the opportunity to play, learn and grow regardless of their circumstances. Since inception, The Toy Movement has distributed hundreds of thousands of toys to children living in troubled parts of the world. In 2018, we completed missions to Iraq, Turkey and Columbia. We are committing to making a difference in the lives of children around the world that have been hit hard by poverty and war.

As part of our corporate governance program, the chairmanship of Spin Master transferred from Anton Rabie, who served as Chair from 2015 through the end of 2017, to Ronnen Harary.

In May 2018, John Cassaday retired from Spin Master's Board of Directors. The lead Director role was assumed by Charles Winograd.

We are committed to continuing our ESG initiatives and aspire to make these practices an ingrained part of our company culture and which reflect our values everyday. In 2019, we plan to formally develop and communicate these measures.

LOOKING AHEAD

In 2019, we will continue to execute against our core growth strategies. We will focus on gaining competitive advantage and driving shareholder value creation by innovating throughout our business segments, building entertainment franchises, leveraging our global platform to expand sales internationally, and strategically assessing high quality accretive acquisition opportunities as they may arise. As we grow, we will also continue to build an appropriate internal platform to support growth, with meaningful investments in technology and our people.

On behalf of the board and management team, we thank you for your continued support of Spin Master as we strive to build one of the world's great children's entertainment companies.

Anton Rabie
Director and Co-CEO

Ronnen Harary
Chair 2018 and Co-CEO

Charles Winograd
Lead Director 2018

2018 Annual Report

SPIN MASTER CORP.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL RESULTS

For the three months and year ended December 31, 2018

The following Management's Discussion and Analysis ("MD&A") for Spin Master Corp. ("Spin Master" or the "Company") is dated March 6, 2019 and provides information concerning the Company's financial condition, financial performance and cash flows for the year ended December 31, 2018, and the three months ended December 31, 2018, ("fourth quarter", "the quarter", "Q4"). This MD&A should be read in conjunction with the Company's audited Consolidated Financial Statements and accompanying notes ("financial statements") for the year ended December 31, 2018 and its Annual Information Form. Additional information relating to the Company can be found under the Company's profile on SEDAR at www.sedar.com.

Some of the information contained in this MD&A contains forward-looking statements that involve risks and uncertainties. See the "Forward-Looking Statements", "Financial Risk Management" and "Risks Relating to Spin Master's Business" sections of this MD&A for a discussion of the uncertainties, risks and assumptions associated with those statements. Actual results may differ materially from those discussed in the forward-looking statements as a result of various factors, including those described in the "Risks Relating to Spin Master's Business" section and elsewhere in this MD&A.

BASIS OF PRESENTATION

The financial statements of the Company have been 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 of this MD&A. 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. Certain totals, subtotals and percentages throughout this MD&A may not reconcile due to rounding.

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 increased its revenue from $1,154,454 in 2016 to $1,631,537 in 2018. Over the same period, Gross Product Sales (a non-IFRS measure) have increased from $1,254,558 to $1,707,963, a 20.2% compound annual growth rate. The Company's Gross Product Sales have grown at a 9.6% compound annual growth rate over the past 10 years. Additionally, the Company has demonstrated the ability to effectively manage costs and increase margins, generating gross profit of $818,769 (representing 50.2% of revenue) and Adjusted EBITDA (a non-IFRS measure) of $303,586, or 18.6% of revenue, in 2018.

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

- Innovation across the portfolio and expanding current business segments;
- Developing evergreen global entertainment properties;
- Increasing international sales in developed and emerging markets; and
- Leveraging its global platform through strategic acquisitions.

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, Slovakia, Hungary, Romania, Czech Republic, Poland and Russia; 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.

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.

Selected Financial Information

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

(all amounts in USD 000's, except percentages)	Year ended December 31		
	2018	2017	2016
Earnings Results			
Gross Product Sales[1] by Product Category			
Activities, Games & Puzzles and Plush	455,530	365,378	337,768
Remote Control and Interactive Characters	505,357	593,355	282,777
Boys Action and High-Tech Construction	133,085	112,102	154,454
Pre-School and Girls	517,490	493,069	460,484
Outdoor	96,501	93,124	19,075
Gross Product Sales[1]	1,707,963	1,657,028	1,254,558
Sales allowances[1]	198,346	191,496	148,044
Total Net Sales[1]	1,509,617	1,465,532	1,106,514
Other revenue	121,920	85,792	47,940
Total Revenue	1,631,537	1,551,324	1,154,454
Cost of goods sold	812,768	750,868	557,712
Gross profit	**818,769**	**800,456**	**596,742**
Gross Margin	*50.2%*	*51.6%*	*51.7%*
Selling, marketing, distribution and product development	331,899	312,186	243,689
Administrative expenses	293,101	262,066	201,008
Other (income) expenses	(14,709)	6,700	35
Foreign exchange (gain) loss	(9,346)	(11,370)	5,530
Finance costs	9,398	10,445	8,601
Income before income tax expense	**208,426**	**220,429**	**137,879**
Income tax expense	53,522	59,363	38,364
Net income	**154,904**	**161,066**	**99,515**

Note:

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

Net Earnings from operations	**Year ended December 31**		
(all amounts in USD 000's, except for EPS)	**2018**	**2017**	**2016**
Net income	154,904	161,066	99,515
Earnings Per Share ("EPS")			
Basic EPS	$ 1.52	$ 1.58	$ 0.99
Diluted EPS	$ 1.51	$ 1.58	$ 0.99
Other Financial Data			
EBITDA (1)	292,019	275,782	176,970
Adjusted EBITDA (1)	303,586	292,193	205,511
Adjusted EBITDA Margin (1)	*18.6%*	*18.8%*	*17.8%*
Adjusted Net Income (1)	163,502	172,997	120,115
Adjusted Earnings Per Share (1)			
Adjusted basic EPS (1)	$ 1.61	$ 1.70	$ 1.19
Adjusted diluted EPS (1)	$ 1.60	$ 1.70	$ 1.19
Balance Sheet and Cash Flow Data			
Cash	143,518	117,262	99,416
Total assets	1,045,397	938,385	775,596
Total non - current liabilities	17,235	13,810	18,584
Loans and borrowings	—	531	158,145
Net debt (2)	(143,518)	(116,731)	58,729
Total shareholders' equity	662,467	500,082	325,679
Cash provided by operating activities	192,890	267,405	73,038
Cash used in investing activities	(159,537)	(81,598)	(172,273)
Cash provided by (used in) financing activities	245	(161,485)	155,467

Notes:

1) Non-IFRS Financial Measure. See "Non-IFRS Financial Measures".

2) Total debt less cash and cash equivalents.

Highlights for the three month period ended December 31, 2018, compared to the same period in 2017:
(In USD thousands, except per share)

- Revenue decreased by 6.0% from $440,863 to $414,340. In constant currency terms (a non-IFRS measure), revenue decreased by 4.6%.
- Gross profit as a percentage of revenue was 48.0%, a decrease of 3.9% from 51.9%.
- Net income was $11,403 or diluted earnings per share of $0.11 compared to net income of $20,040 or $0.21 per share.
- Adjusted Net Income (a non-IFRS measure) was $6,073 or diluted earnings per share of $0.06 compared to $25,512 or $0.25 per share.
- Adjusted EBITDA (a non-IFRS measure) was $35,106 or 8.5% of revenue, compared to $47,343 or 10.7% of revenue.

Highlights for the year ended December 31, 2018, compared to the same period in 2017:
(In USD thousands, except per share)

- Revenue increased by 5.2% to $1,631,537 from $1,551,324. In constant currency terms (a non-IFRS measure), revenue increased by 5.1%.
- Gross profit as a percentage of revenue was 50.2%, a decrease of 1.4% from 51.6%.
- Net income was $154,904 or diluted earnings per share of $1.51 compared to $161,066 or $1.58 per share.
- Adjusted Net Income (a non-IFRS measure) was $163,502 or diluted earnings per share of $1.60 compared to $172,997 or $1.70 per share.
- Adjusted EBITDA was $303,586 or 18.6% of revenue, compared to $292,193 or 18.8% of revenue.
- On April 2, 2018 , the Company closed the acquisition of certain assets related to the *Gund* line of business from Enesco LLC. The Company acquired control of the *Gund* brand through the acquisition of certain assets, for total purchase consideration of $77,287. Included in the total purchase consideration is cash consideration of $76,029, $752 related to the estimated fair value of the future royalty payments as at the acquisition date and $506 of working capital adjustments. The assets are included in the Activities, Games & Puzzles and Plush product category, in the North America segment.
- During the year, the Company was successful in a lawsuit as the plaintiff and agreed to a settlement of $15,500.
- On August 15, 2018, the three founders of the Company converted an aggregate of 2,794,800 multiple voting shares into an equal number of subordinate voting shares of the Company and closed an offering of such subordinate voting shares at a price of C$53.40 per share. The Company did not receive any proceeds from the sale of subordinate voting shares associated with this offering.

Toys "R" Us ("TRU") Chapter 11 and Companies' Creditors Arrangement Act ("CCAA") filing

As a result of the bankruptcy proceedings of TRU, the Company recorded a net bad debt expense of $12,113 in 2018 (2017 - $5,382).

FINANCIAL PERFORMANCE

For the three months and year ended December 31, 2018 compared to the three months and year ended December 31, 2017:

Consolidated Results

The following table provides a summary of Spin Master's consolidated results for the three months and year ended December 31, 2018 and 2017:

	Three Months Ended December 31			
(All amounts in USD 000's)	**2018**	**2017**	**$ Change**	**% Change**
Revenue	414,340	440,863	(26,523)	(6.0)%
Cost of sales	215,367	212,000	3,367	1.6 %
Gross profit	**198,973**	**228,863**	**(29,890)**	**(13.1)%**
Selling, marketing, distribution and product development	122,619	132,495	(9,876)	(7.5)%
Administrative expenses	73,459	67,364	6,095	9.0 %
Other income	(678)	(1,329)	651	(49.0)%
Foreign exchange (gain) loss	(13,390)	2,866	(16,256)	(567.2)%
Finance costs	2,852	2,584	268	10.4 %
Income before income tax expense	**14,111**	**24,883**	**(10,772)**	**(43.3)%**
Income tax expense	2,708	4,843	(2,135)	(44.1)%
Net income	**11,403**	**20,040**	**(8,637)**	**(43.1)%**

	Year ended December 31			
(All amounts in USD 000's)	**2018**	**2017**	**$ Change**	**% Change**
Revenue	1,631,537	1,551,324	80,213	5.2 %
Cost of sales	812,768	750,868	61,900	8.2 %
Gross profit	**818,769**	**800,456**	**18,313**	**2.3 %**
Selling, marketing, distribution and product development	331,899	312,186	19,713	6.3 %
Administrative expenses	293,101	262,066	31,035	11.8 %
Other (income) expenses	(14,709)	6,700	(21,409)	(319.5)%
Foreign exchange (gain)	(9,346)	(11,370)	2,024	(17.8)%
Finance costs	9,398	10,445	(1,047)	(10.0)%
Income before income tax expense	**208,426**	**220,429**	**(12,003)**	**(5.4)%**
Income tax expense	53,522	59,363	(5,841)	(9.8)%
Net income	**154,904**	**161,066**	**(6,162)**	**(3.8)%**

Revenue

For the three months ended December 31, 2018

The following table provides a summary of Spin Master's revenue and details by product category for the three months ended December 31, 2018 and 2017:

	Three Months Ended December 31			
(All amounts in USD 000's)	**2018**	**2017**	**$ Change**	**% Change**
Activities, Games & Puzzles and Plush	145,211	131,443	13,768	10.5 %
Remote Control and Interactive Characters	107,883	198,706	(90,823)	(45.7)%
Boys Action and High-Tech Construction	57,924	36,714	21,210	57.8 %
Pre-School and Girls	139,111	102,414	36,697	35.8 %
Outdoor	15,365	14,588	777	5.3 %
Gross Product Sales[1]	**465,494**	**483,865**	**(18,371)**	**(3.8)%**
Sales allowances[1]	84,311	73,036	11,275	15.4 %
Total Net Sales[1]	**381,183**	**410,829**	**(29,646)**	**(7.2)%**
Other revenue	33,157	30,034	3,123	10.4 %
Total Revenue	**414,340**	**440,863**	**(26,523)**	**(6.0)%**

(1) Non-IFRS Financial Measure. See "Non-IFRS Financial Measures".

Gross Product Sales decreased by $18,371, or 3.8%, to $465,494 with an unfavourable foreign exchange impact of $6,263.

Gross Product Sales in Activities, Games & Puzzles, and Plush increased by $13,768, or 10.5% to $145,211. The increase was driven primarily by sales of *Gund* plush products and increases in *Kumi Creator* and *Kinetic Sand*, partially offset by decreases in *Bunchems*, Spin Master's Games & Puzzles portfolio, *Mashmallow* furniture, *Sew Cool* and *Doctor Dreadful*.

Gross Product Sales in Remote Control and Interactive Characters decreased by $90,823 or 45.7% to $107,883, due to lower sales of all *Hatchimals* products, *Zoomer* and *Air Hogs.*

Gross Product Sales in Boys Action and High-Tech Construction increased by $21,210 or 57.8% to $57,924. The increase was primarily driven by sales of *Boxer* and initial shipments of *DreamWorks Dragons, Monster Jam and Bakugan* products, partially offset by decreases in *Star Wars* licensed merchandise including *BB8* and *Meccano*.

Gross Product Sales in Pre-School and Girls increased by $36,697 or 35.8% to $139,111. The increase was driven primarily by higher sales of *PAW Patrol*, *Twisty Petz*, partially offset by decreases in *ZhuZhu Pets*.

Gross Product Sales in Outdoor, comprised of sales of products under the *SwimWays, Kelsyus, Coop* and *Aerobie* brands, increased by $777 or 5.3% to $15,365.

Other revenue increased by $3,123 or 10.4% to $33,157, driven by increased television distribution income.

Sales allowances increased by $11,275 or 15.4% to $84,311, primarily driven by markdowns and promotional spending. As a percentage of Gross Product Sales, sales allowances increased 3.0% to 18.1% from 15.1% in 2017.

The following table provides a summary of Spin Master's Gross Product Sales by geographic segment for the three months ended December 31, 2018 and 2017:

	Three Months Ended December 31			
(All amounts in USD 000's)	**2018**	**2017**	**$ Change**	**% Change**
North America	259,854	286,603	(26,749)	(9.3)%
Europe	129,115	125,898	3,217	2.6 %
Rest of world	76,525	71,364	5,161	7.2 %
Gross Product Sales (1)	**465,494**	**483,865**	**(18,371)**	**(3.8)%**

(1) Non-IFRS Financial Measure. See "Non-IFRS Financial Measures".

Gross Product Sales in North America decreased by $26,749 or 9.3% to $259,854 with an unfavourable foreign exchange impact of $3,141. The decrease was driven by lower sales of *Hatchimals*, *Zoomer*, *Luvabella* and *Air Hogs*, which was offset by increases in *PAW Patrol,* sales of *Gund* and initial sales of *Bakugan, DreamWorks Dragons* and *Monster Jam.*

Gross Product Sales in Europe increased by $3,217 or 2.6% to $129,115, with an unfavourable foreign exchange impact of $795. The increase was primarily driven by sales *of PAW Patrol, Boxer, Luvabella* and *Kumi Creator,* partially offset by a decline in *Hatchimals*.

Gross Product Sales in Rest of World increased by $5,161 or 7.2% to $76,525, with an unfavourable foreign exchange impact of $2,189. Growth was primarily driven by sales of *Luvabella*, *Kinetic Sand* and initial sales of *DreamWorks Dragons*, partially offset by declines in *Hatchimals* and *PAW Patrol*.

For the year ended December 31, 2018

The following table provides a summary of Spin Master's revenue and details by product category for the year ended December 31, 2018 and 2017:

	Year ended December 31			
(All amounts in USD 000's)	**2018**	**2017**	**$ Change**	**% Change**
Activities, Games & Puzzles and Plush	455,530	365,378	90,152	24.7 %
Remote Control and Interactive Characters	505,357	593,355	(87,998)	(14.8)%
Boys Action and High-Tech Construction	133,085	112,102	20,983	18.7 %
Pre-School and Girls	517,490	493,069	24,421	5.0 %
Outdoor	96,501	93,124	3,377	3.6 %
Gross Product Sales[1]	**1,707,963**	**1,657,028**	**50,935**	**3.1 %**
Sales allowances[1]	198,346	191,496	6,850	3.6 %
Total Net Sales[1]	**1,509,617**	**1,465,532**	**44,085**	**3.0 %**
Other revenue	121,920	85,792	36,128	42.1 %
Total Revenue	**1,631,537**	**1,551,324**	**80,213**	**5.2 %**

(1) Non-IFRS Financial Measure. See "Non-IFRS Financial Measures".

Gross Product Sales increased by $50,935, or 3.1%, to $1,707,963 with a favourable foreign exchange impact of $1,418.

Gross Product Sales in Activities, Games & Puzzles and Plush increased by $90,152 or 24.7% to $455,530, primarily driven by sales of *Gund* plush products and increases in *Kumi Creator, Kinetic Sand,* and Spin Master's Games & Puzzles portfolio, which includes *Cardinal* and *Marbles,* partially offset by decreases in *Bunchems*, *Doctor Dreadful*, *Build a Bear*, *Sew Cool*, *Pottery Cool* and *Marshmallow* furniture.

Gross Product Sales in Remote Control and Interactive Characters decreased by $87,998 or 14.8% to $505,357, primarily due to declines in *Hatchimals* large eggs*, Zoomer* and *Air Hogs,* partially offset by increases in *Luvabella* and *Hatchimals Colleggtibles*.

Gross Product Sales in Boys Action and High-Tech Construction increased by $20,983 or 18.7% to $133,085, primarily due to sales of *Boxer* and *Fugglers* and initial shipments of *DreamWorks Dragons, Bakugan* and *Monster Jam*, partially offset by decreased sales of *Meccano, Star Wars* licensed products including *BB8* and *Pirates of the Caribbean* licensed products.

Gross Product Sales in Pre-School and Girls increased by $24,421 or 5.0% to $517,490, driven by increases in *Party Popteenies* and *Twisty Petz,* partially offset by declines in *PAW Patrol* and *ZhuZhu Pets*.

Gross Product Sales in Outdoor, comprised of sales of products under the *SwimWays*, *Kelysus, Coop* and *Aerobie* brands, increased by $3,377 or 3.6% to $96,501.

Other revenue increased by $36,128 or 42.1%, to $121,920, driven by increased royalty income from products marketed by third parties using Spin Master's owned intellectual property, increased television distribution income, and app revenue from Toca Boca and Sago Mini.

Sales allowances increased by $6,850 or 3.6% to $198,346, driven primarily by higher Gross Product Sales. Sales allowances, as a percentage of Gross Product Sales remained flat at 11.6% compared to 2017.

The following table provides a summary of Spin Master's Gross Product Sales by geographic segment for the year ended December 31, 2018 and 2017:

	Year ended December 31			
(All amounts in USD 000's)	**2018**	**2017**	**$ Change**	**% Change**
North America	1,085,178	1,082,709	2,469	0.2%
Europe	376,277	368,009	8,268	2.2%
Rest of world	246,508	206,310	40,198	19.5%
Total Gross Product Sales (1)	**1,707,963**	**1,657,028**	**50,935**	**3.1%**

(1) Non-IFRS Financial Measure. See "Non-IFRS Financial Measures".

Gross Product Sales in North America increased by $2,469 or 0.2% to $1,085,178 with an unfavourable foreign exchange impact of $214. Growth was driven primarily by sales of *Gund* plush products, *Twisty Petz* and *Boxer* and increases in *Kumi Creator, Kinetic Sand,* and Spin Master's Games & Puzzles portfolio, which includes *Cardinal* and *Marbles.* The increase was partially offset by declines in *Hatchimals*, *Air Hogs*, and *Zoomer*.

Gross Product Sales in Europe increased by $8,268 or 2.2% to $376,277 with a favourable foreign exchange impact of $4,815. Growth was primarily driven by sales of *Kumi Creator, Boxer* and *Party Popteenies,* increases in *Luvabella* and Spin Master's Games & Puzzles portfolio, which includes *Cardinal* and *Marbles.* The increase was partially offset by declines in *Hatchimals*, *Bunchems* and *PAW Patrol.*

Gross Product Sales in Rest of World increased by $40,198 or 19.5% to $246,508 with an unfavourable foreign exchange impact of $3,183. The increase was primarily driven by sales of *PAW Patrol*, *Luvabella* and *Kinetic Sand*, partially offset by declines in *ZhuZhu Pets* and *Bunchems.*

Gross Profit

(All amounts in USD 000's)	Three Months Ended December 31 2018	2017	$ Change	% Change
Gross profit	**198,973**	**228,863**	**(29,890)**	**(13.1)%**
Gross profit as % of revenue	48.0%	51.9%	N/A	(3.9)%

For the three months ended December 31, 2018, gross profit decreased by $29,890 or 13.1% to $198,973. As a percentage of revenue, gross profit decreased from 51.9% to 48.0%. The decrease is primarily due to increased amortization attributed to entertainment properties and increased sales allowances, partially offset by increases in other revenue.

(All amounts in USD 000's)	Year ended December 31 2018	2017	$ Change	% Change
Gross profit	**818,769**	**800,456**	**18,313**	**2.3 %**
Gross profit as % of revenue	50.2%	51.6%	N/A	(1.4)%

For the year ended December 31, 2018, gross profit increased by $18,313 or 2.3% to $818,769. As a percentage of revenue, gross profit decreased from 51.6% to 50.2%, primarily due to increased amortization attributed to entertainment properties, an increase in sales of discontinued product lines and product mix, offset by increased licensing and merchandising revenues.

Selling, Marketing, Distribution and Product Development Expenses as compared to the same period in 2017:

	Three Months Ended December 31					
	2018	as a % of revenue	2017	as a % of revenue	$ Change	% Change
Selling	23,638	5.7%	36,765	8.3%	(13,127)	(35.7)%
Marketing	68,738	16.6%	70,205	15.9%	(1,467)	(2.1)%
Distribution	22,506	5.4%	17,986	4.1%	4,520	25.1 %
Product development	7,737	1.9%	7,539	1.7%	198	2.6 %
Total	**122,619**	**29.6%**	**132,495**	**30.1%**	**(9,876)**	**(7.5)%**

Selling expenses decreased by $13,127, or 35.7%, to $23,638. Selling expenses as a percentage of revenue decreased to 5.7% from 8.3% in 2017, attributed to lower sales of licensed products.

Marketing expenses decreased by $1,467 or 2.1%, to $68,738, primarily as a result of lower market research costs, as well as lower media spend. Marketing expenses as a percentage of revenue increased to 16.6% from 15.9% in 2017.

Distribution expenses increased by $4,520 or 25.1% to $22,506. Distribution expenses as a percentage of revenue increased to 5.4% from 4.1%, primarily due to set-up costs associated with the establishment of new distribution centres in the U.S., Hungary and Russia, to strengthen the Company's global distribution network.

	Year ended December 31					
	2018	as a % of revenue	2017	as a % of revenue	$ Change	% Change
Selling	88,971	5.5%	106,471	6.9%	(17,500)	(16.4)%
Marketing	154,188	9.5%	128,713	8.3%	25,475	19.8 %
Distribution	61,173	3.7%	53,637	3.5%	7,536	14.1 %
Product development	27,567	1.7%	23,365	1.5%	4,202	18.0 %
Total	**331,899**	**20.3%**	**312,186**	**20.1%**	**19,713**	**6.3 %**

Selling expenses decreased by $17,500 or 16.4%, to $88,971. As a percentage of revenue, selling expenses decreased to 5.5% from 6.9%, attributed to lower sales of licensed products.

Marketing expenses increased by $25,475 or 19.8%, to $154,188, primarily as a result of increased media spending, including increased spending on influencers, commercial development and merchandising initiatives. As a percentage of revenue, marketing expenses increased to 9.5% from 8.3%.

Distribution expenses increased by $7,536, or 14.1%, to $61,173, primarily due to higher inventory storage costs resulting from the integration of Gund into the Company's supply chain. As a percentage of revenue, distribution expenses increased slightly to 3.7% from 3.5%.

Product development expenses increased by $4,202, or 18.0%, to $27,567, primarily due to development activities in the Boys Action and High-Tech Construction and Pre-school and Girls categories.

Administrative Expenses as compared to the same period in 2017:

For the three months ended December 31, 2018, administrative expenses increased by $6,095, or 9.0%, to $73,459. The increase was primarily attributable to higher restructuring costs and an increase in share-based compensation expense. Administrative expenses as a percentage of revenue increased to 17.7% from 15.3%. Excluding the impact of share-based compensation expense, administrative expenses as a percentage of revenue increased to 16.7% compared to 14.8%.

For the year ended December 31, 2018, administrative expenses increased by $31,035, or 11.8%, to $293,101. The increase was primarily due to the net bad debt expense related to TRU of $12,113 incurred in 2018 (2017 - $5,382), increased restructuring costs, higher administrative expenses attributable to the acquisition of Gund and an increase in employee compensation costs in order to position the Company for future growth. Administrative expenses as a percentage of revenue increased to 18.0% from 16.9% in the same period in 2017. Excluding the impact of share-based compensation and the non-recurring net bad debt expense related to TRU, administrative expenses as a percentage of revenue increased to 16.5% from 15.9% in 2017.

Effective August 1, 2018, the Company intends to settle all Long Term Incentive Plan ("LTIP") awards in shares. As a result of this modification, the liability was transferred to shareholders' equity and a mark-to-market adjustment is no longer required. All non-cash share based compensation expenses are reported in administrative expenses and included as a normalization adjustment in Adjusted EBITDA (a non-IFRS measure).

Finance Costs as compared to the same period in 2017:

For the three months ended December 31, 2018, finance costs increased by $268 to $2,852. For the year ended December 31, 2018, finance costs decreased by $1,047 to $9,398. The decrease was primarily driven by lower borrowings on the Company’s five-year secured revolving credit facility ("Credit Facility").

Net income as compared to the same period in 2017:

Net income for the three months ended December 31, 2018 decreased by $8,637 to $11,403 from $20,040. Excluding share-based compensation expense, foreign exchange losses and other non-recurring items, Adjusted Net Income (a non-IFRS measure) for the three months ended December 31, 2018 decreased by $19,439 to $6,073 from $25,512.

Net income for the year ended December 31, 2018 decreased by $6,162 to $154,904 from $161,066. Excluding share-based compensation expense, restructuring, foreign exchange gains and other non-recurring items, Adjusted Net Income (a non-IFRS measure) for the year ended December 31, 2018 decreased by $9,495 to $163,502 from $172,997.

OUTLOOK

On a full year comparative basis, the Company expects to grow organic Gross Product Sales[1] in the low single digit range relative to 2018. Seasonality of Gross Product Sales[1] for 2019 is expected to be approximately 30%-33% in H1. Q1 2019 will be particularly challenged as a result of the absence of Toys R Us in Q1 2019 compared to Q1 2018 and the later timing of Easter. The Company expects to deliver Adjusted EBITDA Margin[1] for the full year 2019, in line with 2018.

(1) 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)	**Dec 31, 2018**	**Sep 30, 2018**	**Jun 30, 2018**	**Mar 31, 2018**	**Dec 31, 2017**	**Sep 30, 2017**	**Jun 30, 2017**	**Mar 31, 2017**
Revenue	414,340	619,982	311,544	285,671	440,863	606,098	276,652	227,711
Adjusted EBITDA (1)	35,106	179,840	45,378	43,262	47,343	170,308	43,724	30,818
Adjusted EBITDA margin (1)	8.5%	29.0%	14.6%	15.1%	10.7%	28.1%	15.8%	13.5%
Net income	11,403	107,891	26,911	8,699	20,040	108,825	22,114	10,087
Basic and diluted EPS	$0.11	$1.06	$0.26	$0.09	$0.21	$1.07	$0.22	$0.10
Adjusted Net Income (1)	6,073	117,734	17,676	22,019	25,512	111,711	22,217	13,557
Basic adjusted EPS (1)	$0.06	$1.16	$0.17	$0.22	$0.25	$1.10	$0.22	$0.13
Diluted adjusted EPS (1)	$0.06	$1.15	$0.17	$0.22	$0.25	$1.10	$0.22	$0.13
Free cash flow (1)	(11,506)	149,778	19,511	(28,334)	18,439	145,169	24,835	4,998

1) Non-IFRS Financial Measure. See "Non-IFRS Financial Measures".

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

	Three Months Ended							
(All amounts in USD 000's)	**Dec 31, 2018**	**Sep 30, 2018**	**Jun 30, 2018**	**Mar 31, 2018**	**Dec 31, 2017**	**Sep 30, 2017**	**Jun 30, 2017**	**Mar 31, 2017**
Net income	**11,403**	**107,891**	**26,911**	**8,699**	**20,040**	**108,825**	**22,114**	**10,087**
Finance costs	2,852	2,732	2,214	1,600	2,584	2,558	2,439	2,864
Depreciation and amortization	25,436	17,676	19,645	11,438	12,422	12,670	10,602	9,214
Income tax expense	2,708	38,211	9,475	3,128	4,843	42,233	8,431	3,856
EBITDA (1)	**42,399**	**166,510**	**58,245**	**24,865**	**39,889**	**166,286**	**43,586**	**26,021**
Normalization adjustments								
Restructuring (2)	5,024	404	615	1,215	327	167	434	752
Foreign exchange (gain) loss (3)	(13,390)	5,372	(1,331)	3	2,866	(5,831)	(6,706)	(1,699)
Share based compensation (4)	4,446	3,612	2,108	2,027	2,076	2,425	2,857	2,724
Legal settlement (5)	—	—	(15,500)	—	—	—	—	—
Acquisition related incentive compensation (6)	(334)	250	1,241	—	(840)	279	281	280
Amortization of fair market value adjustments (7)	—	3,692	—	—	450	—	—	2,355
Transaction costs (8)	—	—	—	—	44	—	956	—
Bad debt (recovery) expense (9)	(3,039)	—	—	15,152	—	5,382	—	—
Royalty recovery (10)	—	—	—	—	—	(2,200)	—	—
Impairment of intangible assets (11)	—	—	—	—	2,531	3,800	2,316	385
Adjusted EBITDA (1)	**35,106**	**179,840**	**45,378**	**43,262**	**47,343**	**170,308**	**43,724**	**30,818**
Finance costs	2,852	2,732	2,214	1,600	2,584	2,558	2,439	2,864
Depreciation and amortization	25,436	17,676	19,645	11,438	12,422	12,670	10,602	9,214
Income tax expense	2,708	38,211	9,475	3,128	4,843	42,233	8,431	3,856
Tax effect of normalization adjustments (12)	(1,963)	3,487	(3,632)	5,077	1,982	1,136	35	1,327
Adjusted Net Income (1)	**6,073**	**117,734**	**17,676**	**22,019**	**25,512**	**111,711**	**22,217**	**13,557**

Footnotes:

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

2) Restructuring primarily relates to organizational changes.

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) 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 Marbles and Aerobie in the second and third quarters of 2017, respectively.

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 fourth and first quarters of 2018 and the third quarter of 2017.

10) Non-recurring royalty income recovery related to 2016.

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

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

LIQUIDITY AND CAPITAL RESOURCES

The Company's primary source of liquidity is cash flow from operations. In addition, as at December 31, 2018, the Company had $510 million available under its Credit Facility, which matures in July 2023. Total capital available under the Credit Facility is $510 million which may be used for general corporate purposes including refinancing existing indebtedness, funding working capital requirements, permitted acquisitions and permitted distributions.

On July 10, 2018, the Credit Facility was amended and extended for an additional 18 months from December 21, 2021 to July 10, 2023.

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

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.

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, mobile digital development and 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.

Balance sheet overview

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

	December 31, 2018	December 31, 2017
Cash	143,518	117,262
Trade receivables, net (1)	266,836	270,281
Other receivables (2)	114,918	99,438
Inventories	110,131	120,329
Prepaid expenses	32,854	20,500
Other assets (3)	377,140	310,575
Total assets	**1,045,397**	**938,385**
Trade payables	160,570	155,519
Accrued liabilities (4)	162,445	195,238
Other liabilities (5)	59,915	87,546
Total liabilities	**382,930**	**438,303**

1) Trade receivables are net of allowance for doubtful accounts and provisions for sales allowances. Refer to Note 9 of the annual consolidated financial statements for additional details.

2) Other receivables include entertainment tax credits, royalties, commodity tax and other balances. Refer to Note 9 of the annual consolidated financial statements.

3) Other assets are comprised of all non-current assets. Refer to Notes 8, 11, 12 and 13 of the annual consolidated financial statements.

4) Accrued liabilities are comprised of executive compensation, royalties and commodity tax balances. Refer to Note 14 of the annual consolidated financial statements for additional details.

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

CASH FLOW

The following tables provide a summary of Spin Master's consolidated cash flows for three months and year ended December 31, 2018 and 2017:

	Three Months Ended December 31		
(All amounts in USD 000's)	**2018**	**2017**	**$ Change**
Net cash flows provided by operating activities	71,241	109,525	(38,284)
Net cash flows used in investing activities	(18,135)	(9,618)	(8,517)
Net cash flows used in financing activities	(8)	(30,131)	30,123
Net increase in cash	**53,098**	**69,776**	**(16,678)**
Effect of foreign currency exchange rate changes on cash	(4,961)	(2,425)	(2,536)
Cash at beginning of period	95,381	49,911	45,470
Cash at end of year	**143,518**	**117,262**	**26,256**

	Year ended December 31		
(All amounts in USD 000's)	**2018**	**2017**	**$ Change**
Net cash flows provided by operating activities	192,890	267,405	(74,515)
Net cash flows used in investing activities	(159,537)	(81,598)	(77,939)
Net cash flows provided by (used in) financing activities	245	(161,485)	161,730
Net increase in cash	**33,598**	**24,322**	**9,276**
Effect of foreign currency exchange rate changes on cash	(7,342)	(6,476)	(866)
Cash at beginning of year	117,262	99,416	17,846
Cash at end of year	**143,518**	**117,262**	**26,256**

Cash from Operating Activities as compared to the same period in 2017:

Cash flows provided by operating activities were $71,241 for the three months ended December 31, 2018 compared to $109,525. For the year ended December 31, 2018, cash flows from operating activities were $192,890 compared to $267,405. The decrease was primarily driven by higher cash income taxes paid and higher investment in net working capital, offset in part by an increase in amortization attributable to entertainment properties.

Investing Activities as compared to the same period in 2017:

The following table provides a summary of Spin Master's consolidated cash flows used in investing activities for the three months and year ended December 31, 2018 and 2017:

	Three Months Ended December 31		
(All amounts in USD 000's)	**2018**	**2017**	**$ Change**
Capital expenditure in property, plant and equipment			
Tooling	2,439	1,685	754
Other	2,808	3,416	(608)
Total capital expenditures in property, plant and equipment	**5,247**	**5,101**	**146**
Capital expenditure in intangible assets			
Content development	10,356	(4,570)	14,926
Computer software	2,532	41	2,491
Total capital expenditures in intangible assets	**12,888**	**(4,529)**	**17,417**
Total capital expenditures	**18,135**	**572**	**17,563**
Business acquisitions	—	9,046	(9,046)
Cash used in investing activities	**18,135**	**9,618**	**8,517**

	Year ended December 31		
(All amounts in USD 000's)	**2018**	**2017**	**$ Change**
Capital expenditure in property, plant and equipment			
Tooling	20,864	19,505	1,359
Other	32,597	6,413	26,184
Total capital expenditures in property, plant and equipment	**53,461**	**25,918**	**27,543**
Capital expenditure in intangible assets			
Content development	25,520	30,109	(4,589)
Computer software	3,527	1,155	2,372
Total capital expenditures in intangible assets	**29,047**	**31,264**	**(2,217)**
Total capital expenditures	**82,508**	**57,182**	**25,326**
Business acquisitions	77,029	24,416	52,613
Cash used in investing activities	**159,537**	**81,598**	**77,939**

Cash used in investing activities was $18,135 for the three months ended December 31, 2018 compared to $9,618. The increase was primarily due to higher cash flows used for content development, offset in part by lower cash flows used in business acquisitions compared to prior year.

For the year ended December 31, 2018, cash used in investing activities was $159,537 compared to $81,598. The increase in cash used in investing activities was primarily due to higher cash flows used for business acquisitions and $22,376 of increased investment in leasehold improvements related to the Company's new corporate office in Toronto, partially offset by lower net investments in content development in the current year.

Financing Activities as compared to the same period in 2017:

Cash flows used in financing activities were $8 for the three months ended December 31, 2018 compared to $30,131. For the year ended December 31, 2018, cash flows provided by financing activities were $245 compared to cash flows used in financing activities of $161,485. Cash flows used in financing activities were primarily driven by net repayment of borrowings in the prior year.

Free Cash Flow as compared to the same period in 2017:

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 months and year ended December 31, 2018 and 2017:

	Three Months Ended December 31		
(All amounts in USD 000's)	**2018**	**2017**	**$ Change**
Cash flows provided by operating activities	71,241	109,525	(38,284)
Changes in net working capital	(64,612)	(90,514)	25,902
Net cash flows provided by operating activities before net working capital changes	**6,629**	**19,011**	**(12,382)**
Cash flows used in investing activities	(18,135)	(9,618)	(8,517)
Cash used for license, brand and business acquisitions	—	9,046	(9,046)
Free Cash Flow (1)	**(11,506)**	**18,439**	**(29,945)**

	Year ended December 31		
(All amounts in USD 000's)	**2018**	**2017**	**$ Change**
Cash flows provided by operating activities	192,890	267,405	(74,515)
Changes in net working capital	19,067	(16,782)	35,849
Net cash flows provided by operating activities before net working capital changes	**211,957**	**250,623**	**(38,666)**
Cash flows used in investing activities	(159,537)	(81,598)	(77,939)
Cash used for license, brand and business acquisitions	77,029	24,416	52,613
Free Cash Flow (1)	**129,449**	**193,441**	**(63,992)**

(1) Non-IFRS Financial Measure. See "Non-IFRS Financial Measures".

Free Cash Flow was negative $11,506 for the three months ended December 31, 2018 compared to $18,439. For the year ended December 31, 2018, Free Cash Flow was $129,449, a decrease of $63,992. The decrease in Free Cash Flow was driven by lower cash flows provided by operating activities before net working capital changes and increased expenditures related to the Company's new corporate office in Toronto.

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.

The following table summarizes Spin Master's contractual commitments and obligations as at December 31, 2018, which are primarily for the leasing of offices and related office equipment and minimum guarantees due to licensors. The leases have been entered into with terms of between two and ten years in length and minimum guarantees to licensor's are primarily due within 24 months, but can extend beyond 24 months.

	Less than 1 year to greater than 5 years			
	<1 Year	**1-5 Years**	**> 5 Years**	**Total**
Lease obligations	12,009	48,191	9,258	69,458
Minimum guarantees due to licensors	8,128	2,726	12,500	23,354
Total commitments	**20,137**	**50,917**	**21,758**	**92,812**

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.

OUTSTANDING SHARE CAPITAL

As at March 6, 2019, there were 101,789,488 shares outstanding comprised of 70,697,887 Multiple Voting Shares and 31,091,601 Subordinate Voting Shares.

As of March 6, 2019, pursuant to grants under the Company's Long-Term Incentive Plan, 263,968 Subordinate Voting Shares were issuable under outstanding Restricted Stock Units, up to 885,750 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 685,741 Subordinate Voting shares were issuable under outstanding Share Option grants.

RISKS RELATING TO SPIN MASTER'S BUSINESS

If Spin Master does not create original products, brands and entertainment properties, or enhance existing products, brands and entertainment properties, that satisfy consumer preferences, and anticipate, initiate and capitalize on developments in its industry, the Company's business will suffer.

Spin Master depends on its ability to innovate products, brands and entertainment properties and to identify changing consumer sentiments and sell original products, brands and entertainment properties that respond to such changes on a timely basis. Spin Master also relies on its ability to identify third-party entertainment media that is likely to be popular with consumers and license rights to such media to incorporate into the Company's products. Spin Master's ability to maintain current sales, and increase sales or establish sales with new, innovative toys, will depend on its ability to satisfy play preferences, enhance existing products, engineer, develop, introduce and achieve market acceptance of its original products, brands and entertainment properties. If the Company is unable to anticipate consumer preferences, its products, brands and entertainment properties may not be accepted by children, parents, or families, demand for the Company's products, brands and entertainment properties could decrease and Spin Master's business, financial condition and performance could be materially and adversely affected.

Spin Master's business and financial performance depend largely upon the appeal of its products, brands and entertainment properties. Failure to anticipate, identify and react to changes in children's interests and consumer preferences could significantly lower sales of its products, brands and entertainment properties and harm its revenues and profitability. This challenge is more difficult with the ever increasing utilization of technology and digital media in entertainment offerings, and the increasing breadth of entertainment available to consumers. Evolving consumer tastes and shifting interests, coupled with changing and expanding sources of entertainment and consumer products and properties which compete for children's and families' interest and acceptance, create an environment in which some products and properties can fail to achieve consumer acceptance, and other products and properties can be popular during a certain period of time but then be rapidly replaced. The preferences and interests of children and families evolve quickly, can change drastically from year to year and season to season and are difficult to anticipate. Significant, sudden shifts in demand are caused by "hit" toys, technologies and trends, which are often unpredictable. Even the Company's successful brands and products typically have a relatively short period of high demand followed by a decrease in demand as the product matures or is superseded by newer technologies and / or brands and products. A decline in the popularity of the Company's existing products, brands and entertainment properties, or the failure of Spin Master's original products, brands and entertainment properties to achieve and sustain market acceptance with retailers and consumers, could significantly lower the Company's revenues and operating margins, which would harm Spin Master's business, financial condition and performance.

The industries in which Spin Master operates are highly competitive and the Company's inability to compete effectively may materially and adversely impact its business, financial condition and performance.

Spin Master operates in industries characterized by intense competition. The Company competes domestically and internationally with numerous large and small toy and game companies, as well as other children's entertainment companies. Low barriers to entry enable new competitors to quickly establish themselves with only a single popular product. New participants with a popular product idea or property can gain access to consumers and become a significant source of competition for the Company. Spin Master's competitors' products may achieve greater market acceptance than the Company's products and, in doing so, may potentially reduce the demand for the Company's products, brands or properties. Spin Master's competitors have obtained and are likely to continue to obtain licenses that overlap with the Company's licenses with respect to products, geographic areas and markets. Spin Master may not be able to obtain adequate shelf space in retail stores to support or expand its brands or products, and the Company may not be able to continue to compete effectively against current and future competitors.

In addition, Spin Master's toys and other products compete with the offerings of consumer electronics, digital media and social media companies. The level of this competition has increased due to increased use by children of tablet devices and mobile phones, and accelerated age compression whereby children are outgrowing categories of toys and other children's products at younger ages. The growing importance of digital media, and the heightened connection between digital media and consumer interest, has further increased the ability for new participants to enter Spin Master's markets, and has broadened the array of companies Spin Master competes with which can become a significant source of competition for the Company in a very short period of time. These existing and new competitors may be able to respond more rapidly than Spin Master to changes in consumer preferences. Spin Master's competitors' products may achieve greater market acceptance than the Company's products and potentially reduce demand for the Company's products, lower its revenues and lower its profitability.

Competition has also increased as a result of Spin Master's production of products in the entertainment market such as television and film platforms. Some of the Company's competitors in this market have interests in multiple media businesses which are often vertically integrated. Spin Master's ability to compete in the entertainment market depends on a number of factors, including its ability to provide high quality and popular entertainment content, adapt to new technologies and distribution platforms and achieve widespread distribution.

Some of Spin Master's competitors have longer operating histories, significantly greater financial, marketing and other resources, greater economies of scale, more long-standing brands and products and greater name recognition. The Company may be unable to compete with them in the future. If Spin Master fails to compete, its business, financial condition and performance could be materially and adversely affected.

Failure to protect or enforce Spin Master's IP rights and claims by third parties that the Company is infringing their intellectual product rights could materially and adversely affect Spin Master's business, financial condition and performance.

Spin Master relies on a combination of patents, copyrights, trademarks, trade secrets, confidentiality provisions and licensing arrangements to establish and protect its IP and proprietary rights. Contractual arrangements and other steps the Company has taken to protect its IP may not prevent misappropriation of its IP or deter independent third-party development of similar products. The steps Spin Master has taken may not prevent unauthorized use of its IP, particularly in foreign countries where the Company does not hold patents or trademarks or where the laws may not protect its IP as fully as in North America. Some of Spin Master's products and product features have limited IP protection, and, as a consequence, the Company may not have the legal right to prevent others from reverse engineering or otherwise copying and using these features in competitive products. Monitoring the unauthorized use of the Company's IP is costly, and any dispute or other litigation, regardless of the outcome, may be costly and time consuming and may divert the Company's attention.

Additionally, Spin Master has registered various domain names relating to some of its brands and products. If the Company fails to maintain these registrations, or if a third party acquires domain names similar to the Company's and engages in a business that may be confusing to the Company's users and customers, Spin Master's revenues may decline and it may incur additional expenses in maintaining its brands.

Spin Master periodically receives claims of infringement or otherwise becomes aware of potentially relevant patents, copyrights, trademarks or other IP rights held by other parties. Responding to any infringement claim, regardless of its validity, may be costly and time- consuming and may divert the Company's attention. If Spin Master or its licensors are found to be infringing on the IP rights of any third party, Spin Master or its licensors may be required to obtain a license to use those rights, which may not be obtainable on reasonable terms, if at all. The Company also may be subject to significant damages or injunctions against the development and sale of some of its products or against the use of a trademark or copyright in the sale of some of its products. Spin Master's insurance does not cover all types of IP claims and insurance levels for covered claims may not be adequate to indemnify the Company against all liability, which could materially and adversely harm its business, financial condition and performance.

Spin Master licenses IP rights from third-party owners. Failure of such owners to properly maintain or enforce the IP underlying such licenses could have a material adverse effect on the Company's business, financial condition and performance. The Company's licensors may also seek to terminate Spin Master's license.

Spin Master is a party to a number of licenses that give the Company rights to third-party IP that is necessary or useful to the Company's business. Spin Master's success will depend in part on the ability of its licensors to obtain, maintain and enforce its licensed IP, in particular, those IP rights to which the Company has secured exclusive rights. Without protection for the IP Spin Master licenses, other companies might be able to offer substantially identical products for sale, which could have a material adverse effect on the Company's business, financial condition and performance.

One or more of the Company's licensors may allege that Spin Master has breached its license agreement with them, and accordingly seek to terminate Spin Master's license. If successful, this could result in the Company's loss of the right to use the licensed IP, which could adversely affect the Company's ability to commercialize its technologies, products or services, as well as have a material adverse effect on its business, financial condition and performance.

Spin Master's failure to market or advertise products could have a material adverse effect on the Company's business, financial condition and performance.

Spin Master's products are marketed worldwide through a diverse spectrum of advertising and promotional programs. The Company's ability to sell products is largely dependent upon the success of these programs. If Spin Master does not market its products, sales could decline or if media or other advertising or promotional costs increase, Spin Master's costs could increase, which could have a material adverse effect on the Company's business, financial condition and performance. Additionally, loss of television or media support related to any of the Company's products may decrease the number of products it sells and harm its business, financial condition and performance.

Failure to maintain existing relationships with inventors and entertainment content collaborators or develop relationships with new inventors and entertainment content collaborators could have a material adverse effect on Spin Master's business, financial condition and performance.

Spin Master's relationships with inventors are a critical aspect of the Company's product development. A significant portion of Spin Master's product ideas have been sourced from inventors and developed by the Company. If Spin Master fails to maintain existing relationships or to build new relationships within the inventor community or if the Company experiences an adverse change in the perception of the Company by inventors, Spin Master may receive fewer product concepts from inventors. This would adversely impact Spin Master's ability to introduce new, innovative brands and products, which in turn would materially and adversely harm its business, financial condition and performance.

Spin Master's relationships with entertainment collaborators, including writers, content developers, broadcasters and directors, are a critical aspect of the Company's development of its entertainment properties, brands and images. A portion of Spin Master's entertainment properties, brands and images have been sourced from external collaborators. If Spin Master fails to maintain existing relationships or to build new relationships with entertainment collaborators or if the Company experiences an adverse change in the perception of the Company by these entertainment collaborators, Spin Master may receive fewer concepts. This would adversely impact Spin Master's ability to introduce new entertainment properties, brands and images, which in turn would materially and adversely harm its business, financial condition and performance.

Spin Master may not be able to sustain or manage its product line growth, which may prevent the Company from increasing its net revenues.

Historically, Spin Master has experienced growth in its product lines which at times has been rapid. The Company's growth strategy calls for it to continuously develop and diversify its business by introducing original products, innovating and refining its existing product lines and expanding into international markets, entering into additional license agreements, and acquiring other companies, which will place additional demands upon the Company's management, operational capacity and financial resources and systems. The increased demand upon management may necessitate Spin Master's recruitment and retention of qualified personnel. This can be particularly difficult when unexpected, significant, sudden shifts in demand are caused by "hit" toys and trends. There can be no assurance that the Company will be able to recruit and retain qualified personnel or expand and manage its operations effectively and profitably. Implementation of Spin Master's growth strategy is subject to risks beyond its control, including competition, market acceptance of original products, changes in economic conditions, its ability to obtain or renew licenses on commercially reasonable terms and its ability to finance increased levels of accounts receivable and inventory necessary to support its sales growth, if any. Accordingly, there can be no assurance that the Company's growth strategy will be successful or that it will be able to achieve its targeted future sales growth. The lack of success in the Company's growth strategy may have a material and adverse effect on its business, financial condition and performance.

Spin Master may not realize the full benefit of its licenses if the licensed material has less market appeal than expected and licenses may not be profitable to the Company if sales revenue from the licensed products are not sufficient to support the minimum guaranteed royalties.

An integral part of Spin Master's business involves obtaining licenses to produce products utilizing various entertainment brands and images. As a licensee of entertainment-based properties, the Company has no guarantee that a particular brand or property will translate into a successful toy, entertainment brand or other product. Additionally, a successful brand may not continue to be successful or maintain a high level of sales. As well, popularity of licensed properties may not result in popular toys or the success of the properties with the public. The license agreements into which the Company enters usually require it to pay minimum royalty guarantees that may be substantial, and in some cases may be greater than the amount it earns from sales of the licensed items. This could result in write-offs of significant amounts, which in turn could materially and adversely impact the Company's financial condition and performance. Acquiring or renewing licenses may require the payment of minimum guaranteed royalties that Spin Master considers to be too high to be profitable, which may result in losing licenses it currently holds when they become renewable under their terms, or missing business opportunities for new licenses. If the Company is unable to acquire or maintain successful licenses on advantageous terms, its business, financial condition and performance may be materially and adversely impacted.

Spin Master's dependence on third-party manufacturers and distributors to manufacture and distribute Spin Master's products presents risks to the Company's business and exposes it to risks associated with international operations.

A majority of Spin Master's products are manufactured by third-party manufacturers, most of which are located in Asia and primarily in China, and stored and distributed by third parties on its behalf. The Company's operations could be adversely affected if the Company lost its relationship with any of its third-party manufacturers or distributors, or if Spin Master were to be prevented from obtaining products from a substantial number of its current suppliers due to political, labour or other factors beyond the Company's control. Although Spin Master's external sources of manufacturing and its distribution centres can be shifted over a period of time to alternative sources, should such changes be necessary, the Company's operations could be disrupted, potentially for a significant period of time, while alternative sources were secured.

As a result of Spin Master's dependence on third-party manufacturers, any difficulties encountered by one of the Company's third-party manufacturers that results in production delays, cost overruns or the inability to fulfill its orders on a timely basis, including political disruptions, labour difficulties and other factors beyond the Company's control, could adversely affect the Company's ability to deliver its products to its customers, which in turn could harm the Company's reputation and adversely affect its business, financial condition and performance. Similarly, Spin Master relies on third-party distributors to transport its products to the markets in which they are sold and to distribute those products within those markets. Any disruption affecting the ability of the Company's third-party distributors to timely deliver or distribute its products to its customers could cause the Company to miss important seasons or opportunities, harm its reputation or cause its customers to cancel orders.

Spin Master's significant use of third-party manufacturers outside of North America also exposes the Company to risks, including:

- currency fluctuations;
- limitations on the repatriation of capital;
- potential challenges to the Company's transfer pricing determinations and other aspects of its cross border transactions which may impact income tax expense;
- political instability, civil unrest and economic instability;
- greater difficulty enforcing IP rights and weaker laws protecting such rights;

- requirements to comply with different laws in varying jurisdictions, which laws may dictate that certain practices that are acceptable in some jurisdictions are not acceptable in others, and changes in governmental policies;
- natural disasters and greater difficulty and expense in recovering from them;
- difficulties in moving materials and products from one country to another, including port congestion, strikes and other transportation delays and interruptions;
- difficulties in controlling the quality of raw materials and components used to manufacture the Company's products, which may lead to public health and other concerns regarding its products;
- changes in international labour costs, labour strikes, disruptions or lock-outs; and
- the imposition of tariffs or other protectionist measures, or the breakdown of trade relations.

Due to Spin Master's reliance on international sourcing of manufacturing, its business, financial condition and performance could be significantly and materially harmed if any of the risks described above were to occur.

Spin Master requires its third-party manufacturers and distributors to comply with Spin Master's Code of Conduct, which is designed to prevent products manufactured by or for the Company from being produced under inhumane or exploitive conditions. Spin Master's Code of Conduct addresses a number of issues, including work hours and compensation, health and safety, and abuse and discrimination. In addition, the Company requires that its products supplied by third-party manufacturers or distributors be produced or distributed in compliance with all applicable laws and regulations, including consumer and product safety laws in the markets where those products are sold. The Company has the right, both directly and through the use of outside monitors, to monitor compliance by its third-party manufacturers and distributors with Spin Master's Code of Conduct and other manufacturing requirements. In addition, the Company conducts quality assurance testing on its products, including products manufactured or distributed for the Company by third parties. Notwithstanding these requirements and Spin Master's monitoring and testing of compliance with them, there remains the risk that one or more of the Company's third-party manufacturers or distributors will not comply with Spin Master's requirements and that Spin Master will not immediately discover such non-compliance. Any failure of the Company's third-party manufacturers or distributors to comply with labour, consumer, product safety or other applicable requirements in manufacturing or distributing products for the Company could result in damage to Spin Master's reputation, harm sales of its products and potentially create liability for Spin Master and its business, financial condition and performance could be materially and adversely impacted.

Spin Master's sales are concentrated with a small number of retailers that do not make long-term purchase commitments. Consequently, economic difficulties or changes in the purchasing policies of those retailers could have a material adverse effect on the Company's business, financial condition and performance.

A small number of retailers account for a large share of Spin Master's total sales. For 2018, the top three customers collectively accounted for approximately 47.9% of the Company's Gross Product Sales. This concentration means that if one or more of Spin Master's major customers were to experience difficulties in fulfilling their obligations to the Company, cease doing business with the Company, significantly reduce the amount of their purchases from the Company, favour competitors or new entrants, return substantial amounts of Spin Master's products, favour its competitors or increase their competition with Spin Master by expanding their private label product lines or seek material financial contributions from the Company towards price reductions at the retail level, the Company's business, financial condition and performance could suffer. In addition, increased concentration among Spin Master's customers could also negatively impact its ability to negotiate higher sales prices for its products, could result in lower gross margins and could reduce the number of products the Company would otherwise be able to bring to market. Retailers do not make any long-term commitments to the Company regarding purchase volumes and make all purchases by delivering one-time purchase orders. Any customer could reduce its overall purchases of the Company's products, reduce the number and variety of the Company's products that it carries and the shelf space allotted for Spin Master's products, or otherwise seek to materially change the terms of their business relationship with Spin Master at any time. Any such change could significantly harm the Company's business, financial condition and performance. Similarly, liquidity problems at one or more of the Company's key customers could expose the Company to losses from bad debts and negatively impact its business, financial condition and performance. Spin Master's sales to retailers are typically made on credit without collateral. There is a risk that customers will not pay, or that payment will be delayed, because of bankruptcy or other factors beyond Spin Master's control, which could increase its exposure to losses from bad debts and increase its cost of sales. In addition, if these or other retailers were to cease doing business as a result of bankruptcy, or significantly reduce the number of stores they operate, it could have a material adverse effect on the Company's business, financial condition and performance. Spin Master's credit insurance may not cover all types of claims against customers and insurance levels for covered claims may not be adequate to indemnify the Company against all liability, which could materially and adversely harm the Company's business, financial condition and performance.

Uncertainty and adverse changes in general economic conditions may negatively affect consumer spending, which could have a material adverse effect on Spin Master's revenue and profitability.

Current and future conditions in the economy have an inherent degree of uncertainty. As a result, it is difficult to estimate the level of growth or contraction for the economy as a whole. It is even more challenging to estimate growth or contraction in various parts, sectors and regions of the economy, including the many different markets in which Spin Master participates. The Company's budgeting and forecasting are dependent upon estimates of demand for its products and growth or contraction in the markets it serves. Economic uncertainty complicates reliable estimation of future income and expenditures. Adverse changes may occur as a result of weakening global economic conditions, tightening of consumer credit, falling consumer confidence, increasing unemployment, declining stock markets or other factors affecting economic conditions generally. These changes may negatively affect demand for Spin Master's products, increase exposure to retailers with whom it does business, increase the cost and decrease the availability of financing to fund Spin Master's working capital needs, or increase costs associated with manufacturing and distributing products, any of which could have a material and adverse effect on the Company's revenue and profitability.

In addition, consumer spending habits, including spending on Spin Master products, are affected by, among other things, prevailing economic conditions, levels of employment, fuel prices, salaries and wages, the availability of consumer credit, consumer confidence and consumer perception of economic conditions. A general economic slowdown in Canada, the U.S. and other parts of the world could decrease demand for the Company's products which would adversely affect its revenue; an uncertain economic outlook may adversely affect consumer spending habits and customer traffic, which may result in lower revenue. A prolonged global economic downturn could have a material negative impact on the Company's business, financial condition and performance.

Failure to leverage Spin Master's portfolio of brands and products effectively across entertainment and media platforms, maintain relationships with key television and motion picture studios, and entertainment and media companies could have a material adverse effect on the Company's business, financial condition and performance.

Complementing Spin Master's product offerings with entertainment and media initiatives is an integral part of the Company's growth strategy. Spin Master invests in interactive media and other entertainment initiatives, extending the Company's brands across multiple platforms. Establishing and maintaining relationships with key broadcasters and motion picture studios, and entertainment and media companies are critical to the successful execution of these initiatives. The Company's failure to execute effectively on these initiatives could result in its inability to recoup its investment and harm the related toy brands employed in these initiatives. Such failures could have a material adverse effect on the Company's business, financial condition and performance.

Risks Related to the Broadcast Entertainment Industry.

The broadcast entertainment industry involves a substantial degree of risk. Acceptance of children's entertainment programming represents a response not only to the production's artistic components, but also the quality and acceptance of other competing programs released into the marketplace at or near the same time, the availability of alternative forms of children's entertainment and leisure time activities, general economic conditions, public tastes generally and other intangible factors, all of which could change rapidly or without notice and cannot be predicted with certainty. There is a risk that some or all of Spin Master's programming will not be purchased or accepted by the public generally, resulting in a portion of costs not being recouped or anticipated direct and indirect profits not being realized, which could have a material and adverse effect on the Company's business, financial condition and performance. There can be no assurance that revenue from existing or future programming will replace loss of revenue associated with the cancellation or unsuccessful commercialization of any particular production or that Spin Master's entertainment programming will generate product sales.

Distributors' decisions regarding the timing of release and promotional support of Spin Master's television programs are important in determining the success of these programs. The Company does not control the timing and manner in which its distributors distribute the Company's television programs. Any decision by those distributors not to distribute or promote one of Spin Master's television programs or to promote competitors' programs to a greater extent than they promote Spin Master's programs could have a material and adverse effect on the Company's business, financial condition and performance.

The business of producing and distributing television programs is highly competitive. Spin Master faces intense competition with other producers and distributors, many of whom are substantially larger and have greater financial, technical and marketing resources than Spin Master. The Company competes with other television production companies for ideas and storylines created by third parties as well as for actors, directors and other personnel required for a production. Spin Master may not be successful in any of these efforts which could have a material and adverse effect on its business, financial condition and performance.

A production's costs may exceed its budget. Unforeseen events such as labour disputes, death or disability of a star performer, changes related to technology, special effects or other aspects of production, shortage of necessary equipment, damage to film negatives, master tapes and recordings, or adverse weather conditions, or other unforeseen events may cause cost overruns and delay or frustrate completion of a production. Although Spin Master has historically completed its productions within budget, there can be no assurance that it will continue to do so. The Company currently maintains insurance policies and when necessary, completion bonds, covering certain of these risks. There can be no assurance that any overrun resulting from any occurrence will be adequately covered or that such insurance and completion bonds will continue to be available or, if available on terms acceptable to Spin Master. In the event of substantial budget overruns, there can be no assurance that such costs will be recouped, which could have a material and adverse effect on the Company's business, financial condition and performance.

There can be no assurance that the local cultural incentive programs, film equity investment programs, federal tax credits and provincial tax credits which Spin Master may access in Canada and internationally from time to time, including those sponsored by various European, Australian and Canadian governmental agencies, will not be reduced, amended or eliminated. Any change in the policies of those countries in connection with their incentive programs could have a material and adverse effect on the Company's business, financial condition and performance.

Spin Master's business is seasonal and therefore its annual financial performance depends, in large part, on its sales relating to the holiday shopping season. As retailers become more efficient in their control of inventory levels and give shorter lead times for production, failures to predict demand and possible transportation, production or other disruptions during peak demand times may affect the Company's ability to deliver products in time to meet retailer demands.

Seasonality factors cause Spin Master's operating results to fluctuate significantly from quarter to quarter. A majority of the Company's sales occur during the period from September through December. This seasonality has increased over time, as retailers become more efficient in their control of inventory levels through inventory management techniques. Spin Master's failure to predict levels of consumer demand surrounding the holiday season may result in under-producing popular products and overproducing underperforming items, which, in either case, would adversely affect the Company's business, financial condition and performance. Spin Master's results of operations may also fluctuate as a result of factors such as the timing of new products or new products that its competitors introduce in the marketplace, the advertising activities of its competitors and the emergence of new market entrants. In addition, due to the seasonal nature of Spin Master's business, the Company would be materially and adversely impacted, in a manner disproportionate to the impact on a company with sales spread more evenly throughout the year, by unforeseen events, such as public health crises, terrorist attacks, adverse weather conditions or economic shocks that harm the retail environment or consumer buying patterns during the Company's key selling season, or by events such as strikes, port delays or supply chain interruptions, in the second half of the year.

If Spin Master fails to meet transportation schedules, it could damage the Company's relationships with retailers, increase the Company's shipping costs or cause sales opportunities to be delayed or lost. In order to be able to deliver its merchandise on a timely basis, Spin Master needs to maintain adequate inventory levels of the desired products. If the Company's inventory forecasting and production planning processes result in Spin Master manufacturing inventory in excess of the levels demanded by its customers, the Company could be required to record inventory write-downs for excess and obsolete inventory, which could materially and adversely affect the Company's financial performance. If the inventory of Spin Master products held by its retailers is too high, they may not place or may reduce orders for additional products, which could unfavourably impact the Company's future sales and materially and adversely affect its financial performance.

International sales are subject to various risks and failure to implement the international growth strategy could have a material adverse effect on the Company's business, financial condition and performance.

Spin Master currently relies on international sales of its products and expects to do so to a greater extent in the future as it continues to expand its business. The Company believes that its revenue and financial performance will depend in part upon its ability to increase sales in international markets. Implementation of Spin Master's growth strategy is subject to risks beyond its control, and accordingly, there can be no assurance that the Company's growth strategy will be successful. The lack of success in the Company's growth strategy may have a material and adverse effect on its business, financial condition and performance.

International sales are subject to various risks, including: exposure to currency fluctuations; political and economic instability; increased difficulty of administering business; and the need to comply with a wide variety of international and domestic laws and regulatory requirements. There are a number of risks inherent in the Company's international activities, including: unexpected changes in Canadian, U.S. or other governmental policies concerning the import and export of goods; services and technology and other regulatory requirements; tariffs and other trade barriers; costs and risks of localizing products for foreign languages; longer accounts receivable payment cycles; limits on repatriation of earnings; the burdens of complying with a wide variety of non-Canadian or U.S. laws; and difficulties supervising and managing local personnel. The financial stability of non-Canadian or U.S. markets could also affect Spin Master's international sales. Such factors may have a material adverse effect on the Company's revenues and expenses related to international sales and, consequently, business, financial condition and performance. In addition, international income may be subject to taxation by more than one jurisdiction, which could also have a material adverse effect on the Company's financial performance.

An increasing portion of Spin Master's business may come from new and emerging markets, and growing business in new and emerging markets presents additional challenges which could have a material adverse effect on the Company's business, financial condition and performance.

Spin Master expects an increasing portion of its net revenues to come from new and emerging markets, including China and Russia. Operating in new and emerging markets, each with its own unique consumer preferences and business climates, presents additional challenges that Spin Master must meet. In addition, sales and operations in new and emerging markets are subject to other risks associated with international operations. Such risks include complications in complying with different laws in varying jurisdictions; dealing with changes in governmental policies and the evolution of laws and regulations that impact Spin Master's product offerings and related enforcement; difficulties understanding the retail climate, consumer trends, local customs and competitive conditions in foreign markets, which may be quite different from Canada and the U.S.; difficulties in moving materials and products from one country to another, including port congestion, strikes and other transportation delays and interruptions; potential challenges to Spin Master's transfer pricing determinations and other aspects of its cross border transactions; and the impact of tariffs, quotas, or other protectionist measures. Spin Mater's business, financial condition and performance could be harmed if any of the risks described above are not appropriately managed, or if the Company is otherwise unsuccessful in managing its new and emerging market business.

Spin Master's success depends on key personnel and without them the Company may be unable to maintain and expand its business.

Spin Master's future success depends on the continued contribution of key personnel, including, designers, inventors, technical, sales, marketing and entertainment personnel. The loss of services of any of the Company's key personnel could harm its business. Recruiting and retaining skilled personnel is costly and highly competitive. If the Company fails to retain, hire, train and integrate qualified employees and contractors, it may not be able to maintain and expand its business.

Product recalls, post-manufacture repairs of Spin Master's products, product liability claims, absence or cost of insurance, and associated costs could harm the Company's reputation and this could cause Spin Master's licensors to terminate or not renew its licenses. This could have a material adverse effect on the Company's business, financial condition and performance.

Spin Master is subject to regulation by Health Canada, the U.S. Consumer Product Safety Commission and regulatory authorities and by similar consumer protection regulatory authorities in other countries in which Spin Master sells its products. These regulatory bodies have the authority to remove from the market, products that are found to be defective and present a substantial hazard or risk of serious injury or death. The Company has experienced, and may in the future experience, issues in relation to products that result in recalls, delays, withdrawals, or post-manufacture repairs or replacements of products.

Individuals have asserted claims, and may in the future assert claims, that they have sustained injuries from the Company's products, and Spin Master may be subject to lawsuits relating to these claims. There is a risk that these claims or liabilities may exceed, or fall outside of the scope of, Spin Master's insurance coverage as Spin Master does not maintain separate product recall insurance. The Company has recorded, and in the future may record, charges and incremental costs relating to recalls, withdrawals or replacements of its products, based on the Company's most recent estimates of retailer inventory returns, consumer product replacement costs, associated legal and other professional fees, and costs associated with advertising and administration of product recalls. As these current and expected future charges are based on estimates, they may increase as a result of numerous factors, many of which are beyond Spin Master's control, including the amount of products that may be returned by consumers and retailers, the number and type of legal, regulatory, or legislative proceedings relating to product recalls, withdrawals or replacements or product safety proceedings in Canada, the U.S. and elsewhere that may involve the Company, as well as regulatory or judicial orders or decrees in Canada, the U.S. and elsewhere that may require the Company to take certain actions in connection with product recalls.

Moreover, Spin Master may be unable to obtain adequate liability insurance in the future. Any of these issues could result in damage to the Company's reputation, diversion of development and management resources, reduced sales, and increased costs and could cause the Company's licensors to terminate or not renew its licenses, any of which could materially and adversely harm its business, financial condition and performance. Product recalls, withdrawals, or replacements may also increase the competition that Spin Master faces. Some competitors may attempt to differentiate themselves by claiming that their products are produced in a manner or geographic area that is insulated from the issues that preceded recalls, withdrawals or replacements of Spin Master's products. In addition, to the extent that the Company's competitors choose not to implement enhanced safety and testing protocols comparable to those that the Company and its third-party manufacturers have adopted, such competitors could enjoy a cost advantage that could enable them to offer products at lower prices than Spin Master.

Additionally, product recalls relating to Spin Master's competitors' products, post-manufacture repairs of their products and product liability claims against the Company's competitors may indirectly impact the Company's product sales even if its products are not subject to the same recalls, repairs or claims.

Spin Master's ability to enter into licensing agreements for products on competitive terms may be adversely affected if licensors believe that products sold by the Company will be less favourably received in the market. Inventors and entertainment content collaborators may be less willing to work with the Spin Master and the Company may receive fewer product concepts. Spin Master's retailer customers may be less willing to purchase the Company's products or to provide marketing support for those products, shelf space, promotions and advertising. Reduced acceptance of the Company's products would adversely affect its business, financial condition and performance.

The production and sale of private-label toys by the retailers with which Spin Master does business may result in lower purchases of the Spin Master's branded products by those customers.

In recent years, retailers have been increasing the development of their own private-label products that directly compete with the products of their other suppliers, including children's entertainment companies. Some of the retailers with whom Spin Master does business sell private-label toys designed, manufactured and branded by the retailers themselves. The Company's customers may sell their private-label toys at prices lower than comparable toys sold by the Company, and, particularly in the event of strong sales of private-label toys, may elect to reduce their purchases of its branded products. In some cases, retailers who sell these private-label toys are larger than Spin Master and have substantially more resources. An increase in the sale of private-label product by retailers could have a material adverse effect on the Company's business, financial condition and performance.

Unfavourable resolution of litigation matters and disputes, including those arising from recalls, withdrawals or replacements of Spin Master's products, could have a material adverse effect on the Company's business, financial condition and performance.

Spin Master is involved from time to time in litigation and disputes, including those arising from recalls, withdrawals or replacements of its products. Since outcomes of regulatory investigations, litigation and arbitration disputes are inherently difficult to predict, there is the risk that an unfavourable outcome in any of these matters could negatively affect the Company's business, financial condition and performance. Regardless of the outcome, litigation may result in substantial costs and expenses to Spin Master and significantly divert the attention of its management. The Company may not be able to prevail in, or achieve a favourable settlement of, pending litigation. In addition to pending litigation, future litigation, government proceedings, labour disputes or environmental matters could lead to increased costs or interruption of the Company's normal business operations.

Failure to implement new initiatives or the delay in the anticipated timing of launching new products or entertainment properties could have a material adverse effect on Spin Master's business, financial condition and performance.

Spin Master has undertaken, and in the future may undertake, initiatives to improve the execution of its core business, globalize and extend its brands, develop or extend entertainment properties, leverage new trends, create new brands, offer new innovative products and technologies, enhance product safety, develop its employees, improve productivity, simplify processes, maintain customer service levels, drive sales growth, manage costs, capitalize on its scale advantage and improve its supply chain. These initiatives involve investment of capital and complex decision-making, as well as extensive and intensive execution, and these initiatives may not succeed or there may be a delay in the anticipated timing of the launch of new initiative or products. Failure to implement any of these initiatives, or the delay of the anticipated launch, could have a material adverse effect on the Company's business, financial condition and performance.

A reduction or interruption in the delivery of raw materials, parts and components from Spin Master's suppliers or a significant increase in the price of supplies could negatively impact the Company's profit margins or result in lower sales.

Spin Master's ability to meet customer demand depends in part on its ability to obtain timely and adequate delivery of materials, parts and components from Spin Master's suppliers. The Company has experienced shortages in the past, including shortages of raw materials and components, and may encounter these problems in the future. A reduction or interruption in supplies or a significant increase in the price of one or more supplies, such as fuel and resin (which is a petroleum-based product), could have a material adverse effect on the Company's business, financial condition and performance. Cost increases, whether resulting from shortages of materials or rising costs of materials, transportation, services or labour, could impact the profit margins on the sale of Spin Master's products. Due to market conditions, timing of pricing decisions and other factors, the Company may not be able to offset any of these increased costs by adjusting the prices of its products. Increases in prices of the Company's products could result in lower sales and have a material adverse effect on its financial condition and performance.

Spin Master's safety procedures are regularly monitored and are subject to change, which may materially and adversely affect its relationship with vendors and make it more difficult for it to purchase and deliver products on a timely basis to meet market demands. Future conditions may require the Company to adopt changes to its safety procedures that may increase its costs and adversely affect the Company's relationship with vendors.

Spin Master's operating procedures and requirements for vendors, which are regularly monitored and which are subject to change, including by implementing enhanced testing requirements and standards, impose additional costs on both Spin Master and the vendors from whom it purchases products. These changes may also delay delivery of the Company's products. Additionally, changes in industry wide product safety guidelines may affect the Company's ability to sell its inventory and may negatively impact its business. Spin Master's relationship with existing vendors may be adversely affected as a result of these changes, making it more dependent on a smaller number of vendors. Some vendors may choose not to continue to do business with the Company or not to accommodate the Company's needs to the extent that they have done so in the past. Due to the seasonal nature of Spin Master's business and the demands of its customers for deliveries with short lead times, Spin Master depends upon the cooperation of its vendors to meet market demand for its products in a timely manner. Existing and future events may require the Company to impose additional requirements on its vendors that may adversely affect the Company's relationships with those vendors and its ability to meet market demand in a timely manner which may in turn have a material and adverse effect on the Company's business, financial condition and performance.

Negative publicity and product reviews may negatively impact Spin Master's business, financial condition and performance.

There has been a marked increase in the use of social media platforms and similar channels, including weblogs (blogs), social media websites and other forms of Internet-based communications that provide individuals with access to a broad audience of consumers and other interested persons. The availability and impact of information on social media platforms is virtually immediate and the accuracy of such information is not independently verified. The opportunity for dissemination of information, including inaccurate information, is seemingly limitless and readily available. Information concerning Spin Master or one or more of its products or employees may be posted on such platforms at any time. Information posted may be adverse to Spin Master's interests or may be inaccurate, each of which may harm the Company's reputation and business. The harm may be immediate without affording Spin Master an opportunity for redress or correction. Ultimately, the risks associated with any such negative publicity or incorrect information cannot be completely eliminated or mitigated and may materially and adversely impact its business, financial condition and performance.

Spin Master may engage in acquisitions, mergers, or dispositions, which may affect the profit, revenues, profit margins or other aspects of its business. Spin Master may not realize the anticipated benefits of future acquisitions, mergers or dispositions to the degree anticipated, or such transactions could have a material adverse impact on the Company's business, financial condition and performance.

Acquisitions have been a part of Spin Master's growth and have enabled it to further broaden and diversify its product offerings. The Company expects that in the future it will further expand its operations, brands, and product offerings through the acquisition of additional businesses, products or technologies. However, the Company may not be able to identify suitable acquisition targets or merger partners and the Company's ability to efficiently integrate large acquisitions may be limited by its lack of experience with them. If Spin Master is able to identify suitable targets or merger partners, it may not be able to acquire these targets on acceptable terms or agree to terms with merger partners. Also, Spin Master may not be able to integrate or profitably manage acquired businesses and may experience substantial expenses, delays or other operational or financial problems associated with the integration of acquired businesses. The Company may also face substantial expenses, delays or other operational or financial problems if it is unable to sustain the distribution channels and other relationships currently in place at an acquired business. The businesses, products, brands or properties the Company acquires may not achieve or maintain popularity with consumers, and other anticipated benefits may not be realized immediately or at all. Further, integration of an acquired business may divert the attention of the Company's management from its core business. In cases where Spin Master acquires businesses that have key individuals, Spin Master cannot be certain that those persons will continue to work for it after the acquisition or that they will continue to develop popular and profitable products. Loss of such individuals could materially and adversely affect the value of businesses that the Company acquires.

Acquisitions also entail numerous other risks, including but not limited to:

- unanticipated costs and legal liabilities;
- adverse effects on the Company's existing business relationships with its suppliers and customers;
- risk of entering markets in which the Company has limited or no prior experience;
- amortizing any acquired intangible assets; and
- difficulties in maintaining uniform standards, procedures, controls and policies.

Some or all of the foregoing risks could have a material adverse effect on Spin Master's business, financial condition and performance. In addition, any businesses, products or technologies the Company may acquire may not achieve anticipated revenues or income and the Company may not be able to achieve cost savings and other benefits that it would hope to achieve with an acquisition.

Acquisitions could also consume a substantial portion of Spin Master's available cash, could result in incurring substantial debt which may not be available on favourable terms, and could result in the Company assuming contingent liabilities. In addition, if the business, product or technologies the Company acquires are unsuccessful it would likely result in the incurrence of a write-down of such acquired assets, that could adversely affect Spin Master's financial performance. The Company's failure to manage its acquisition strategy could have a material adverse effect on its business, financial condition and performance.

Consistent with Spin Master's past practice and in the normal course, the Company may have outstanding non-binding letters of intent and / or conditional agreements or may otherwise be engaged in discussions with respect to possible acquisitions which may or may not be material. However, there can be no assurance that any of these letters, agreements and / or discussions will result in an acquisition and, if they do, what the final terms or timing of any acquisition would be.

If Spin Master fails to maintain an effective system of internal controls, Spin Master may not be able to report its financial results or prevent fraud, which could harm the Company's financial performance and may cause investors to lose confidence in it.

Spin Master must maintain effective internal financial controls for it to provide reliable and accurate financial reports. The Company's compliance with the internal control reporting requirements will depend on the effectiveness of its financial reporting and data systems and controls. Spin Master expects these systems and controls to become increasingly complex to the extent that its business grows, including through acquisitions. To effectively manage such growth, the Company will need to continue to improve its operational, financial and management controls and its reporting systems and procedures. These measures may not ensure that Spin Master designs, implements and maintains adequate controls over its financial processes and reporting in the future. Any failure to implement required new or improved controls, or difficulties encountered in their implementation or operation, could harm the Company's financial performance or cause it to fail to meet its financial reporting obligations. Inferior internal controls could also cause investors to lose confidence in the Company's reported financial information, which could have a material and adverse effect on the trading price of its stock and its access to capital.

Spin Master is subject to tax and regulatory compliance in all the jurisdictions in which it operates and may be subject to audits from time to time that could result in the assessment of additional taxes, interest and penalties.

Spin Master conducts business globally and is subject to tax and regulatory compliance in the jurisdictions in which it operates. These include those related to collection and payment of value added taxes at appropriate rates and the appropriate application of value added taxes to each of the Company's products, those designed to ensure that appropriate levels of customs duties are assessed on the importation of its products, as well as transfer pricing and other tax regulations designed to ensure that its intercompany transactions are consummated at prices that have not been manipulated to produce a desired tax result, that appropriate levels of income are reported as earned and that it is taxed appropriately on such transactions. International transfer pricing is a subjective area of taxation and generally involves a significant degree of judgment.

Spin Master may be subject to audits that are at various levels of review, assessment or appeal in a number of jurisdictions involving various aspects of value added taxes, customs duties, transfer pricing, income taxes, withholding taxes, sales and use and other taxes and related interest and penalties in material amounts. The taxation authorities in the jurisdictions where the Company carries on business could challenge the Company's transfer pricing policies. In some circumstances, additional taxes, interest and penalties may be assessed and deposits required to be paid in order to challenge the assessments. When applicable, the Company reserves in the consolidated financial statements an amount that it believes represents the most likely outcome of the resolution of disputes, but if it is incorrect in its assessment, it may have to pay a different amount which could potentially be material. Ultimate resolution of these matters can take several years, and the outcome is uncertain. If the taxing authorities in any of the jurisdictions in which the Company operates were to successfully challenge its transfer pricing practices or its positions regarding the payment of income taxes, customs duties, value added taxes, withholding taxes, sales and use, and other taxes, it could become subject to higher taxes and its revenue and earnings could be adversely affected.

Significant changes in currency exchange rates could have a material adverse effect on Spin Master's business, financial condition and performance.

Spin Master's financial performance and cash flows are subject to changes in currency exchange rates and regulations. As the Company's financial results are reported in U.S. dollars, changes in the exchange rate between the U.S. dollar, Canadian dollar, Pound Sterling and the Euro may have an adverse effect / beneficial impact on the Company's U.S. dollar results. Furthermore, potential significant revaluation of the Chinese yuan, which may result in an increase in the cost of producing products in China, could negatively affect Spin Master's business. Government action may restrict the Company's ability to transfer capital across borders and may also impact the fluctuation of currencies in the countries where the Company conducts business or has invested capital. Significant changes in currency exchange rates and reductions in Spin Master's ability to transfer capital across borders could have a material adverse effect on its business, financial condition and performance. Currency fluctuations may also adversely affect the Company's financial performance when it repatriates the funds it receives from these sales or other sources.

Spin Master is subject to various laws and government regulations, which, if violated, could subject Spin Master to sanctions or third-party litigation or, if changed, could lead to increased costs, changes in the Company's effective tax rate or the interruption of normal business operations that would negatively impact the Company's business, financial condition and performance.

Spin Master is subject to a number of laws and regulations in Canada, the U.S. and internationally, both as a supplier of consumer products and services and indirectly through its third-party manufacturers and distributors. The Company is subject to the U.S. *Children's Online Privacy Protection Act*, which, as implemented, requires Spin Master to obtain verifiable, informed parental consent before it collects, uses or discloses personal information from children under the age of 13. The Company also is subject to various other laws, including Canadian, U.S. and international employment, environmental, trade, tax, and other laws. The Company believes that it takes all necessary steps to comply with these laws and regulations, but Spin Master cannot be certain that it is in full compliance or will be in the future. Failure to comply could result in sanctions or delays that could have a negative impact on the Company's business, financial condition and performance. In addition, changes in laws or regulations may lead to increased costs, changes in the Company's effective tax rate, or the interruption of normal business operations that would materially and adversely impact its business, financial condition and performance.

Spin Master's business could be significantly harmed if its electronic data is compromised.

Spin Master maintains significant amounts of data electronically in locations around the world. This data relates to all aspects of the Company's business and also contains certain customer and consumer data. The Company maintains systems and processes designed to protect this data, but notwithstanding such protective measures, there is a risk of intrusion or tampering that could compromise the integrity and privacy of this data. In addition, Spin Master provides confidential and proprietary information to its third-party business partners in certain cases where doing so is necessary to conduct the Company's business. While Spin Master obtains assurances from those parties that they have systems and processes in place to protect such data, and where applicable, that they will take steps to assure the protections of such data by third parties, nonetheless those partners may also be subject to data intrusion or otherwise compromise the protection of such data. While Spin Master and its third-party business partners maintain systems for preventing and detecting a breach of their respective information technology systems, Spin Master and those third parties may be unaware that a breach has occurred, may be unable to detect an ongoing breach or may be delayed in detecting a breach. Spin Master has exposure to similar security risks faced by other large companies that have data stored on their information technology systems. To its knowledge, Spin Master has not experienced any material breach of its cybersecurity systems. If Spin Master's or any third-party service providers' systems fail to operate effectively or are damaged, destroyed, or shut down, or there are problems with transitioning to upgraded or replacement systems, or there are security breaches in these systems, any of the aforementioned could occur as a result of natural disasters, software or equipment failures, telecommunications failures, loss or theft of equipment, acts of terrorism, circumvention of security systems, or other cyber-attacks, Spin Master could experience delays or decreases in product sales, and reduced efficiency of its operations. Any compromise of the confidential data of Spin Master's customers, its consumers or itself, or failure to prevent or mitigate the loss of this data could disrupt Spin Master's operations, damage its reputation, violate applicable laws and regulations and subject the Company to additional costs and liabilities and have a material and adverse impact on its business, financial condition and performance.

The challenge of continuously developing and offering products that are sought after by children is compounded by the sophistication of today's children and the increasing array of technology and entertainment offerings available to them.

Children are increasingly utilizing electronic offerings such as tablet devices and mobile phones and they are expanding their interests to a wider array of innovative, technology-driven entertainment products and digital and social media offerings at younger and younger ages. Spin Master's products compete with the offerings of consumer electronics companies, digital media and social media companies. To meet this challenge, the Company is designing and marketing products which incorporate increasing technology, seek to combine digital and analog play, and capitalize on evolving play patterns and increased consumption of digital and social media. With the increasing array of competitive entertainment offerings, there is no guarantee that:

- any of Spin Master's products, brands or entertainment properties will achieve popularity or continue to be popular;
- any property for which Spin Master has a significant license will achieve or sustain popularity;
- any new products or product lines Spin Master introduces, or entertainment content that it creates, will be considered interesting to consumers and achieve an adequate market acceptance; or
- any product's life cycle or sales quantities will be sufficient to permit Spin Master to profitably recover the development, manufacturing, marketing, royalties (including royalty advances and guarantees) and other costs of producing, marketing and selling the product.

An increasing portion of Spin Master's business may come from technologically advanced or sophisticated digital and smart technology products, which present additional challenges compared to more traditional toys and games.

Spin Master expects that children will continue to be interested in product offerings incorporating sophisticated technology, such as video games, consumer electronics and social and digital media, at younger and younger ages. Spin Master also expects that parents will seek to enhance child development and learning through digital technologies and analog and technology-based play.

In addition to the risks associated with Spin Master's more traditional products, sophisticated digital and smart technology products face certain additional risks. Costs associated with designing, developing and producing technologically advanced or sophisticated products tend to be higher than for many of Spin Master's more traditional products. Heavy competition in consumer electronics and entertainment products and difficult economic conditions may increase the risk of Spin Master not achieving sales sufficient to recover the increased costs associated with these products. Designing, developing and producing sophisticated digital and smart technology products requires different competencies and may follow longer timelines than traditional toys and games, and any delays in the design, development or production of these products could have a significant impact on Spin Master's ability to successfully offer such products. In addition, the pace of change in product offerings and consumer tastes in the video games, consumer electronics and social and digital media areas is potentially even greater than for Spin Master's more traditional products. This pace of change means that the window in which a technologically advanced or sophisticated product can achieve and maintain consumer interest may be shorter than traditional toys and games. These products may also present data security and data privacy risks and be subject to certain laws, government policies or regulations not applicable to more traditional products, such as the U.S. Children's Online Privacy Protection Act of 1998 and the EU Data Protection Directive (Directive 95/46/EC) and related national regulations.

Earthquakes or other catastrophic events out of Spin Master's control may damage its operations, facilities or those of its contractors and could materially and adversely affect the Company's business, financial condition and performance.

A catastrophic event where Spin Master has operations, offices or manufacturing facilities, such as an earthquake, tsunami, flood, typhoon, fire or other natural or manmade disaster, could disrupt the Company's operations or those of its contractors and impair production or distribution of its products, damage inventory, interrupt critical functions, or otherwise affect its business negatively and could materially and adversely affect the Company's business, financial condition and performance.

System failures related to the websites that support Spin Master's internet-related products, applications, services and associated websites could harm the Company's business.

The websites, applications and services associated with Spin Master's internet-related products depend upon the reliable performance of their technological infrastructure. Customers could be inconvenienced and the Company's business may suffer if demand for access to those websites, applications or services exceeds their capacity. Any significant disruption to, or malfunction by, those websites or services, particularly malfunctions related to transaction processing, on those associated websites could result in a loss of potential or existing customers and sales.

Although Spin Master's systems have been designed to function in the event of outages or catastrophic occurrences, they remain vulnerable to damage or interruption from earthquakes, floods, fires, power loss, telecommunication failures, terrorist attacks, computer viruses, computer denial-of-service attacks, and other events. Some of the Company's systems are not fully redundant, and its disaster recovery planning is not sufficient for all eventualities. Spin Master's systems are also subject to break-ins, sabotage, and intentional acts of vandalism. Despite any precautions the Company may take, the occurrence of a natural disaster or other unanticipated problems at the Company's hosting facilities could result in lengthy interruptions in its services. Spin Master does not carry business interruption insurance sufficient to compensate it for losses that may result from interruptions in its service as a result of system failures. Any unplanned disruption of the Company's systems could result in material and adverse financial impact on its business, financial condition and performance.

Increases in interest rates, the lack of availability of credit and Spin Master's inability to meet the debt covenant coverage requirements in its credit facility could negatively impact the Company's ability to conduct its business operations.

Increases in interest rates, both domestically and internationally, could negatively affect Spin Master's cost of financing its operations and investments. Adverse credit market conditions could limit the Company's ability to refinance its existing credit facility and raise additional debt that may be needed to fund the Company's operations. Additionally, Spin Master's ability to issue or borrow long-term debt and obtain seasonal financing or pay dividends could be adversely affected by factors such as an inability to meet certain debt covenant requirements and ratios. In the past, the Company's business has required and will continue to require capital expenditures and available resources to finance acquisitions. Accordingly, Spin Master's ability to maintain its current credit facility and its ability to issue or borrow long-term debt and raise seasonal financing are critical for the success of Spin Master's business. The Company's ability to conduct operations could be materially and adversely impacted should these or other adverse conditions affect the Company's sources of liquidity.

FINANCIAL RISK MANAGEMENT

The Company is exposed to risks of varying degrees of significance which could affect its ability to achieve its strategic objectives for growth. The main objectives of the Company's risk management process are to ensure that risks are properly identified and that the capital base is adequate in relation to these risks. The principal financial risks to which the Company is exposed are described below.

Foreign currency risk

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

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

Interest rate risk

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

Credit risk and Customer Concentration

The Company is dependent on three main retailers with respect to product sales for the majority of its products. These three customers accounted for 48% and 43% of consolidated gross product sales for the year ended December 31, 2018 and 2017 respectively.

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

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

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

RELATED PARTY TRANSACTIONS

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

CRITICAL ACCOUNTING ESTIMATES

The Company's significant accounting policies are described in Note 3 of the Company's fiscal 2018 audited consolidated financial statements and accompanying notes, which have been prepared in accordance with IFRS. The preparation of financial statements requires management to make estimates, assumptions and judgments that affect the reported amounts of assets and liabilities, and related disclosures and the reported amounts of revenues and expenses during the periods covered by the financial statements.

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

Determination of cash-generating units

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

Functional currency

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

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

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

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

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

Impairment testing of goodwill and indefinite life intangible assets

Goodwill and indefinite life intangible assets are assessed for impairment at least annually, and whenever there is an indication that the asset may be impaired. The Company determines the fair value of its CGU groupings and indefinite life intangible assets using discounted cash flow models corroborated by other valuation techniques. The process of determining these fair values requires the Company to make estimates and assumptions of a long term nature regarding discount rates, projected revenues, royalty rates and margins, as applicable, derived from past experience, actual operating results and budgets. These estimates and assumptions may change in the future due to uncertain competitive and economic market conditions or changes in business strategies.

Provision for inventories

Inventories are stated at the lower of cost and estimated net realizable value. The Company estimates net realizable value as the amount at which inventories are expected to be sold, taking into consideration fluctuations in retail prices due to seasonality less estimated costs necessary to make the sale. Inventories are written down to net realizable value when the cost of inventories is estimated to be unrecoverable due to obsolescence, damage or declining selling prices.

Sales allowances

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

Income and other taxes

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

Changes or differences in underlying estimates or assumptions may result in changes to the current or deferred income tax balances on the consolidated statements of financial position, a charge or credit to income tax expense in the consolidated statement of earnings and may result in cash payments or receipts.

All income, capital and commodity tax filings are subject to audits and reassessments. Changes in interpretations or judgments may result in a change in the Company's income, capital or commodity tax provisions in the future. The amount of such a change cannot be reasonably estimated.

FUTURE CHANGES IN ACCOUNTING POLICIES

IFRS 16 Leases

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

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

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

IFRIC 23 Uncertainty over income tax treatments

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

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

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

IAS 28 Investments in Associates and Joint Ventures

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

IFRS 9 Financial Instruments

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

IAS 19 Employee Benefits

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

IFRS 3 Business Combinations

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

IFRS 11 Joint Arrangements

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

IAS 12 Income Taxes

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

IAS 23 Borrowing Costs

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

FINANCIAL INSTRUMENTS

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

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

DISCLOSURE CONTROLS AND PROCEDURES

The Co-Chief Executive Officers and the Chief Financial Officer (the “Certifying Officers”) have designed, or caused to be designed under their supervision, Disclosure Controls and Procedures (“DC&P”) to provide reasonable assurance that (i) material information relating to the Company is made known to them by others, particularly during the period in which the annual filings are being prepared; and (ii) information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation. The Certifying Officers have evaluated, or caused to be evaluated under their supervision, the effectiveness of the Company’s DC&P as at December 31, 2018 and have concluded that the Company's DC&P was effective as at December 31, 2018.

INTERNAL CONTROL OVER FINANCIAL REPORTING

The Certifying Officers have also designed, or caused to be designed under their supervision, Internal Control over Financial Reporting (“ICFR”) to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes prepared in accordance with IFRS. The Certifying Officers have used the Internal Control – Integrated Framework (2013 COSO Framework) issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) to design the Company’s ICFR. The Certifying Officers have evaluated, or caused to be evaluated under their supervision, the effectiveness of the Company’s

ICFR as at December 31, 2018 and have concluded that the Company's ICFR was effective as at December 31, 2018.

There have been no changes in the Company's ICFR during the three-month period ended December 31, 2018 which have materially affected, or are reasonably likely to materially affect, the Company's ICFR.

LIMITATIONS OF AN INTERNAL CONTROL SYSTEM

The Certifying Officers believe that any 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" and "Sales Allowances", 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, among other items. 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 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 table "2018 Gross Product Sales by Product Category" 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 past performance and as a measure to understand the performance of the Company.

Management believes that 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 from Operations to Free Cash Flow for the fiscal years ended December 31, 2018, 2017 and 2016:

	Year ended December 31		
(in $ thousands)	**2018**	**2017**	**2016**
Reconciliation of Non-IFRS Financial Measures			
Net income	154,904	161,066	99,515
Income tax expense	53,522	59,363	38,364
Finance costs	9,398	10,445	8,601
Depreciation and amortization	74,195	44,908	30,490
EBITDA (1)	**292,019**	**275,782**	**176,970**
Normalization Adjustments:			
Restructuring (2)	7,258	1,680	1,823
Recovery of contingent liability (3)	—	—	(222)
Foreign exchange (gain) loss (4)	(9,346)	(11,370)	5,530
Share based compensation (5)	12,193	10,082	20,943
Impairment of intangible assets (6)	—	9,032	—
Legal settlement (7)	(15,500)	—	—
Amortization of fair market value adjustments (8)	3,692	2,805	—
Acquisition related incentive compensation (9)	1,157	—	467
Transaction costs (10)	—	1,000	—
Bad debt expense (11)	12,113	5,382	—
Royalty recovery (12)	—	(2,200)	—
Adjusted EBITDA (1)	**303,586**	**292,193**	**205,511**
Income tax expense	53,522	59,363	38,364
Finance costs	9,398	10,445	8,601
Depreciation and amortization	74,195	44,908	30,490
Tax effect of normalization adjustments (13)	2,969	4,480	7,941
Adjusted Net Income (1)	**163,502**	**172,997**	**120,115**
Cash provided by operating activities	192,890	267,405	73,038
Plus:			
Changes in net working capital	19,067	(16,782)	87,220
Cash provided by operating activities before net working capital changes	**211,957**	**250,623**	**160,258**
Less:			
Cash used in investing investing activities	(159,537)	(81,598)	(172,273)
Plus:			
Cash used for license, brand and business acquisitions	77,029	24,416	130,705
Free Cash Flow (1)	**129,449**	**193,441**	**118,690**

1) Non-IFRS Financial Measure. See "Non-IFRS Financial Measures".

2) Restructuring primarily related to organizational changes.

3) A write-off of contingent consideration related to a future earn-out provision associated with the acquisition of Spy Gear occurred as sales targets were not met to achieve the additional pay-out.

4) 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.

5) Share based compensation is related to expenses associated with subordinate voting shares granted to equity participants and restricted stock units granted to employees at the time of the IPO and share option expense.

6) Impairment of intangible assets related to content development, licenses, brands and trademarks.

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

8) Amortization of fair market value adjustments to inventory relating to the acquisition of Gund in the second quarter of 2018; Marbles and Aerobie in the second and third quarters of 2017, respectively; and SwimWays in the third quarter of 2016.

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

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

11) Non-recurring net bad debt expense related to the bankruptcy declaration and liquidation proceedings of TRU during the first quarter of 2018 and third quarter of 2017.

12) Non-recurring royalty income recovery related to the prior year.

13) Tax effect of normalization adjustments (Footnotes 2-12). Normalization adjustments are tax effected at the effective tax rate of the given period.

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; financial position, cash flows and financial performance; drivers for such growth; the impact of TRU's Chapter 11 and CCAA proceedings on the Company; 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.

Deloitte LLP
195 Joseph Street
Kitchener ON N2G 1J6
Canada

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

Independent Auditor's Report

To the Shareholders of
Spin Master Corp.

Opinion

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

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

Basis for Opinion

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

Other Information

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

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

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

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

Deloitte LLP

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

Spin Master Corp.

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

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

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

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

Spin Master Corp.
Consolidated statements of operations and comprehensive income

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

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

Spin Master Corp.
Consolidated statements of changes in equity

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

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

Spin Master Corp.
Consolidated statements of cash flows

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

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

1. Description of business

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

The Company has three reportable operating segments: North America, Europe and Rest of World (see Note 25). The North American segment is comprised of the United States and Canada. The European segment is comprised of the United Kingdom, France, Italy, the Netherlands, Germany, Austria, Switzerland, Belgium, Luxembourg, Slovakia, Hungary, Romania, Czech Republic, Poland and Russia. The Rest of World segment is primarily comprised of Hong Kong, China, Vietnam, India, Australia and Mexico, as well as all other areas of the world serviced by the Company’s distribution network.

2. Summary of significant accounting policies

(A) Statement of compliance and basis of preparation and measurement

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

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

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

(B) Application of new and revised IFRS

IFRS 15 Revenue from Contracts with Customers

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

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

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

IFRS 9 Financial Instruments

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

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

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

2. Significant accounting policies (continued)

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

IFRS 2 Share Based Payments

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

IFRIC 22 Foreign Currency Transactions and Advance Consideration

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

(C) Basis of preparation

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

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

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

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

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

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

(D) Business combinations

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

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

2. Significant accounting policies (continued)

(D) Business combinations (continued)

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

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

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

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

(E) Goodwill

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

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

(F) Revenue recognition

Sale of Goods

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

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

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

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

Television distribution, royalty and license sales

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

2. Significant accounting policies (continued)

(F) Revenue recognition (continued)

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

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

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

Digital applications ("apps")

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

Disaggregation of revenue

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

(G) Leases

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

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

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

(H) Foreign currencies

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

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

2. Significant accounting policies (continued)

(H) Foreign currencies (continued)

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

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

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

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

(I) Earnings per share

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

(J) Income taxes

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

Current tax

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

Deferred tax

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

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

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

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

2. Significant accounting policies *(continued)*

(J) Income taxes (continued)

Current and deferred tax for the period

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

(K) *Cash*

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

(L) Property, plant and equipment

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

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

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

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

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

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

(M) Intangible assets

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

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

Intangible assets acquired separately

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

2. Significant accounting policies *(continued)*

(M) Intangible assets (continued)

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

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

Intangible assets acquired in a business combination

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

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

Internally-generated intangible assets - research and development expenditures

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

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

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

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

Television production assets

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

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

Impairment of tangible and intangible assets other than goodwill

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

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

2. Significant accounting policies *(continued)*

(M) Intangible assets (continued)

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

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

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

(N) Advances on royalties

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

(O) Inventories

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

(P) Provisions

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

<u>Future royalty obligations</u>

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

<u>Provision for defectives</u>

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

<u>Supplier obligations</u>

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

2. Significant accounting policies *(continued)*

(P) Provisions (continued)

Share-based payments

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

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

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

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

(Q) Financial instruments

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

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

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

The Company has made the following classifications:

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

2. Significant accounting policies *(continued)*

(R) Financial assets

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

Financial assets at FVTPL

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

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

Financial assets at amortized cost

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

Impairment of financial assets

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

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

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

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

(S) Financial liabilities and equity instruments

Classification as debt or equity

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

Equity instruments

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

Other financial liabilities

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

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

(S) Financial liabilities and equity instruments (continued)

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

(T) Derivative financial instruments

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

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

(U) Fair value hierarchy and liquidity risk disclosure

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

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

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

(V) Accounting standards issued but not yet adopted

IFRS 16 Leases

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

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

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

IFRIC 23 Uncertainty over income tax treatments

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

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

2. Significant accounting policies *(continued)*

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

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

IAS 28 Investments in Associates and Joint Ventures

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

IFRS 9 Financial Instruments

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

IAS 19 Employee Benefits

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

IFRS 3 Business Combinations

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

IFRS 11 Joint Arrangements

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

IAS 12 Income Taxes

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

IAS 23 Borrowing Costs

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

3. Significant accounting judgments and estimates

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

Critical judgments in applying accounting policies

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

(A) Determination of CGUs

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

(B) Functional currency

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

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

Significant estimates and assumptions

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

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

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

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

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

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

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

(C) Provision for inventories

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

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

(C) Provision for inventories (continued)

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

(D) Sales allowances

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

(E) Income and other taxes

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

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

4. Revenue

The Company earns revenue from the following primary sources:

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

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

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

5. Other (income) expenses

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

During the second quarter of 2018, the Company was successful in a lawsuit as the plaintiff and agreed to a settlement of $15,500 included in other (income) expenses in the consolidated statement of operations and comprehensive income for the year ended December 31, 2018.

6. Finance costs

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

7. Expenses

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

Selling, marketing, distribution and product development

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

Administrative expenses

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

Employee benefits expenses

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

7. Expenses *(continued)*

Depreciation and amortization expense

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

8. Income taxes

Income tax recognized in net income:

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

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

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

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

Current tax assets and liabilities

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

Deferred tax balances

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

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

8. Income taxes *(continued)*

Recognized deferred tax assets and liabilities

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

Unused tax losses

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

Unrecognized taxable temporary differences associated with investments

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

9. Trade and other receivables

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

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

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

Trade receivables past due but not impaired

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

9. Trade and other receivables *(continued)*

Movement in the allowance for doubtful accounts

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

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

During the year ended December 31, 2018, the Company recognized a net bad debt expense of $12,113 in administrative expenses (other), related to the legal motion filed by Toys R Us Inc. on March 15, 2018, to wind down and liquidate certain of Toys R Us Inc.'s global businesses.

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

10. Inventories

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

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

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

11. Property, plant and equipment

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

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

Net carrying amount					
Total at December 31, 2017	**21,550**	**4,849**	**5,077**	**1,502**	**32,978**
Total at December 31, 2018	**20,505**	**9,216**	**23,349**	**2,950**	**56,020**

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

12. Intangible assets

	Brands - indefinte	Trademarks, licenses & customer lists - definte	Content development	Computer software	Total
Cost					
Balance, December 31, 2016	79,973	34,504	60,943	20,763	**196,183**
Additions	—	—	30,109	1,155	**31,264**
Asset impairments	(5,734)	(3,045)	(859)	(5,288)	**(14,926)**
Assets recognized upon acquisition	6,300	4,400	—	—	**10,700**
Foreign currency translation	2,463	124	4,487	1,517	**8,591**
Total at December 31, 2017	**83,002**	**35,983**	**94,680**	**18,147**	**231,812**
Additions	—	—	25,520	3,527	**29,047**
Assets recognized upon acquisition	33,900	9,500	—	—	**43,400**
Foreign currency translation	(3,549)	383	(7,014)	(1,873)	**(12,053)**
Total at December 31, 2018	**113,353**	**45,866**	**113,186**	**19,801**	**292,206**
Accumulated amortization					
Balance, December 31, 2016	—	(3,392)	(43,886)	(18,515)	**(65,793)**
Amortization	—	(3,180)	(19,173)	(1,820)	**(24,173)**
Asset impairments	—	1,074	129	4,690	**5,893**
Foreign currency translation	—	(320)	(978)	(1,276)	**(2,574)**
Total at December 31, 2017	**—**	**(5,818)**	**(63,908)**	**(16,921)**	**(86,647)**
Amortization	—	(6,315)	(38,880)	(2,012)	**(47,207)**
Foreign currency translation	—	269	5,483	1,734	**7,486**
Total at December 31, 2018	**—**	**(11,864)**	**(97,305)**	**(17,199)**	**(126,368)**
Net carrying amount					
Balance at December 31, 2017	**83,002**	**30,165**	**30,772**	**1,226**	**145,165**
Balance at December 31, 2018	**113,353**	**34,002**	**15,881**	**2,602**	**165,838**

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

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

Impairment losses

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

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

12. Intangible assets *(continued)*

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

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

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

13. Goodwill

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

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

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

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

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

13. Goodwill *(continued)*

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

14. Trade payables and other liabilities

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

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

15. Loans and borrowings

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

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

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

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

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

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

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

15. Loans and borrowings *(continued)*

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

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

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

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

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

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

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

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

16. Provisions and contingent liabilities

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

16. Provisions and contingent liabilities *(continued)*

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

Provisions

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

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

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

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

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

17. Share capital

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

Unlimited number of multiple voting shares;

Unlimited number of subordinate voting shares; and

Unlimited number of preferred shares issuable in series.

17. Share capital *(continued)*

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

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

(b) Share-based plans

Participation arrangements

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

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

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

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

Long-Term Incentive Plan ("LTIP")

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

Prior to August 1, 2018, the Company settled LTIP awards in cash, resulting in their recognition as liabilities, which were marked to market each period. Effective August 1, 2018, settlements of LTIP awards occur through the issuance of shares. As a result, the LTIP liabilities were reclassified to shareholders equity and are no longer marked to market.

17. Share capital *(continued)*

RSUs and PSUs

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

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

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

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

Deferred Share Units ("DSUs")

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

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

Share based compensation (income)/expense of $(257) (2017 - $1,456) relating to DSUs is recorded in administrative expenses in the consolidated statement of operations and comprehensive income for the year ended December 31, 2018. A corresponding amount was recorded in accrued liabilities.

Share Purchase Options ("Options")

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

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

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

17. Share capital *(continued)*

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

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

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

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

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

18. Earnings per share

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

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

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

19. Changes in net working capital

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

20. Related party transactions

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

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

Compensation of key management personnel

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

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

21. Operating leases

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

22. Commitments for expenditures

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

Non-cancellable operating lease commitments

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

23. Business combinations

Acquisition of Gund

On April 2, 2018, the Company acquired certain assets relating to the Gund line of business from Enesco LLC. Gund is a manufacturer and distributor of plush toys and is best known for its line of teddy bears. Established in 1898, Gund has a 120-year history as a market leader and toy industry pioneer widely known for its high quality and innovative design. The acquisition will further diversify the Company's product line and open up opportunities for broader distribution, driving international growth.

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

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

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

Assets acquired and liabilities recognized at the date of acquisition

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

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

Goodwill arising on acquisition

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

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

23. Business combinations *(continued)*

Acquisition of Gund (continued)

Impact of acquisition on the results of the Company

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

Acquisition of Fuggler

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

Prior year acquisitions

Acquisition of Perplexus

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

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

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

Assets acquired at the date of acquisition

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

Goodwill arising on acquisition

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

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

23. Business combinations *(continued)*

Acquisition of Perplexus (continued)

Net cash outflow on acquisition

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

Acquisition of Aerobie Inc. ("Aerobie")

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

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

Assets acquired at the date of acquisition

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

Goodwill arising on acquisition

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

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

Net cash outflow on acquisition

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

Acquisition of Marbles Corporation

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

23. Business combinations *(continued)*

Acquisition of Marbles (continued)

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

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

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

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

Assets acquired and liabilities recognized at the date of acquisition

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

Goodwill arising on acquisition

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

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

Net cash outflow on acquisition

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

24. Financial instruments and risk management

Capital management

Management includes the following items in its definition of capital:

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

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

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

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

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

Financial risk management objectives

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

Market risk

Foreign currency risk

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

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

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

Foreign currency risk - sensitivity analysis

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

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

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

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

Interest rate risk - management

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

Interest rate risk - sensitivity analysis

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

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

Credit risk

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

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

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

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

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

Liquidity risk

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

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

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

The Company's contractual maturities are as follows:

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

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

Financing facilities

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

Fair value measurements

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

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

25. Segment information

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

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

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

25. Segment information *(continued)*

Segment revenue and results

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

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

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

Revenue reported by segment above represents revenue generated from external customers. There were no inter-segment sales in the current year (2017 - $nil). The Company does not include sales adjustments such as trade discounts and other allowances in reporting revenue by segment (referred to as "gross product sales").

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

Segment assets

As at December 31	2018	2017
Assets		
North America	720,883	489,390
Europe	143,229	99,819
Rest of world	77,130	138,087
Total segment assets	**941,242**	**727,296**
Corporate and other	104,155	211,089
Total consolidated assets	**1,045,397**	**938,385**

25. Segment information *(continued)*

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

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

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

Segment liabilities

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

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

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

Depreciation and amortization by segment

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

25. Segment information *(continued)*

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

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

Revenue from major product categories

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

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

Major customers

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

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

EXECUTIVE OFFICERS: *Back Row, Left to Right:* **Susie Lecker**, EVP, Global Licensing; **Chris Beardall**, EVP, Global Sales; **Andrée Briere**, SVP, Human Resources; **Bill Hess**, EVP, Operations & CIO; **Chris Harrs**, EVP & General Counsel, Corporate Secretary *Middle Row, Left to Right:* **Ben Dermer**, VP Creative Development & Deputy Creative Officer; **Mark Segal**, EVP & CFO; **Ben J. Gadbois**, Global President & COO; **Krista DiBerardino**, EVP, Marketing Integration and Activation *Front Row, Left to Right:* **Adam Beder**, EVP, Strategic Partnership & Franchise Development; **Ben Varadi**, EVP & CCO; **Anton Rabie**, Director, Co-Founder and Co-CEO; **Ronnen Harary**, Chairman, Co-Founder & Co-CEO; **Jennifer Dodge**, EVP, Entertainment

SHAREHOLDER INFORMATION

Head Office
225 King Street West
Toronto, ON M5V 3M2

Toronto Stock Exchange Listing
Trading symbol: TOY
Securities listed: Subordinate Voting Shares

Registrar and Transfer Agent
Computershare Investor Services Inc.
100 University Avenue, 8th Floor
Toronto, ON M5J 2Y1

Auditors
Deloitte LLP
8 Adelaide Street West, Suite 200
Toronto, ON M5H 0A9

Annual Meeting of Shareholders
May 9, 2019
Blake, Cassels & Graydon LLP
199 Bay Street, Suite 4000
Toronto, ON M5L 1A9

Investor Contact Information
Email: investor.relations@spinmaster.com

BOARD OF DIRECTORS

Charles Winograd, Lead Director 2018
Jeffrey I. Cohen
Ben Gadbois
Ronnen Harary
Dina Howell
Anton Rabie
Todd Tappin
Ben Varadi

FORWARD-LOOKING STATEMENTS

Certain statements, other than statements of historical fact, contained in this document constitute "forward-looking information" within the meaning of certain securities laws, including the Securities Act (Ontario). Forward-looking statements include, without limitation, statements with respect to: the toy industry; our growth strategies and objectives; innovation; development of evergreen global entertainment properties; international sales expansion; acquisitions; marketing and ESG initiatives; partnering with others; new products and entertainment properties to be introduced in 2019 and beyond. The words "believe", "focus", "expectations", "plan", "potential", "strategy" or "vision", or variations of such words and phrases or statements that certain future conditions, actions, events or results "can", "will" or "would", or negative versions thereof, "continue", "achieve", or "execute" and other similar expressions, frequently identify forward-looking statements. Forward-looking statements are necessarily based upon our perception of historical trends, current conditions and expected future developments, as well as a number of specific factors and assumptions that, while considered reasonable by us as of the date on which the statements are made in this document, are inherently subject to significant uncertainties and contingencies which could result in them being incorrect. The material factors and assumptions used to develop the forward-looking information include, but are not limited to: the 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; our ability of to maintain our distribution capabilities; our ability to recognize and capitalize on opportunities earlier than our competitors; our ability to continue to build and maintain strong, collaborative relationships; our status as a preferred collaborator; our culture and business structure will support our growth; our current business strategies will continue to be desirable on an international platform; the ability to expand our portfolio of owned branded intellectual property and successfully license it to third parties; the expanded use of advanced technology and robotics in our products; the increased access of entertainment content on mobile platforms; fragmentation of the market creates acquisition opportunities; our ability to maintain our relationships with employees, suppliers and retailers; our ability to continue to attract qualified personnel to support our development requirements; the continued involvement of the founders; and that the risk factors noted below, collectively, do not have a material impact on us. 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, and that objectives, strategic goals and priorities will not be achieved. Known and unknown risk factors, many of which are beyond our control, could cause actual results to differ materially from the forward-looking information in this document. Such factors include, without limitation, the following, which are discussed in greater detail in the "Risk Factors" section of our Annual Information Form for the year ended December 31, 2018: creation of original products, brands and entertainment properties; industry competition; failure to protect or enforce the Company's IP rights; failure of third-party owners to maintain or enforce IP licenses; failure to market or advertise products; relationships with inventors and entertainment content collaborators; product line growth; failure to realize the full benefit of the Company's licenses; dependence on third-party manufacturers and distributors; sales concentration with retailers; general economic conditions; failure to leverage the Company's portfolio of brands and products across entertainment and media platforms; broadcast entertainment industry conditions; seasonality; international sales growth strategy; new and emerging markets; dependence on key personnel; product recalls, repairs, product liability claims and the absence or cost of insurance; production and sale of private-label toys; litigation; implementation and timing of launches; delivery of raw materials, parts and components from suppliers or increase in the price of supplies; safety procedures; negative publicity and product reviews; future acquisitions, mergers or dispositions; system of internal controls; tax and regulatory compliance; currency exchange rates; laws and government regulations; electronic data compromises; failure to stay competitive amongst an increasing array of technology and entertainment offerings; the increase in technologically advanced or sophisticated digital and smart technology products; earthquakes or other catastrophic events; website system failures; and interest rates and the availability of credit. These risk factors are not intended to represent a complete list of the factors that could affect us 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 our 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. All forward-looking statements in this document are qualified by these cautionary statements.

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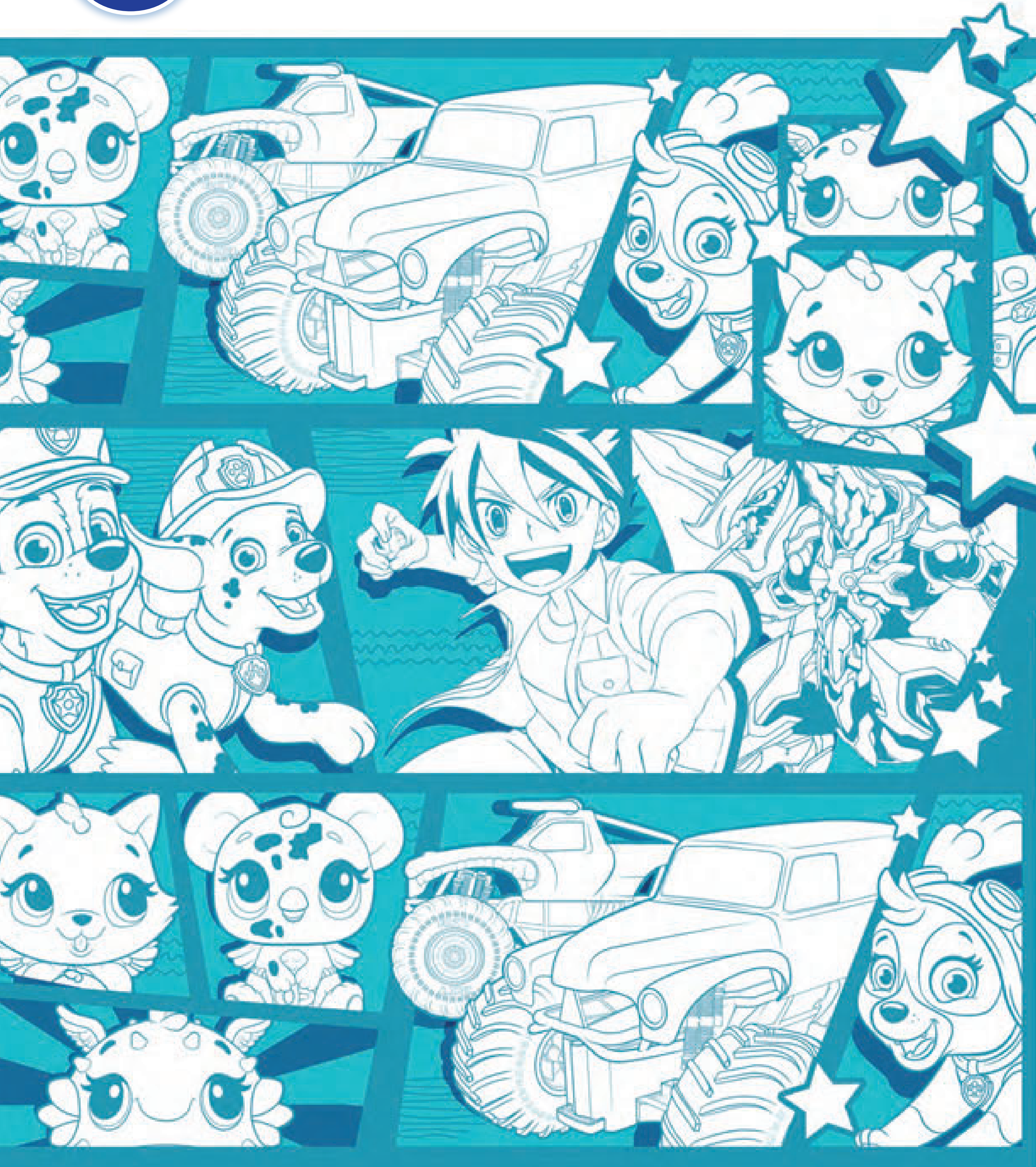

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