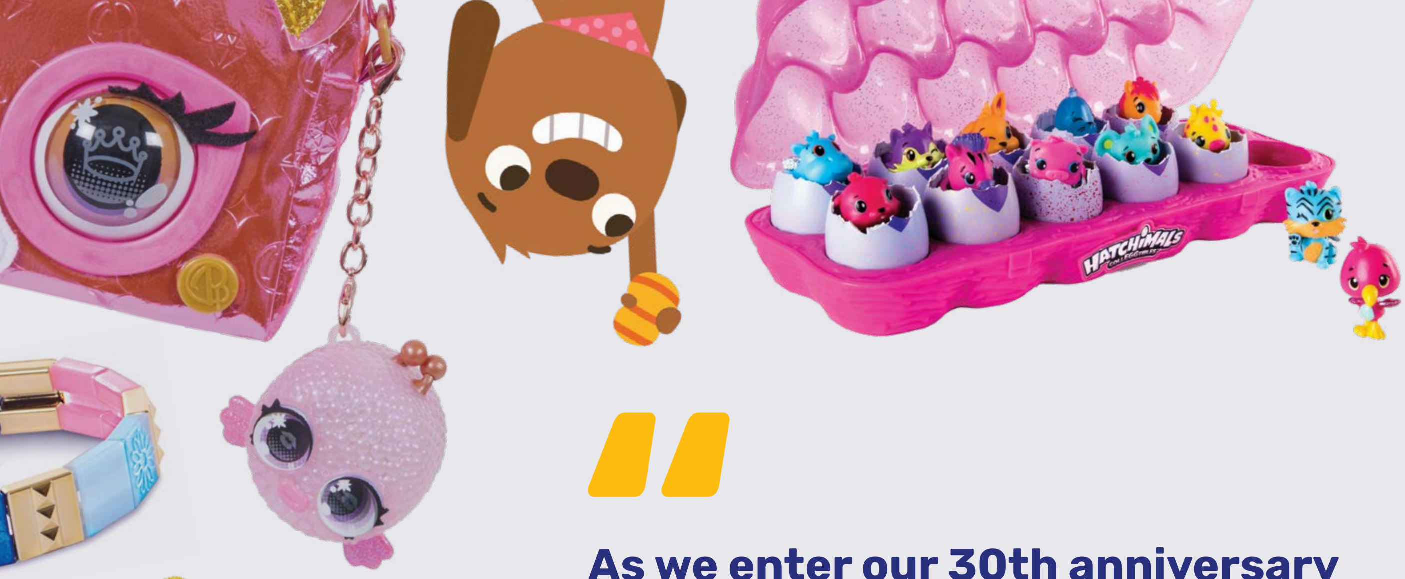
2023 ANNUAL REPORT

REIMAGINE EVERYDAY PLAY

SPIN MASTER™



“As we enter our 30th anniversary year, we remain focused on executing our long-term strategy. We continue to make significant progress by leveraging our deep expertise in play and diversifying our portfolio to unlock growth.”

Max Rangel, Global President & CEO

About Spin Master

It started with a few grass seeds and an idea, providing the launchpad to become an internationally renowned toy innovator. From disrupting the sandbox with innovative toys, Spin Master expanded to the small screen with its first entertainment series. Then, we levelled up to the mobile screen, acquiring two digital game studios to create a trifecta of Toys, Entertainment and Digital Games. Over time, the Company has grown through the development of its own intellectual property while also completing numerous acquisitions. In 2024, Spin Master acquired Melissa & Doug®, a well-known, trusted brand in early childhood play, the largest acquisition in our history. Today, Spin Master is a leading children’s entertainment company, with three thriving creative centres and a roster of amazing brands. Together, we inspire magical play experiences for kids and their families around the world, every day.

This Annual Report is intended to provide shareholders and other interested persons with information concerning Spin Master Corp. (the “Company”). For further information concerning the Company, shareholders and other interested persons should consult the Company’s disclosure documents, such as its most recent Annual Information Form and Management’s Discussion and Analysis. Copies of the Company’s continuous disclosure documents can be obtained from its website at **spinmaster.com** or from **sedarplus.com**. Readers should also review the note further in this report, in the section entitled “Forward-Looking Statements”, concerning the use of Forward-Looking Statements, which applies to the entirety of this Annual Report. For the convenience of readers, portions of this Annual Report may be extracted and made available separately as standalone documents. However, in all cases, such extracts should be considered to be part of this Annual Report as a whole. All figures mentioned in this report are in U.S. dollars, in millions, and as of December 31, 2023, unless otherwise noted.

Financial Highlights

Revenue

2019	$1,582
2020	$1,571
2021	$2,042
2022	$2,020
2023	**$1,905**

Toy Gross Product Sales[1]

2019	$1,691
2020	$1,624
2021	$1,962
2022	$1,979
2023	**$1,787**

Net Income

2019	$64
2020	$46
2021	$199
2022	$261
2023	**$151**

Adjusted Net Income[1]

2019	$93
2020	$53
2021	$221
2022	$244
2023	**$225**

Adjusted EBITDA[1]

2019	$219
2020	$181
2021	$414
2022	$389
2023	**$419**

Adjusted EBITDA Margin[1]

2019	13.8%
2020	11.5%
2021	20.3%
2022	19.3%
2023	**22.0%**

Cash Provided by Operating Activities

2019	$98
2020	$311
2021	$419
2022	$249
2023	**$227**

Free Cash Flow[1]

2019	$5
2020	$232
2021	$340
2022	$150
2023	**$123**

$1,905M Revenue	**$151M** Net Income	**$419M** Adjusted EBITDA[1]	**$227M** Cash Provided by Operating Activities
$1,787M Toy Gross Product Sales[1]	**$225M** Adjusted Net Income[1]	**22.0%** Adjusted EBITDA Margin[1]	**$123M** Free Cash Flow[1]

1. Non-GAAP financial measure or ratio. Non-GAAP financial measures and ratios do not have any standardized meaning prescribed by International Financial Reporting Standards ("IFRS") and therefore may not be comparable to similar measures presented by other issuers. Please refer to the section entitled "Non-GAAP Financial Measures and Ratios" in the Management's Discussion and Analysis ("MD&A") dated February 28, 2024 for the three months and year ended December 31, 2023 within Spin Master's public filings for a discussion of the definition, components and uses of such Non-GAAP measures, as well as a reconciliation of such Non-GAAP measures to IFRS measures which is incorporated by reference herein. The 2023, 2022 and 2021 reconciliations of Adjusted Net Income and Adjusted EBITDA are included on page 72, Adjusted EBITDA Margin on page 16, Free Cash Flow on page 74 and Toy Gross Product Sales on page 75. The MD&A is available at **sedarplus.com**.

Company Overview

REIMAGINING EVERYDAY PLAY

At Spin Master, we find ideas and develop new concepts, compelling stories and innovative experiences to surprise and delight kids and their families globally. We are wherever children play and understand these moments in kids' lives. Our understanding of play allows us to anticipate how kids' activity patterns are evolving, and we leverage our rich insights to deliver memorable experiences across physical and digital worlds.

TOYS

With distribution in over 100 countries, Spin Master is best known for award-winning brands PAW Patrol®, Bakugan®, Kinetic Sand®, Air Hogs®, Hatchimals®, Rubik's Cube® and GUND®, and is the global toy licensee for other popular properties.

Preschool, Dolls & Interactive	Activities, Games & Puzzles and Plush	Wheels & Action	Outdoor

ENTERTAINMENT

Spin Master Entertainment creates and produces compelling multiplatform content, through its in-house studio and partnerships with outside creators, including the preschool franchise *PAW Patrol* and numerous other original shows, short-form series and feature films.

DIGITAL GAMES

Spin Master has an established presence in digital games, anchored by the Toca Boca® and Sago Mini® brands, offering open-ended and creative game and educational play in digital environments.

CORPORATE STRATEGY

TOYS

VISION

Be a global leader in Toys by creating play experiences that spark creativity and imagination in kids and families globally.

STRATEGIES

- Build and expand core portfolio
- Drive Spin Master franchises
- Build licensed partner portfolio
- Expand existing partnerships
- Expand geographic & retail footprint
- Pursue strategic Mergers & Acquisitions ("M&A") and Ventures

ENTERTAINMENT

VISION

Be a leading global creator of children's entertainment, igniting imaginations and deep character connections.

STRATEGIES

- Build new franchises
- Expand *PAW Patrol* universe
- Accelerate new content for direct to audience platforms
- Expand Licensing & Merchandising
- Pursue strategic M&A and Ventures

DIGITAL GAMES

VISION

Create exceptional digital play experiences for kids of all ages around the world.

STRATEGIES

- Leverage Spin Master IP and rapidly prototype new digital games
- Deepen consumer insights to create robust player ecosystems
- Expand digital games portfolio to capture kids of all ages
- Pursue strategic M&A and Ventures

ENTERPRISE SHARED CAPABILITIES

Franchise & Brand Development

Develop brands' DNA anchored in target audience, understanding and insights, creating aspirational and distinctive brand promises that enable evergreen, timeless franchises

Consumer and Parent Data & Insights

Put the customer at the heart of everything we do – centralizing our insights to build next-generation know-how

Licensing & Merchandising

Broaden scope of IP extension efforts beyond toy properties to all creative centres, creating must-have consumer products

Omni-Channel Digital Engagement & Commerce

Accelerate global digital innovation, creating seamless, personalized and targeted omni-channel experiences

Mergers & Acquisitions

Acquire new brands and companies with greater speed, collaboration and coordination

Letter to Shareholders

Fellow Shareholders,

In 2023, we ignited children's imaginations through product innovation, exciting content and exceptional digital play experiences. In doing so, we earned Spin Master's portfolio a place in the hearts and homes of families globally. Each of our three creative centres – Toys, Entertainment and Digital Games – played a distinct, yet interrelated role in achieving our long-term strategy.

Looking back at our performance in 2023, we are pleased with how our team harnessed the power of our three creative centres and navigated the challenging retail environment. As expected, full-year revenue declined year over year driven by a decline in the toy segment. While revenue for 2023 was down 5.7% to $1.9 billion, our combination of toys, entertainment and digital games helped us finish the year in a strong position.

As a result of the macroeconomic environment and a shift towards services and experiences post Covid, 2023 was a challenging global marketplace for Toys with the global industry declining 7%. The industry expected that holiday shopping would occur late in season and restore category growth. However, the extra shopping days unfortunately did not bring about the expected surge, and consumption did not increase despite deep discounting. This was compounded by retailer caution. Retailers focused on profitability rather than growth, which led to reduced orders. Despite these headwinds, our Toys portfolio showed strength and resilience, with a 4% Point of Sale decline, ahead of the industry, allowing us to retain our position as the fourth largest toy manufacturer.[1]

Simultaneously, the strategic fortitude of our diversified portfolio and complementary creative centres approach was underscored with strong performances in Entertainment and Digital Games partially offsetting the decline in Toys.

Entertainment had a tremendous year with a 60% increase in revenue, driven by the delivery of new content including a very successful second *PAW Patrol* movie and Unicorn Academy™, our new fantasy adventure series. Digital Games also saw increased revenue of 6.1%, driven by continued engagement with Toca Life World™ and the launch of our new subscription service, Piknik™.

Toys: Building Everlasting Brands

Dedicated to igniting creativity and imagination, our Toy creative centre injected inventive experiences into timeless brands, celebrated fandom-fuelled characters and introduced groundbreaking innovations this past year.

Our preschool powerhouse, *PAW Patrol*, ended 2023 as the #9 property globally, up from #10 in 2022, and maintained its position as the #1 preschool toys property worldwide, holding the top position since Q1 2020.[2] Coinciding with the franchise's momentous 10-year anniversary and release of a second feature film, we unleashed a compelling true-to-film toy line. Among them, the PAW Patrol: The Mighty Movie™ Themed Vehicles and the Aircraft Carrier HQ™ claimed the #2 and #3 spots in the fiercely competitive U.S. Preschool Toys segments for Q4 2023.[3] The latter earned the coveted Toy of the Year Awards in the U.S. and Australia.

1. Sourcing: Circana Group/Retail Tracking Service/Projected, G11, Annual 2023.
2. Sourcing: Circana Group/Retail Tracking Service/Annual 2023.
3. Sourcing: Circana Group/Retail Tracking Service/U.S. December 2023.

Pushing the boundaries of creativity, we brought to market an entirely new play experience that transformed the way kids interact with the digital pet. Bitzee™, the digital pet that you can touch, introduced a new and disruptive play pattern. The breakthrough toy earned numerous awards for Most Innovative Toy of the Year in several countries and earned the award for U.S. Top Selling Toy by Supercategory (Youth Electronics).[1]

Our licensed portfolio debuted a heroic-sized playset for the iconic Batman® franchise, brought the high jump action of Monster Jam® to playrooms and invited Gabby's Dollhouse™ fans aboard an epic cruise ship playset. Expanding our distinguished portfolio of licensed properties, we also announced two new licensing agreements: a collection of toys for the return of the groundbreaking Latina heroine *Dora* on Paramount+ as well as a portfolio of toys and learning aids with YouTube sensation *Ms. Rachel*, strengthening our position in early childhood and developmental play.

Entertainment: A Catalyst for Franchises

Our Entertainment creative centre had an exceptional year launching several new series and expanding existing favourites with complementary licensing and merchandising programs allowing fans to engage more deeply with the franchises.

What started as a television series has transpired into a worldwide phenomenon. *PAW Patrol* returned to the big screen with our second feature film in association with Paramount and Nickelodeon Movies, *PAW Patrol: The Mighty Movie*. Universal love for our pups is stronger than ever, with the film opening as the #1 movie in 32 markets and recording a total box office surpassing $200 million worldwide, with a third movie now greenlit for exclusive theatrical release in 2026. Earlier in the year, we launched our first spinoff series for *PAW Patrol*, Rubble & Crew™, which has been renewed for a second season and continues to be one of the top five preschool shows on Nickelodeon in its age category.

Capitalizing on our success and expertise in the creation of children's programming, we debuted an all-new animated series, Vida the Vet™, following 10-year-old Vida, an animal doctor who nurtures the charming and silly woodland creatures who live outside her home. The series premiered on children's broadcasters BBC's CBeebies in the U.K. and Corus Entertainment's Treehouse in Canada, in late 2023 and into 2024. This year, *Vida the Vet* will appear on more screens internationally with additional broadcasting partners including Netflix in the U.S. in March, ahead of the toy launch in fall 2024.

Our new fantasy-adventure series *Unicorn Academy* launched on Netflix November 2nd and was an instant hit, debuting as the #1 kids show globally. With its diverse characters and magical adventures, the series quickly captivated audiences and racked up over 40 million hours of watch time in the first three weeks of streaming. *Unicorn Academy* is our first full franchise launch, with phased branded offerings and experiences across each of our three creative centres. *Unicorn Academy* toys will launch this fall and the digital game will launch in 2025. In addition to our content, toys and the digital game, we have been working on a licensing program for a wide range of consumer products in 2024 and beyond to meet fan demand for deeper engagement with the franchise.

With proven success building global fandoms, Spin Master's entertainment series ignite and inspire fans, serving as a catalyst – fuelling innovative toys, digital games and a rich marketplace of licensing opportunities bringing the characters that kids love to multiple touchpoints in their lives.

Digital Games: Expanding Ecosystems

The overall mobile digital games market declined by 2% in 2023;[2] however, our Digital Games creative centre outperformed with over 6% revenue growth, driven primarily by higher in-game purchases in *Toca Life World* and subscription growth from the newly launched *Piknik* bundle. *Toca Life World* ended the year with just over 62 million monthly active users, up 4.3 million compared to 2022. In 2023, *Toca Life World* saw 98 million downloads, its largest download volume year ever, compared to 92 million in 2022 and 90 million in 2021. This demonstrates *Toca Life World's* ongoing popularity and engagement with kids.

PAW Patrol Academy™, which is our first in-house learning app for our powerhouse franchise, is off to a great start. Due to its high quality and overall depth of play, it has been named Google's Best App of 2023 for Families and ended 2023 with 34,000 subscribers. The team is now in full live service and continues to build the overall experience.

Introduced in Q3, *Piknik* is our subscription bundle that offers unlimited access to a variety of our *Sago Mini* and *Toca Boca* digital games including Sago World™, Sago School™, First Words™, Toca Boca Junior™, Hair Salon™ and more. One subscription streamlines multiple apps into a simple and affordable service for parents and provides endless ways to play and learn for kids. The market reacted positively to the bundle when it was launched, and including *PAW Patrol Academy* and other Originator Inc. apps, we ended 2023 at just under 400,000 subscribers in total, a growth of 68,000 subscribers over 2022. In 2024, we will integrate the Originator apps into *Piknik*, to increase bundle value even further.

1. Sourcing: Circana Group/Retail Tracking Service/Value Sales, January–December 2023.
2. Sourcing: Data.ai Intelligence Digital Games Market.

We are excited to be launching several new digital games in 2024. This includes Toca Days™, our first social multiplayer game that will seek to expand the existing player base of the *Toca* universe. We are also launching Rubik's Match™, our casual mobile game that will deliver a fresh take on the match-3 game genre, to coincide with *Rubik's* 50th anniversary. Our teams are collaborating across creative centres to make this a special moment for *Rubik's* fans. Designed for the problem solver and perfect for those who cherish mental gymnastics, the game combines the joy of puzzle solving with the creative potential of building and personalization.

As more kids are spending their time in online worlds and communities, we are expanding our player ecosystem and creating digital play experiences that cater to multiple interests and age levels.

Transformative Acquisition: *Melissa & Doug*

Strategic acquisitions have been an important element in propelling Spin Master's growth over the past 30 years and in 2023 we announced the acquisition of *Melissa & Doug*, the largest in our history. As a trusted brand of early childhood toys with an evergreen portfolio, *Melissa & Doug* expands our presence in new categories, providing immediate revenue growth, broader reach in all retail channels and market coverage. With the addition of *Melissa & Doug* we have established a foothold in early learning, and this combination will make us the market leader in the Infant, Toddler and Preschool Supercategory.[1]

The acquisition of *Melissa & Doug* will help us to shape the next chapter of Spin Master's journey and accelerate our growth trajectory, supporting our vision to reimagine everyday play. Plans to bring the two companies together are well underway and we are actively implementing strategies to realize both revenue growth opportunities and cost synergies.

"Our enthusiasm for growth, not only this year but in the years ahead, remains unwavering, energized by a transformational acquisition, strong core brands, new intellectual property and growing licensed revenue all supported by our longstanding culture of innovation."

Visionary Leadership

The Executive Leadership Team celebrated the retirement of two longstanding leaders at Spin Master, both who have been instrumental in the Company's strategic growth and operational excellence. Spin Master's President of Toys, Chris Beardall, retired in December 2023, having served as a key member of the leadership team for 23 years. Chris helped transform Spin Master from a small private toy company to one of the top five toy manufacturers globally. Chris Harrs, Spin Master's EVP & General Counsel & Corporate Secretary, announced his retirement for the end of March 2024. During his 20-year tenure, Chris has been an integral part of negotiations for more than 20 acquisitions including *Melissa & Doug*, *GUND*, *Rubik's* and *Toca Boca*.

With their departures, we are excited to welcome two exceptional successors assuming key leadership roles. With a focus on innovation and visionary leadership, we celebrate Doug Wadleigh's promotion from Head of Global Toy Brands to President of Toys, and our newly appointed EVP & General Counsel, Sachin Kanabar, who joined Spin Master in January 2024.

Further bolstering the Toys creative centre, we welcomed David Voss to the Executive Leadership Team as the Executive Vice President, Global Toy Design & Development in January 2024. Known in the toy industry for our unwavering commitment to innovation with never-seen-before play experiences, the newly created role builds on our commitment to create disruptive play experiences and highlights our plans to expand toy innovation and elevate design for continued growth.

Looking Forward

As we enter our 30th anniversary year, we remain focused on executing our long-term strategy. We continue to make significant progress by leveraging our deep expertise in play and diversifying our portfolio to unlock growth. We also recognize the challenges ahead that we will have to mitigate, including continued economic pressure on the consumer and a shorter shopping period during the holiday season. We're highly focused on developing toys that will spark imaginations and provide consumers with value at varied price points, capturing the hearts of children through compelling content and engaging them in new digital experiences.

Our enthusiasm for growth, not only this year but in the years ahead, remains unwavering, energized by a transformational acquisition, strong core brands, new intellectual property and growing licensed revenue all supported by our longstanding culture of innovation.

1. Sourcing: Circana Group/Retail Tracking Service/Projected, G11, Annual 2023.

For 2024 we will be focusing on five key themes:

A Transformative Acquisition – With the acquisition of *Melissa & Doug* we are bringing together two formidable leaders in the toy industry driven by a mutual passion to create magical play experiences for children and inspire imaginations. *Melissa & Doug's* complementary early childhood product offerings strengthens our portfolio, better positioning us to meet the needs of children and parents today and into the future.

Driving Core Brands & Franchises – We have a strong foundation of core brands and franchises across our three creative centres. We continue to drive performance and nurture these core brands, capitalizing on the positive momentum from the *PAW Patrol* movie year and celebrating the iconic *Rubik's Cube's* 50th anniversary. We're also developing toys from beloved brands with proven play patterns for value channels, an opportunity to grow share with toys that are more affordable for more price-conscious shoppers.

Maximizing New Intellectual Property – Our new intellectual property will help us continue to reach kids around the world. *Unicorn Academy* and *Vida the Vet* will ignite, engage and inspire new fans, serving as catalysts fuelling innovative toys, digital games and a rich marketplace for licensing opportunities.

Launching New Licensing Revenue – We'll leverage our deep experience in translating revered on-screen adventures into toys that ignite imaginations and inspire new play experiences, launching and driving new license revenue with *Ms. Rachel* and more to be announced.

A Culture of Disruptive Innovation – Spin Master's entrepreneurial spirit fuels our ambition, imagination and innovation. We're committed to fostering a culture of disruptive innovation as we reimagine everyday play across Toys, Entertainment and Digital Games.

On behalf of the Board of Directors, we thank our talented team members globally for their contributions in 2023. As we begin 2024, we're already advancing against these key priorities and are confident in the strength of our diversified portfolio and our ability to create long-term growth and shareholder value creation.

Ronnen Harary
Chair & Co-Founder

Anton Rabie
Director & Co-Founder

Max Rangel
Global President & CEO

Ronnen Harary
Chair & Co-Founder

Anton Rabie
Director & Co-Founder

Max Rangel
Global President & CEO

CSR at Spin Master

CSR VISION

Spin Master creates magical play experiences for children and their families. We foster an inclusive culture and empower children to grow and learn through play while acting as responsible custodians of the world these children will one day inherit.

CSR STRATEGIC FOCUS AREAS

OUR PRODUCTS

As a leading children's entertainment company, we are committed to producing safe, high-quality and responsibly sourced products. We are striving to incorporate responsible product materials and packaging to provide consumers with more sustainable options.

OUR PEOPLE

Our talented team is the driving force behind our purpose of creating magical experiences for children and their families. We are committed to investing in our employees' well-being and development and to fostering an inclusive workplace where everyone can thrive, grow and ultimately have fun.

OUR ENVIRONMENT

We are committed to minimizing the impact of our operations on the planet to ensure we protect the world for children and families today and for generations to come.

OUR COMMUNITIES

We give children in communities around the world the opportunity to grow, explore and learn through the power of play. Through our in-kind donations, investments in educational programming, local community engagement and employee volunteerism, we are helping children harness their creativity and develop skills to achieve things they thought unimaginable.

CSR PRIORITIES AND GOALS

DIVERSITY AND ENGAGEMENT

Fostering an inclusive culture where everyone can thrive and grow

CSR Priority	2023 Result
Set and meet employee engagement targets (2030)	**77%** overall employee engagement
Achieve and maintain close to 100% pay equity	**99%** pay equity
Approximate 50-50 gender split for all management levels (2025)	Female representation at **40%** senior management and **48%** middle management
Report representation survey results	Representation data reported 2022 onwards

PHILANTHROPY

Helping children grow, learn and explore through play

CSR Priority	2023 Result
Impact 1/2 million children (2022)	**645,000** children impacted
Report volunteer hours (2022)	**6,000+** volunteer hours globally
Award 8 Future of Play Scholarships	**9** scholarships awarded in 2023 and **24** students supported since the program launched

PRODUCT AND PACKAGING

Producing the highest quality goods and developing sustainable production with our portfolio

CSR Priority	2023 Result
50% reduction of plastic in our packaging (2025)	**22.4%** reduction in plastic packaging
Utilize eco-friendly inks on 50% of packaging (2025)	**23.7%** of our inks were eco-friendly in 2022, on target to achieve goal
Develop 4 responsibly made SKUs (2022)	**21** sustainably minded products launched since 2022

CLIMATE

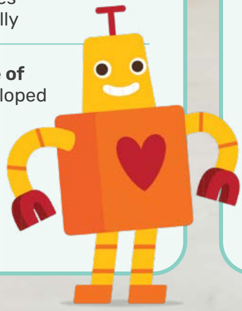
Doing our part to mitigate our environmental impact and adapt to changing climate

CSR Priority	2023 Result
Develop a Climate Action Plan (2022)	Developed and launched **Climate Action Plan** in 2022
Achieve net-zero reduction in Scope 1 + 2 emissions (2050)	**Net-zero** pathway mapped with external consultants
70% reduction in Scope 1 + 2 emissions (2030)	**On track**, see CSR Report for 2023 emissions progress
In the interim, offset 100% of our self-generated carbon	**100%** of Scope 1 + 2 emissions covered by renewable energy certificates or offsets

RESPONSIBLE SOURCING

Sourcing production in a responsible manner from suppliers who share our values and commitment to integrity

CSR Priority	2023 Result
Audit 100% factories	**99%** of factories audited annually
Establish and enforce Supplier Code of Conduct (2020)	**Supplier Code of Conduct** developed and enforced



WASTE

Reducing waste through recycling, reusing and reducing

CSR Priority	2023 Result
Establish product takeback program (2021)	Established a partnership with **TerraCycle®** that allows U.S. customers to recycle toys free of charge
80% reduction in landfill waste in owned/leased facilities (2025) Zero landfill waste in owned/leased facilities (2035)	**Achieved** 2025 landfill waste reduction goal in 2023
Conduct waste audits in owned/leased facilities (2022)	Waste audit completed in 2022, with **55%** waste diversion

2023 Financial Review

Spin Master Corp.

Management's Discussion and Analysis of Financial Results

For the three months and year ended December 31, 2023

TABLE OF CONTENTS

February 28, 2024

INTRODUCTION

The following Management's Discussion and Analysis ("MD&A") for Spin Master Corp. and its subsidiaries ("Spin Master" or the "Company") is dated February 28, 2024 and provides information concerning the Company's financial condition, financial performance and cash flows for the three months and year ended December 31, 2023, ("fourth quarter", "the quarter", "Q4"). This MD&A should be read in conjunction with the Company's audited Consolidated financial statements and accompanying notes ("annual financial statements") for the year ended December 31, 2023, as well as its current Annual Information Form. These and additional information relating to the Company can be found under the Company's profile on SEDAR+ at www.sedarplus.com.

Some of the statements in this MD&A contain forward-looking information that are based on assumptions and 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 annual financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). However, certain financial measures and ratios contained in this MD&A do not have any standardized meaning under IFRS ("Non-GAAP") and are discussed further in the "Non-GAAP Financial Measures and Ratios" section of this MD&A. Management believes the Non-GAAP financial measures and Non-GAAP financial ratios defined in the section noted above are important supplemental measures of operating performance and highlight trends in the business. Management believes that these measures allow for assessment of the Company's operating performance and financial condition on a basis that is consistent and comparable between reporting periods. The Company believes that investors, lenders, securities analysts and other interested parties frequently use these Non-GAAP financial measures and Non-GAAP financial ratios in the evaluation of issuers.

All financial information is presented in United States dollars ("$", "dollars" and "US$") and has been rounded to the nearest hundred thousand, except per share amounts and where otherwise indicated.

BUSINESS OVERVIEW

Spin Master Corp. (TSX:TOY) is a leading global children's entertainment company, creating exceptional play experiences through its three creative centres: Toys, Entertainment and Digital Games. With distribution in over 100 countries, Spin Master is best known for award-winning brands PAW Patrol®, Bakugan®, Kinetic Sand®, Air Hogs®, Melissa & Doug®, Hatchimals®, Rubik's Cube® and GUND®, and is the global toy licensee for other popular properties. Spin Master Entertainment creates and produces compelling multiplatform content, through its in-house studio and partnerships with outside creators, including the preschool franchise *PAW Patrol* and numerous other original shows, short-form series and feature films. The Company has an established presence in digital games, anchored by the Toca Boca® and Sago Mini® brands, offering open-ended and creative game and educational play in digital environments. Through Spin Master Ventures, the Company makes minority investments globally in emerging companies and start-ups. With 31 offices spanning nearly 20 countries, Spin Master employs close to 3,000 team members globally.

Segment information

The Company has three reportable operating segments: Toys, Entertainment and Digital Games.

Toys

The Toys segment engages in the creation, design, manufacturing, licensing, and marketing of consumer products. Spin Master's Toys segment is organized into four product categories: (1) Activities, Games & Puzzles and Plush; (2) Wheels & Action; (3) Outdoor; and (4) Preschool and Dolls & Interactive and are sold in three geographic regions: (1) North America; (2) Europe; and (3) Rest of World.

Effective January 1, 2024, Spin Master has changed its product categories to align with the Company's product offerings going forward: (1) Preschool, Dolls & Interactive, Infant and Toddler; (2) Activities, Games & Puzzles and Plush; (3) Wheels & Action; and (4) Outdoor.

Entertainment

The Entertainment segment engages in the creation, development, production and distribution of multi-platform content for children and families globally. The Entertainment segment also licenses Spin Master's brands for use in non-toy consumer products, including apparel and other consumer goods, publishing, and live entertainment.

Digital Games

The Digital Games segment engages in the creation of digital play experiences for players globally. The Digital Games segment develops, markets and delivers digital games, which are distributed via third-party platform providers and monetized through subscriptions or in-app purchases.

Corporate & Other

Corporate & Other includes certain corporate costs (such as certain employee compensation and professional services expenses), foreign exchange and transaction related costs, as well as fair value gains and losses and distribution income on minority investments.

Strategy

Spin Master's principal strategies to drive the Company's continued growth include:

	Toys	Entertainment	Digital Games
Vision	Be a global leader in Toys by creating play experiences that spark creativity and imagination in kids and families globally	Be a leading global creator of children's entertainment, igniting imaginations and deep character connections	Create exceptional digital play experiences for kids of all ages around the world
Primary Role	Provide a stable base of Revenue/Adjusted EBITDA[1]/Free Cash Flow[1] to build brands & innovate	Create content and build evergreen franchises that kids love, across physical and digital platforms	Create digital games and play-to-learn platforms using both new and existing intellectual property ("IP")
Key Strategic Focus	• Build and expand core portfolio • Drive Spin Master franchises • Build licensed partner portfolio • Expand existing partnerships • Expand geographic & retail footprint • Pursue strategic Mergers & Acquisitions ("M&A") and Ventures	• Build new franchises • Expand *PAW Patrol* Universe • Accelerate new content for direct to audience platforms • Expand Licensing & Merchandising • Pursue strategic M&A and Ventures	• Leverage Spin Master IP and rapidly prototype new digital games • Deepen consumer insights to create robust player ecosystems • Expand digital games portfolio to capture kids of all ages • Pursue strategic M&A and Ventures
Enterprise Shared Capabilities	• Grow Franchise and Brand Developments • Build Consumer and Parent Data and Insights • Expand Licensing and Merchandising • Accelerate Omni-Channel Engagement and Commerce • Pursue M&A opportunities		

[1] Non-GAAP financial measure or ratio. See "Non-GAAP Financial Measures and Ratios".

Selected Financial Information

The following provides selected key performance metrics of the Company for the three and year ended December 31, 2023 and 2022, which should be read in conjunction with the annual financial statements.

Consolidated Results	**Year Ended Dec 31,**		
(US$ millions, except per share information)	**2023**	**2022**	**2021**
Revenue	1,904.9	2,020.3	2,042.4
Operating Income	188.9	343.3	272.2
Operating Margin[1]	9.9 %	17.0 %	13.3 %
Adjusted Operating Income[2]	288.7	321.2	302.2
Adjusted Operating Margin[2]	15.2 %	15.9 %	14.8 %
Net Income	151.4	261.3	198.6
Adjusted Net Income[2]	225.2	244.3	221.3
Adjusted EBITDA[2]	418.8	389.4	414.1
Adjusted EBITDA Margin[2]	22.0 %	19.3 %	20.3 %
Earnings Per Share ("EPS")			
Basic EPS	1.46	2.54	1.94
Diluted EPS	1.43	2.45	1.89
Adjusted Basic EPS[2]	2.18	2.37	2.16
Adjusted Diluted EPS[2]	2.13	2.30	2.10
Cash dividends declared per share (CA$)	0.24	0.12	—
Weighted average number of shares (in millions)			
Basic	103.5	102.9	102.3
Diluted	105.7	106.4	105.3
Selected Cash Flow Data			
Cash provided by operating activities	227.0	249.3	419.1
Cash used in investing activities	(135.3)	(109.2)	(153.2)
Cash used in financing activities	(44.1)	(20.3)	(18.3)
Free Cash Flow[2]	122.9	149.9	339.6

Selected Balance Sheet Data	**Dec 31, 2023**	**Dec 31, 2022**	**Dec 31, 2021**
Cash and cash equivalents	705.7	644.3	562.7
Total assets[3]	1,989.7	1,805.1	1,736.7
Total liabilities[3]	570.6	553.3	684.3

[1] Operating Margin is calculated as Operating Income divided by Revenue.

[2] Non-GAAP financial measure or ratio. See "Non-GAAP Financial Measures and Ratios".

[3] December 31, 2022 restated for the change in accounting policy (see Note 3 of the annual financial statements).

Executive Summary for the year ended December 31, 2023 as compared to December 31, 2022

- Revenue was $1,904.9 million, down 5.7% from $2,020.3 million. Constant Currency Revenue[1] decreased by 6.5% to $1,889.6 million from $2,020.3 million.
- Revenue, excluding *PAW Patrol: The Mighty Movie* Distribution Revenue[1] of $15.6 million was $1,889.3 million, a decrease of $131.0 million or 6.5% from $2,020.3 million.
- Revenue by operating segment reflected a decline of 11.3% in Toys, partially offset by increases of 60.0% in Entertainment and 6.1% in Digital Games.
- Operating Income was $188.9 million compared to $343.3 million.
- Operating Margin was 9.9% compared to 17.0%.
- Adjusted Operating Income[1] was $288.7 million compared to $321.2 million. The decline in Adjusted Operating Income[1] was primarily driven by a decrease of $36.4 million in Toys, partially offset by increases of $4.2 million in Digital Games and $1.6 million in Entertainment.
- Adjusted Operating Margin[1] was 15.2% compared to 15.9%.
- Net Income was $151.4 million or $1.43 per share (diluted) compared to $261.3 million or $2.45 per share (diluted).
- Adjusted Net Income[1] was $225.2 million or $2.13 per share (diluted) compared to $244.3 million or $2.30 per share (diluted).
- Adjusted EBITDA[1] was $418.8 million compared to $389.4 million, an increase of $29.4 million or 7.6%. Adjusted EBITDA, excluding *PAW Patrol: The Mighty Movie* Distribution Revenue[1] was $403.2 million, an increase of $13.8 million or 3.5% from $389.4 million.
- Adjusted EBITDA Margin[1] was 22.0% compared to 19.3%. Adjusted EBITDA Margin, excluding *PAW Patrol: The Mighty Movie* Distribution Revenue[1] was 21.3%.
- Cash provided by operating activities was $227.0 million compared to $249.3 million.
- Free Cash Flow[1] was $122.9 million compared to $149.9 million.
- During the year ended December 31, 2023, the Company acquired certain assets from 4D Brands International Inc. for total purchase consideration of $18.9 million and acquired the HEXBUG brand of toys from Innovation First International, Inc., for total purchase consideration of $14.6 million.
- During the year ended December 31, 2023, the Company incurred restructuring expenses of $18.1 million ($0.17 per diluted share) related to a reduction in the Company's global workforce and the closure of its manufacturing facility in Calais, France.
- During the year ended December 31, 2023, the Company repurchased and cancelled 397,700 subordinate voting shares through the Company's Normal Course Issuer Bid (the "NCIB") program for $10.5 million.
- On January 2, 2024, the Company completed its previously announced acquisition of MND Holdings I Corp ("Melissa & Doug") by acquiring all issued and outstanding capital stock. Melissa & Doug is a leading brand in early childhood play with offerings of open-ended, creative, and developmental toys. The acquisition will be reported in the Toys segment. Spin Master funded the $959.0 million preliminary purchase price with $434.0 million cash and $525.0 million in debt. (Refer to Liquidity and Capital Resources section for more details).
- Subsequent to December 31, 2023, the Company declared a quarterly dividend of CA$0.06 per outstanding subordinate voting share and multiple voting share, payable on April 12, 2024.

[1] Non-GAAP financial measure or ratio. See "Non-GAAP Financial Measures and Ratios".

Segmented Results

Toys		
	Year Ended Dec 31,	
(US$ millions)	2023	2022
Toy Gross Product Sales[1]	1,787.2	1,978.8
Toy revenue	1,540.9	1,737.6
Operating Income	101.0	170.1
Operating Margin[2]	6.6 %	9.8 %
Adjusted EBITDA[1]	212.4	244.6
Adjusted EBITDA Margin[1]	13.8 %	14.1 %
Cash Flow		
Toys capital expenditures	34.6	32.4
	Dec 31	Dec 31
Balance Sheet	2023	2022
Moulds, dies and tools, net carrying amount	19.2	19.2

Entertainment		
	Year Ended Dec 31,	
(US$ millions)	2023	2022
Entertainment revenue	190.1	118.8
Operating Income	78.0	76.7
Operating Margin[2]	41.0 %	64.6 %
Adjusted Operating Income[1]	80.7	79.1
Adjusted Operating Margin[1]	42.5 %	66.6 %
Cash Flow		
Entertainment capital expenditures	52.1	54.9
	Dec 31	Dec 31
Balance Sheet	2023	2022
Entertainment content development, net carrying amount[3]	48.3	77.1

Digital Games		
	Year Ended Dec 31,	
(US$ millions)	2023	2022
Digital Games revenue	173.9	163.9
Operating Income	49.1	46.5
Operating Margin[2]	28.2 %	28.4 %
Adjusted Operating Income[1]	58.1	53.9
Adjusted Operating Margin[1]	33.4 %	32.9 %
Cash Flow		
Digital Games capital expenditures	20.7	12.1
	Dec 31,	Dec 31,
Balance Sheet	2023	2022
Digital game and app development, net carrying amount	31.5	17.1

[1] Non-GAAP financial measure or ratio. See "Non-GAAP Financial Measures and Ratios".

[2] Operating Margin is calculated as segment Operating Income divided by segment Revenue.

[3] December 31, 2022 restated for the change in accounting policy (see Note 4 of the consolidated financial statements).

FINANCIAL PERFORMANCE

Consolidated Results

The following table provides a summary of Spin Master's consolidated results for the three months ended December 31, 2023 compared to the same period in 2022:

(US$ millions)	Q4 2023	Q4 2022	$ Change	% Change
Revenue	502.6	465.8	36.8	7.9 %
Cost of sales	240.6	233.4	7.2	3.1 %
Gross Profit	**262.0**	**232.4**	**29.6**	**12.7 %**
Selling, general and administrative expenses	244.8	237.8	7.0	2.9 %
Depreciation and amortization	7.1	7.1	—	— %
Other expense, net	28.5	6.7	21.8	325.4 %
Foreign exchange loss, net	18.2	4.8	13.4	279.2 %
Operating Loss	**(36.6)**	**(24.0)**	**(12.6)**	**52.5 %**
Interest income	(7.0)	(5.5)	(1.5)	27.3 %
Interest expense	3.9	3.8	0.1	2.6 %
Loss before income tax recovery	**(33.5)**	**(22.3)**	**(11.2)**	**50.2 %**
Income tax recovery	(3.4)	(8.5)	5.1	(60.0)%
Net Loss	**(30.1)**	**(13.8)**	**(16.3)**	**118.1 %**

The following tables provide a summary of Spin Master's consolidated results for the year ended December 31, 2023 compared to the same period in 2022:

	Year Ended Dec 31,			
(US$ millions)	2023	2022	$ Change	% Change
Revenue	1,904.9	2,020.3	(115.4)	(5.7)%
Cost of sales	866.5	916.5	(50.0)	(5.5)%
Gross Profit	**1,038.4**	**1,103.8**	**(65.4)**	**(5.9)%**
Selling, general and administrative expenses	775.7	782.1	(6.4)	(0.8)%
Depreciation and amortization	25.4	28.9	(3.5)	(12.1)%
Other expense, net	33.7	10.9	22.8	209.2 %
Foreign exchange loss (gain), net	14.7	(61.4)	76.1	(123.9)%
Operating Income	**188.9**	**343.3**	**(154.4)**	**(45.0)%**
Interest income	(27.4)	(10.7)	(16.7)	156.1 %
Interest expense	15.1	13.6	1.5	11.0 %
Income before income tax expense	**201.2**	**340.4**	**(139.2)**	**(40.9)%**
Income tax expense	49.8	79.1	(29.3)	(37.0)%
Net Income	**151.4**	**261.3**	**(109.9)**	**(42.1)%**

Revenue as compared to the same period in 2022:

The following table provides a summary of Spin Master's revenue by segment, for the three months ended December 31, 2023 and 2022:

(US$ millions)	Q4 2023	Q4 2022	$ Change	% Change
Toy revenue	406.8	396.7	10.1	2.5 %
Entertainment revenue	55.2	31.2	24.0	76.9 %
Digital Games revenue	40.6	37.9	2.7	7.1 %
Revenue	**502.6**	**465.8**	**36.8**	**7.9 %**

Revenue was $502.6 million, an increase of 7.9% from $465.8 million due to a 76.9% increase in Entertainment revenue, 2.5% increase in Toy revenue and 7.1% increase in Digital Games revenue. Constant Currency Revenue[1] was $493.9 million, an increase of 6.0%, from $465.8 million.

Toy revenue increased by $10.1 million or 2.5% to $406.8 million driven by an increase in Toy Gross Product Sales[1], partially offset by an increase in Sales Allowances. Toy Gross Product Sales[1] increased $23.1 million or 4.8%, to $502.3 million from $479.2 million, which arose from higher order volumes compared to the prior year. The increases in Wheels & Action and Preschool and Dolls & Interactive, were partially offset by a decrease in Outdoor. Constant Currency Toy Gross Product Sales[1] increased by $11.4 million or 2.4% to $490.6 million.

Entertainment revenue increased by $24.0 million or 76.9% to $55.2 million from higher distribution revenue associated with content deliveries including *Unicorn Academy, Rubble & Crew* and *Vida the Vet* and from on-going distribution revenue related to *PAW Patrol: The Mighty Movie.* Constant Currency Entertainment Revenue[1] increased by $24.1 million or 77.2% to $55.3 million, from $31.2 million.

Digital Games revenue increased by $2.7 million or 7.1% to $40.6 million driven by higher in-game purchases in *Toca Life World* and higher subscription revenue from both the *Piknik* subscription bundle ("*Piknik*") and the *PAW Patrol Academy* preschool learning app ("*PAW Patrol Academy*"). Constant Currency Digital Games Revenue[1] increased by $2.6 million or 6.9% to $40.5 million, from $37.9 million.

The following table provides a summary of Spin Master's revenue by segment, for the year ended December 31, 2023 and 2022:

	Year Ended Dec 31,			
(US$ millions)	2023	2022	$ Change	% Change
Toy revenue	1,540.9	1,737.6	(196.7)	(11.3)%
Entertainment revenue	190.1	118.8	71.3	60.0 %
Digital Games revenue	173.9	163.9	10.0	6.1 %
Revenue	**1,904.9**	**2,020.3**	**(115.4)**	**(5.7)%**

Revenue was $1,904.9 million, a decrease of 5.7% from $2,020.3 million due to an 11.3% decrease in Toy revenue, partially offset by 60.0% increase in Entertainment revenue and 6.1% increase in Digital Games revenue. Constant Currency Revenue[1] was $1,889.6 million, a decrease of 6.5% from $2,020.3 million. Revenue, excluding *PAW Patrol: The Mighty Movie* Distribution Revenue[1] of $15.6 million was $1,889.3 million, a decrease of $131.0 million or 6.5% from $2,020.3 million.

Toy revenue decreased by $196.7 million or 11.3% to $1,540.9 million driven by a decrease in Toy Gross Product Sales[1], partially offset by an increase in Sales Allowances. Toy Gross Product Sales[1] decreased by $191.6 million or 9.7%, to $1,787.2 million from $1,978.8 million across all product categories as a result of lower order volume due to macroeconomic pressures on consumer discretionary spending. Constant Currency Toy Gross Product Sales[1] decreased by $215.7 million or 10.9% to $1,763.1 million, down from $1,978.8 million.

[1] Non-GAAP financial measure or ratio. See "Non-GAAP Financial Measures and Ratios"

Entertainment revenue increased by $71.3 million or 60.0% to $190.1 million. The increase was from higher distribution revenue associated with new content deliveries including *PAW Patrol: The Mighty Movie*, *Unicorn Academy, Rubble & Crew* and *Vida the Vet* as well as the Company's share of revenue from the *PAW Patrol* series and the continued distribution of *PAW Patrol: The Movie*. Constant Currency Entertainment Revenue[1] increased by $71.3 million or 60.0% to $190.1 million, up from $118.8 million.

Digital Games revenue increased by $10.0 million or 6.1% to $173.9 million. The increase was due to higher in-game purchases in *Toca Life World*. Constant Currency Digital Games Revenue[1] increased by $12.7 million or 7.7% to $176.6 million, from $163.9 million.

Gross Profit as compared to the same period in 2022:

(US$ millions)	Q4 2023	Q4 2022	$ Change	% Change
Revenue	502.6	465.8	36.8	7.9 %
Gross Profit	262.0	232.4	29.6	12.7 %
Gross Margin	**52.1 %**	**49.9 %**		**2.2 %**

For the three months ended December 31, 2023, Gross Profit increased by $29.6 million or 12.7% to $262.0 million. The increase was primarily due to improvements in the Toys segment, driven by higher Toy Gross Product Sales[1] and lower ocean freight costs, partially offset by higher sales allowances driven by markdowns and promotional activity as a response to the pressure on consumer discretionary spending levels. In addition, the Gross Profit increase included higher Entertainment revenue which was mostly offset by amortization of production costs.

Gross Margin increased to 52.1% from 49.9%, primarily as a result of improved Gross Margin in the Toys Segment, from lower ocean freight costs and favourable foreign exchange. The improvement was partially offset by the dilutive effect of higher amortization from more content deliveries in the Entertainment segment.

	Year Ended Dec 31,			
(US$ millions)	**2023**	**2022**	**$ Change**	**% Change**
Revenue	1,904.9	2,020.3	(115.4)	(5.7)%
Gross Profit	1,038.4	1,103.8	(65.4)	(5.9)%
Gross Margin	**54.5 %**	**54.6 %**		**(0.1)%**

For the year ended December 31, 2023, Gross Profit decreased by $65.4 million or 5.9% to $1,038.4 million, mainly from the Toys segment. Lower Toy Gross Product Sales[1] due to order volume and higher sales allowances, primarily driven by higher markdowns and promotional activity, caused by pressure on consumer discretionary spending levels, were offset in part by lower ocean freight and favourable foreign exchange rates. The decrease in Gross Profit was partially offset by higher Entertainment revenue.

Gross Margin remained stable at 54.5% compared to 54.6%. Gross Margin was negatively impacted by the dilutive effect of content deliveries (including *Unicorn Academy* and *PAW Patrol: The Mighty Movie*) in the Entertainment segment, offset by improvements in the Toys segment due to lower ocean freight costs and favourable foreign exchange.

Selling, General and Administrative Expenses ("SG&A") as compared to the same period in 2022:

(US$ millions)	Q4 2023	Q4 2022	$ Change	% Change
Administrative	87.0	91.2	(4.2)	(4.6)%
Marketing	90.7	83.3	7.4	8.9 %
Selling	36.5	33.8	2.7	8.0 %
Distribution	20.1	20.1	—	— %
Product development	10.5	9.4	1.1	11.7 %
SG&A	**244.8**	**237.8**	**7.0**	**2.9 %**

SG&A increased by $7.0 million or 2.9% to $244.8 million due to higher marketing and selling expenses partially offset by lower administrative expenses. SG&A as a percentage of revenue decreased to 48.7% from 51.1% primarily driven by higher revenue.

Administrative expenses decreased by $4.2 million or 4.6% to $87.0 million. The decrease was primarily due to lower compensation and personnel-related costs, and lower office and travel expenses, partially offset by transaction costs incurred for the acquisition of Melissa & Doug. Administrative expenses as a percentage of revenue decreased to 17.3% from 19.6% from lower costs and higher revenue.

Marketing expenses increased by $7.4 million or 8.9% to $90.7 million, due to higher media and video production spend in the Entertainment segment to promote *Unicorn Academy*. Marketing expenses as a percentage of revenue increased slightly to 18.0% from 17.9%.

Selling expenses increased by $2.7 million or 8.0% to $36.5 million primarily due to an increase in sales of licensed brands. Selling expenses as a percentage of Toy revenue increased to 9.0% from 8.5%.

Distribution expenses were flat at $20.1 million. Lower outbound transportation costs were offset by higher warehousing costs. Distribution expenses as a percentage of Toy revenue decreased slightly to 4.9% from 5.1% as a result of higher Toy revenue.

Product development expenses increased by $1.1 million or 11.7% to $10.5 million, due to higher development and design activities in Toy products.

	Year Ended Dec 31,			
(US$ millions)	**2023**	**2022**	**$ Change**	**% Change**
Administrative	365.1	353.8	11.3	3.2 %
Marketing	181.4	185.1	(3.7)	(2.0)%
Selling	132.1	144.2	(12.1)	(8.4)%
Distribution	64.2	67.9	(3.7)	(5.4)%
Product development	32.9	31.1	1.8	5.8 %
SG&A	**775.7**	**782.1**	**(6.4)**	**(0.8)%**

SG&A decreased by $6.4 million or 0.8% to $775.7 million due to lower selling, marketing and distribution expenses partially offset by higher administrative expenses. SG&A as a percentage of revenue increased to 40.7% from 38.7% primarily driven by lower revenue.

Administrative expenses increased by $11.3 million or 3.2% to $365.1 million. The increase was primarily due to higher restructuring costs and transaction costs incurred for the acquisition of Melissa & Doug, partially offset by lower compensation and personnel related expenses. Administrative expenses as a percentage of revenue increased to 19.2% from 17.5% as a result of higher expenses and lower revenue.

Marketing expenses decreased by $3.7 million or 2.0% to $181.4 million, due to lower media, market research and sales marketing expenses in the Toys segment, partially offset by higher spend in the Entertainment segment to promote *Unicorn Academy*. Marketing expenses as a percentage of revenue increased to 9.5% from 9.2% as a result of a decrease in costs and lower revenue.

Selling expenses decreased by $12.1 million or 8.4% to $132.1 million due to a decline in the sales of licensed brands. Selling expenses as a percentage of Toy revenue increased slightly to 8.6% from 8.3% due to higher proportion of sales of partner licensed brands.

Distribution expenses decreased by $3.7 million or 5.4% to $64.2 million, due to lower warehousing and outbound transportation costs from lower domestic sales volumes. Distribution expenses as a percentage of Toy revenue increased to 4.2% from 3.9% due to lower Toy revenue.

Product development expenses increased by $1.8 million or 5.8% to $32.9 million, due to higher Digital Games development expenses.

Adjusted SG&A[1] as compared to the same period in 2022:

(US$ millions)	Q4 2023	Q4 2022	$ Change	% Change
SG&A	244.8	237.8	7.0	2.9 %
Adjustments[1]:				
Restructuring and other related (costs) recovery[2]	(3.8)	0.2	(4.0)	n.m.
Share based compensation[3]	(4.8)	(4.7)	(0.1)	2.1 %
Transaction costs[4]	(3.8)	(0.2)	(3.6)	n.m.
Adjusted SG&A[5]	**232.4**	**233.1**	**(0.7)**	**(0.3)%**
Revenue	**502.6**	**465.8**	**36.8**	**7.9 %**
Adjusted SG&A[5] as a percentage of revenue	**46.2 %**	**50.0 %**		**(3.8)%**

[1] These adjustments relate to items recorded within Administrative expenses.

[2] Restructuring expense in the current period relates to the reduction in the Company's global workforce and closure of its manufacturing facility in Calais, France.

[3] Related to non-cash expenses associated with long-term incentive plan and the mark to market (loss) gain related to DSUs.

[4] Professional fees incurred relating to acquisitions (including Melissa & Doug) and other transactions.

[5] Non-GAAP financial measure or ratio. See "Non-GAAP Financial Measures and Ratios".

Adjusted SG&A[1] decreased by $0.7 million or 0.3% to $232.4 million as a result of lower administrative expenses offset by higher marketing, selling and product development expenses. Adjusted SG&A[1] as a percentage of revenue decreased to 46.2% from 50.0%, due to lower administrative expenses and higher revenue in the fourth quarter compared to the prior year.

	Year Ended Dec 31,			
(US$ millions)	**2023**	**2022**	**$ Change**	**% Change**
SG&A	775.7	782.1	(6.4)	(0.8)%
Adjustments[1]:				
Restructuring and other related costs[2]	(18.1)	(4.9)	(13.2)	269.4 %
Share based compensation[3]	(20.1)	(17.6)	(2.5)	14.2 %
Transaction costs[4]	(11.1)	(1.0)	(10.1)	1,010.0 %
Adjusted SG&A[5]	**726.4**	**758.6**	**(32.2)**	**(4.2)%**
Revenue	**1,904.9**	**2,020.3**	**(115.4)**	**(5.7)%**
Adjusted SG&A[5] as a percentage of revenue	**38.1 %**	**37.5 %**		**0.6 %**

[1] These adjustments relate to items recorded within Administrative expenses.

[2] Restructuring expense in the current period relates to the reduction in the Company's global workforce and closure of its manufacturing facility in Calais, France. Prior year comparison relates to changes in personnel.

[3] Related to non-cash expenses associated with share option expense, long-term incentive plan, and the mark to market (loss) gain related to DSUs.

[4] Professional fees incurred relating to acquisitions (including Melissa & Doug) and other transactions.

[5] Non-GAAP financial measure or ratio. See "Non-GAAP Financial Measures and Ratios".

Adjusted SG&A[1] decreased by $32.2 million or 4.2% to $726.4 million as a result of lower administrative, selling, marketing and distribution expenses. Adjusted SG&A[1] as a percentage of revenue increased slightly to 38.1% from 37.5%, due to lower revenue compared to the prior year.

[1] Non-GAAP financial measure or ratio. See "Non-GAAP Financial Measures and Ratios".

Depreciation and Amortization as compared to the same period in 2022:

(US$ millions)	Q4 2023	Q4 2022	$ Change	% Change
Property, plant and equipment				
Moulds, dies and tools, included in cost of sales	5.1	5.0	0.1	2.0 %
Equipment, included in cost of sales	0.1	—	0.1	n.m.
Equipment	0.6	0.4	0.2	50.0 %
Building and leasehold improvements	1.8	1.5	0.3	20.0 %
Computer hardware	0.3	0.2	0.1	50.0 %
	7.9	**7.1**	**0.8**	**11.3 %**
Intangible assets				
Entertainment content development, included in cost of sales	28.0	4.7	23.3	495.7 %
Trademarks, licenses, IP & customer lists - definite	0.8	1.1	(0.3)	(27.3)%
Digital games and app development, included in cost of sales	1.4	1.1	0.3	27.3 %
Computer software	0.8	0.9	(0.1)	(11.1)%
	31.0	**7.8**	**23.2**	**297.4 %**
Right-of-use assets	**2.7**	**3.0**	(0.3)	(10.0)%
Depreciation and amortization	**41.7**	**17.9**	**23.8**	**133.0 %**

(US$ millions)	Q4 2023	Q4 2022	$ Change	% Change
Included in cost of sales	34.6	10.7	23.9	223.4 %
Included in expenses	7.1	7.2	(0.1)	(1.4)%
Depreciation and amortization	**41.7**	**17.9**	**23.8**	**133.0 %**

For the three months ended December 31, 2023, depreciation and amortization expense increased by $23.8 million to $41.7 million primarily due to an increase in amortization of intangible assets (included in cost of sales), as a result of more content deliveries in the current year including *Vida the Vet, Rubble & Crew, Unicorn Academy, and PAW Patrol: The Mighty Movie*.

		Year Ended Dec 31,		
(US$ millions)	**2023**	**2022**	**$ Change**	**% Change**
Property, plant and equipment				
Moulds, dies and tools, included in cost of sales	19.9	20.5	(0.6)	(2.9)%
Equipment, included in cost of sales	1.9	0.1	1.8	n.m
Equipment	2.4	1.7	0.7	41.2 %
Building and leasehold improvements	4.7	5.6	(0.9)	(16.1)%
Computer hardware	1.0	0.8	0.2	25.0 %
	29.9	**28.7**	**1.2**	**4.2 %**
Intangible assets				
Entertainment content development, included in cost of sales	77.7	14.4	63.3	439.6 %
Trademarks, licenses, IP & customer lists - definite	3.1	5.1	(2.0)	(39.2)%
Digital games and app development, included in cost of sales	5.1	4.3	0.8	18.6 %
Computer software	2.6	3.5	(0.9)	(25.7)%
	88.5	**27.3**	**61.2**	**224.2 %**
Right-of-use assets	**11.6**	**12.2**	(0.6)	(4.9)%
Depreciation and amortization	**130.1**	**68.2**	**61.9**	**90.8 %**

		Year Ended Dec 31,		
(US$ millions)	**2023**	**2022**	**$ Change**	**% Change**
Included in cost of sales	104.7	39.2	65.5	167.1 %
Included in expenses	25.4	29.0	(3.6)	(12.4)%
Depreciation and amortization	**130.1**	**68.2**	**61.9**	**90.8 %**

For the year ended December 31, 2023, depreciation and amortization increased by $61.9 million to $130.1 million primarily due to higher amortization of entertainment intangible assets (included in cost of sales), from more deliveries of content including *PAW Patrol: The Mighty Movi*e ($13.4 million), *Unicorn Academy, Rubble & Crew* and *Vida the Vet.*

Foreign Exchange Loss (Gain) as compared to the same period in 2022:
For the three months ended December 31, 2023, the Company recognized a net foreign exchange loss of $18.2 million (comprised of an unrealized loss of $17.8 million and realized loss of $0.4 million) as compared to a net foreign exchange loss of $4.8 million (comprised of an unrealized loss of $17.4 million and realized gain of $12.6 million).

For the year ended December 31, 2023, the Company recognized a net foreign exchange loss of $14.7 million (comprised of an unrealized loss of $26.1 million and realized gain of $11.4 million), compared to a foreign exchange gain of $61.4 million (comprised of a realized gain of $21.1 million and an unrealized gain of $40.3 million).

Unrealized foreign exchange gains and losses are generated by the translation of monetary assets and liabilities denominated in a currency other than the functional currency and also includes gains and losses related to the Company's hedging programs. Realized foreign exchange gains and losses are recognized when monetary assets and liabilities denominated in a currency other than the functional currency of the applicable entity are settled and also includes gains and losses related to the Company's hedging programs. The Company periodically enters into derivative financial instruments such as foreign exchange forward contracts to manage its foreign currency risk on cash flows denominated in currencies other than the US dollar.

Operating (Loss) Income and Adjusted Operating Income (Loss)[1] as compared to the same period in 2022:
Operating Loss for the three months ended December 31, 2023 was $36.6 million compared to Operating Loss of $24.0 million, an increase of $12.6 million. The increase was mainly as a result of higher Corporate and Other costs of $16.1 million due to an increase in foreign exchange losses and a decline in Operating Income from the Entertainment segment of $9.4 million, partially offset by a decrease in Operating Loss from the Toys segment of $13.3 million. Adjusted Operating Income[1] for the three months ended December 31, 2023 was $23.2 million, an increase of $28.7 million from an Adjusted Operating Loss[1] of $5.5 million.

Operating Income for the year ended December 31, 2023 was $188.9 million, a decrease of $154.4 million from $343.3 million. Adjusted Operating Income[1] for the year ended December 31, 2023 was $288.7 million, a decrease of $32.5 million from $321.2 million. The decrease in Operating Income was primarily driven by a decline in Operating Income from the Toys segment of $69.1 million and an increase in Operating Loss from Corporate and Other of $89.2 million due to an increase in foreign exchange loss, restructuring and transaction-related costs.

Adjusted EBITDA[1] as compared to the same period in 2022:
Adjusted EBITDA[1] for the three months ended December 31, 2023 increased to $64.9 million with Adjusted EBITDA Margin[1] of 12.9%, compared to $12.4 million and 2.7% respectively. The increase in Adjusted EBITDA[1] was primarily driven by an increase in gross profit from higher Toys, Entertainment and Digital Games segments and lower Adjusted SG&A[1] expenses. Adjusted EBITDA Margin[1] increased due to higher gross margin and lower Adjusted SG&A[1] expenses relative to revenue, from the Toys and Digital Games segments.

Adjusted EBITDA[1] for the year ended December 31, 2023 was $418.8 million compared to $389.4 million. Adjusted EBITDA Margin[1] was 22.0% compared to 19.3%. Adjusted EBITDA, excluding *PAW Patrol: The Mighty Movie* Distribution Revenue[1] was $403.2 million, an increase of $13.8 million from $389.4 million. Adjusted EBITDA Margin, excluding *PAW Patrol: The Mighty Movie* Distribution Revenue[1] was 21.3%.

The increase in Adjusted EBITDA[1] was primarily driven by lower Adjusted SG&A[1] partially offset by lower gross profit from the Toys segment. Adjusted EBITDA Margin[1] increased due to higher gross margin from the Toys and Entertainment segments partially offset by higher Adjusted SG&A[1] relative to revenue.

---

[1] Non-GAAP financial measure or ratio. See "Non-GAAP Financial Measures and Ratios".

Interest Income and Interest Expense as compared to the same period in 2022:
Interest income includes interest earned on cash and cash equivalents held by the Company. Interest expense includes bank fees, financing charges, interest and accretion expense and the amortization of Facility fees.

For the three months ended December 31, 2023, interest expense was $3.9 million, an increase of $0.1 million from $3.8 million primarily due to higher bank fees and financing charges. Interest income was $7.0 million, an increase of $1.5 million from $5.5 million from both higher cash deposit rates and higher cash balances held during the year.

For the year ended December 31, 2023, interest expense was $15.1 million, an increase of $1.5 million from $13.6 million primarily due to higher bank fees and financing charges. Interest income was $27.4 million, an increase of $16.7 million from $10.7 million from both higher deposit rates and higher cash balances earning interests.

Income Tax (Recovery) Expense as compared to the same period in 2022:
For the three months ended December 31, 2023, income tax recovery was $3.4 million compared to $8.5 million. The effective tax rate was 10.1% compared to 38.1%. For the three months ended December 31, 2023, the Company had a one-time income tax expense of $5.7 million, with an impact on effective tax rate of 17.0%. The effective income tax rate, excluding the one-time income tax expense, was 27.1%.

For the year ended December 31, 2023, income tax expense was $49.8 million compared to $79.1 million. The effective tax rate was 24.8% compared to 23.2%. For the year ended December 31, 2023, the Company had a one-time income tax recovery (net of one-time income tax expense of $5.7 million) of $0.9 million, with an impact on effective tax rate of 0.4%. The effective income tax rate, excluding the net one-time income tax recovery, was 25.2%.

Net (Loss) Income and Adjusted Net Income[1] as compared to the same period in 2022:
Net Loss for the three months ended December 31, 2023 was $30.1 million or $(0.29) per share, an increase of $16.3 million from Net Loss of $13.8 million or $(0.13) per share. The increase in Net Loss was primarily driven by higher impairment expenses on intangible assets, foreign exchange loss and selling, general and administrative expenses, partially offset by the increase in gross profit. Adjusted Net Income[1] for the three months ended December 31, 2023 was $20.5 million or $0.19 per share (diluted), an increase of $20.5 million from $nil or $nil per share (diluted).

Net Income for the year ended December 31, 2023 was $151.4 million or $1.43 per share (diluted), a decrease of $109.9 million from $261.3 million or $2.45 per share (diluted). The decrease in Net Income was primarily driven by lower gross profit. Adjusted Net Income[1] for the year ended December 31, 2023 was $225.2 million or $2.13 per share (diluted), a decrease of $19.1 million from $244.3 million or $2.30 per share (diluted).

Segmented Results

The Company's reportable segments are: Toys, Entertainment and Digital Games. The Company's results from operations by reportable segment for the three months ended December 31, 2023 and 2022 are as follows:

(US$ millions)	Q4 2023					Q4 2022				
	Toys	Entertainment	Digital Games	Corporate & Other [1]	Total	Toys	Entertainment	Digital Games	Corporate & Other [1]	Total
Revenue	406.8	55.2	40.6	—	502.6	396.7	31.2	37.9	—	465.8
Operating (Loss) Income	**(30.0)**	**9.7**	**9.7**	**(26.0)**	**(36.6)**	**(43.3)**	**19.1**	**10.1**	**(9.9)**	**(24.0)**
Restructuring and other related costs (recovery)	3.3	0.1	0.4	—	3.8	(0.2)	—	—	—	(0.2)
Foreign exchange loss	—	—	—	18.2	18.2	—	—	—	4.8	4.8
Share based compensation	3.2	0.3	0.7	0.6	4.8	3.3	0.3	0.7	0.4	4.7
Impairment of goodwill	25.7	—	—	—	25.7	—	—	—	—	—
Impairment of property, plant and equipment	0.7	—	—	—	0.7	0.9	—	—	—	0.9
Impairment of intangible assets	5.4	0.4	—	—	5.8	—	1.1	—	—	1.1
Legal (recovery) settlement expense	—	—	—	(0.1)	(0.1)	—	—	—	1.6	1.6
Acquisition related deferred incentive compensation	0.6	—	1.0	—	1.6	0.7	—	1.5	—	2.2
Net unrealized loss on investment	—	—	—	0.2	0.2	—	—	—	0.1	0.1
Acquisition related contingent consideration	(3.5)	—	(1.0)	(0.2)	(4.7)	3.1	—	—	—	3.1
Transaction costs	—	—	—	3.8	3.8	—	—	—	0.2	0.2
Adjusted Operating Income (Loss)[2]	**5.4**	**10.5**	**10.8**	**(3.5)**	**23.2**	**(35.5)**	**20.5**	**12.3**	**(2.8)**	**(5.5)**
Adjusted Operating Margin[2]	**1.3%**	**19.0%**	**26.6%**	**n.m.**	**4.6%**	**(8.9)%**	**65.7%**	**32.5%**	**n.m.**	**(1.2)%**
Depreciation and amortization	13.9	25.6	2.2	—	41.7	11.1	4.8	1.9	0.1	17.9
Adjusted EBITDA[2]	**19.3**	**36.1**	**13.0**	**(3.5)**	**64.9**	**(24.4)**	**25.3**	**14.2**	**(2.7)**	**12.4**
Adjusted EBITDA Margin[2]	**4.7%**	**65.4%**	**32.0%**	**n.m.**	**12.9%**	**(6.2)%**	**81.1%**	**37.5%**	**n.m.**	**2.7%**

[1] Corporate & Other includes certain corporate costs, foreign exchange and merger and acquisition-related costs, as well as fair value gains and losses.

[2] Non-GAAP financial measure or ratio. See "Non-GAAP Financial Measures and Ratios".

The Company’s results from operations by reportable segment for the year ended December 31, 2023 and 2022:

(US$ millions)	Year Ended Dec 31, 2023					2022				
	Toys	Entertainment	Digital Games	Corporate & Other[1]	Total	Toys	Entertainment	Digital Games	Corporate & Other[1]	Total
Revenue	1,540.9	190.1	173.9	—	1,904.9	1,737.6	118.8	163.9	—	2,020.3
Operating Income (Loss)	**101.0**	**78.0**	**49.1**	**(39.2)**	**188.9**	**170.1**	**76.7**	**46.5**	**50.0**	**343.3**
Restructuring and other related costs	16.3	0.3	1.5	—	18.1	4.6	0.1	0.2	—	4.9
Foreign exchange loss (gain)	—	—	—	14.7	14.7	—	—	—	(61.4)	(61.4)
Share based compensation	14.1	1.4	2.9	1.7	20.1	12.4	1.2	2.3	1.7	17.6
Impairment of goodwill	26.7	—	—	—	26.7	—	—	—	—	—
Impairment of property, plant and equipment	0.9	—	—	—	0.9	1.9	—	—	—	1.9
Impairment of intangible assets	5.4	1.0	0.7	1.1	8.2	—	1.1	—	—	1.1
Legal settlement recovery	—	—	—	(0.6)	(0.6)	—	—	—	(0.5)	(0.5)
Acquisition related deferred incentive compensation	2.7	—	4.9	—	7.6	5.4	—	4.9	—	10.3
Net unrealized gain on investment	—	—	—	(0.1)	(0.1)	—	—	—	—	—
Net realized gain on investment	—	—	—	(0.1)	(0.1)	—	—	—	(0.1)	(0.1)
Loss on Minority interest and other investments	—	—	—	—	—	—	—	—	0.5	0.5
Acquisition related deferred consideration	(5.6)	—	(1.0)	(0.2)	(6.8)	3.5	—	—	(0.9)	2.6
Transaction costs	—	—	—	11.1	11.1	—	—	—	1.0	1.0
Adjusted Operating Income (Loss)[2]	**161.5**	**80.7**	**58.1**	**(11.6)**	**288.7**	**197.9**	**79.1**	**53.9**	**(9.7)**	**321.2**
Adjusted Operating Margin[2]	**10.5%**	**42.5%**	**33.4%**	**n/a**	**15.2%**	**11.4%**	**66.6%**	**32.9%**	**n/a**	**15.9%**
Depreciation and amortization[3]	50.9	70.8	8.2	0.2	130.1	46.7	14.8	6.6	0.1	68.2
Adjusted EBITDA[2]	**212.4**	**151.5**	**66.3**	**(11.4)**	**418.8**	**244.6**	**93.9**	**60.5**	**(9.6)**	**389.4**
Adjusted EBITDA Margin[2]	**13.8%**	**79.7%**	**38.1%**	**n.m.**	**22.0%**	**14.1%**	**79.0%**	**36.9%**	**n.m.**	**19.3%**

[1] Corporate & Other includes certain corporate costs, foreign exchange and merger and acquisition-related costs, as well as fair value gains and losses.

[2] Non-GAAP financial measure or ratio. See "Non-GAAP Financial Measures and Ratios".

Toys Segment Results

The following table provides a summary of Toys segment operating results for the three months ended December 31, 2023 and 2022:

(US$ millions)	Q4 2023	Q4 2022	$ Change	% Change
Toy Gross Product Sales[1, 2]	502.3	479.2	23.1	4.8 %
Toy revenue	406.8	396.7	10.1	2.5 %
Operating Loss	(30.0)	(43.3)	13.3	(30.7)%
Operating Margin	(7.4)%	(10.9)%		3.5 %
Adjusted EBITDA[1]	19.3	(24.4)	43.7	179.1 %
Adjusted EBITDA Margin[1]	4.7 %	(6.2)%		10.9 %
Selected Cash Flow Data				
Toys capital expenditures	7.2	7.5	(0.3)	(4.0)%

[1] Non-GAAP financial measure or ratio. See "Non-GAAP Financial Measures and Ratios".

[2] Toy Gross Product Sales represents Toy revenue excluding Sales Allowances.

Toy revenue increased by $10.1 million or 2.5% to $406.8 million resulting from an increase in Toy Gross Product Sales[1]. Toy Gross Product Sales[1] increased by $23.1 million or 4.8%, to $502.3 million from $479.2 million arising from higher order volumes. Toy Gross Product Sales[1] in the fourth quarter of 2022 were lower due to the acceleration of customer shipments into the first half of 2022 due to then anticipated global logistics and supply chain issues. Constant Currency Toy Gross Product Sales[1] increased by $11.4 million or 2.4% to $490.6 million, compared to $479.2 million.

Operating Loss was $30.0 million compared to $43.3 million representing an improvement of $13.3 million. Operating Margin was (7.4)% compared to (10.9)%. Adjusted EBITDA[1] increased by $43.7 million to $19.3 million. Adjusted EBITDA Margin[1] was 4.7% compared to (6.2)%. The improvement in Operating Margin and Adjusted EBITDA Margin[1] was due to higher gross margin due to lower ocean freight costs and favourable foreign exchange, in addition to lower expenses and higher Toy revenue.

Toys capital expenditures decreased by $0.3 million to $7.2 million, primarily as a result of lower investments in moulds, dies and tools.

[1] Non-GAAP financial measure or ratio. See "Non-GAAP Financial Measures and Ratios".

The following table provides a summary of the Toys segment's operating results for the year ended December 31, 2023 and 2022:

	Year Ended Dec 31,			
(US$ millions)	**2023**	**2022**	**$ Change**	**% Change**
Toy Gross Product Sales[1, 2]	1,787.2	1,978.8	(191.6)	(9.7)%
Toy revenue	1,540.9	1,737.6	(196.7)	(11.3)%
Operating Income	101.0	170.1	(69.1)	(40.6)%
Operating Margin	6.6 %	9.8 %		(3.2)%
Adjusted EBITDA[1]	212.4	244.6	(32.2)	(13.2)%
Adjusted EBITDA Margin[1]	13.8 %	14.1 %		(0.3)%
Selected Cash Flow and Balance Sheet Data				
Toys capital expenditures	34.6	32.4	2.2	6.8 %
	Dec 31, 2023	**Dec 31, 2022**	**$ Change**	**% Change**
Moulds, dies and tools, net carrying amount	19.2	19.2	—	— %

[1] Non-GAAP financial measure or ratio. See "Non-GAAP Financial Measures and Ratios".

[2] Toy Gross Product Sales represents Toy revenue excluding Sales Allowances.

Toy revenue decreased by $196.7 million or 11.3% to $1,540.9 million driven by a decline in Toy Gross Product Sales[1]. Toy Gross Product Sales[1] decreased by $191.6 million or 9.7%, to $1,787.2 million from $1,978.8 million as a result of lower order volume due to macroeconomic pressures on consumer discretionary spending. Constant Currency Toy Gross Product Sales[1] decreased by $215.7 million or 10.9% to $1,763.1 million, down from $1,978.8 million.

Operating Income decreased by $69.1 million or 40.6% to $101.0 million. Operating Margin was 6.6% compared to 9.8%. Adjusted EBITDA[1] decreased by $32.2 million to $212.4 million. Adjusted EBITDA Margin[1] was 13.8% compared to 14.1%. The decline in Operating Margin and Adjusted EBITDA Margin[1] was due to lower Toy revenue relative to expenses partially offset by higher Gross Margin attributed to lower ocean freight costs and favourable foreign exchange.

Toys capital expenditures increased by $2.2 million to $34.6 million, primarily as a result of an asset acquisition of a games and puzzles company and moulds, dies and tools, partially offset by lower investments in building and leasehold improvements.

Moulds, dies and tools, net carrying amount was flat at $19.2 million.

[1] Non-GAAP financial measure or ratio. See "Non-GAAP Financial Measures and Ratios".

Toy Revenue

For the three months ended December 31, 2023 as compared to the same period in 2022:

The following table provides a summary of Spin Master's Toy revenue, including Toy Gross Product Sales[1] by product category, for the three months ended December 31, 2023 and 2022:

(US$ millions)	Q4 2023	Q4 2022	$ Change	% Change
Preschool and Dolls & Interactive	204.7	201.7	3.0	1.5 %
Activities, Games & Puzzles and Plush	160.6	160.6	—	— %
Wheels & Action	113.3	90.0	23.3	25.9 %
Outdoor	23.7	26.9	(3.2)	(11.9)%
Toy Gross Product Sales[1]	**502.3**	**479.2**	**23.1**	**4.8 %**
Sales Allowances[2]	(95.5)	(82.5)	(13.0)	15.8 %
Sales Allowances % of Toy Gross Product Sales[1]	*19.0 %*	*17.2 %*		*1.8 %*
Toy revenue	**406.8**	**396.7**	**10.1**	**2.5 %**

[1] Non-GAAP financial measure or ratio. See "Non-GAAP Financial Measures and Ratios".

[2] The Company enters into arrangements to provide sales allowances requested by customers relating to cooperative advertising, contractual and negotiated discounts, volume rebates, and costs incurred by customers to sell the Company's products.

Preschool and Dolls & Interactive increased by $3.0 million or 1.5% to $204.7 million, primarily driven by *Bitzee* and *Gabby's Dollhouse*, partially offset by *PAW Patrol* and *Purse Pets*

Activities, Games & Puzzles and Plush was flat at $160.6 million, increases in *GUND* and *Kinetic Sand* offset by declines in *Orbeez* and *Pixobitz*.

Wheels & Action increased by $23.3 million or 25.9% to $113.3 million, primarily from increases in *Monster Jam* and *HEXBUG.*

Outdoor decreased by $3.2 million or 11.9% to $23.7 million, primarily driven by *SwimWays*.

Sales Allowances increased by $13.0 million to $95.5 million. As a percentage of Toy Gross Product Sales[1], Sales Allowances increased to 19.0% from 17.2%, primarily driven by higher markdowns and promotional activity, caused by pressure on consumer discretionary spending levels.

Revenue by Geographic Area

Toy Gross Product Sales[1] by geographical area are based on the location of the customers. The following table provides a summary of Spin Master's Toy Gross Product Sales[1] by geographic area for the three months ended December 31, 2023 and 2022:

	Q4 2023		Q4 2022		Change	
(US$ millions)	**$**	**% of GPS**	**$**	**% of GPS**	**$**	**% of GPS**
North America	270.6	53.9 %	260.7	54.4 %	9.9	(0.5)%
Europe	155.7	31.0 %	144.5	30.2 %	11.2	0.8 %
Rest of World	76.0	15.1 %	74.0	15.4 %	2.0	(0.3)%
International	231.7	46.1 %	218.5	45.6 %	13.2	0.5 %
Toy Gross Product Sales[1]	**502.3**	**100.0 %**	**479.2**	**100.0 %**	**23.1**	
Sales Allowances	(95.5)	(19.0)%	(82.5)	(17.2)%	(13.0)	(1.8)%
Toy revenue	**406.8**		**396.7**		**10.1**	

[1] Non-GAAP financial measure or ratio. See "Non-GAAP Financial Measures and Ratios".

As a percentage of Toy Gross Product Sales[1], North America decreased to 53.9% compared to 54.4%. International sales, comprised of Europe and Rest of World, increased to 46.1% compared to 45.6%.

North America increased by $9.9 million or 3.8% to $270.6 million. The increase was driven primarily by *Monster Jam, GUND* and *Bitzee*, partially offset by *PAW Patrol,* and *Gabby's Dollhouse.*

[1] Non-GAAP financial measure or ratio. See "Non-GAAP Financial Measures and Ratios".

Europe increased by $11.2 million or 7.8% to $155.7 million, which includes a favourable foreign exchange impact of $8.0 million. The increase was mainly driven by *Gabby's Dollhouse* and *Bitzee partially* offset by a decrease in *Bakugan* and *Purse Pets.*

Rest of World increased by $2.0 million or 2.7% to $76.0 million, which includes a favourable foreign exchange impact of $3.7 million. The increase arose from *Bitzee, Rubik's* and *Gabby's Dollhouse* partially offset by *Cool Maker* and *Bakugan*.

For the year ended December 31, 2023, as compared to the same period in 2022:

The following table provides a summary of Spin Master's Toy revenue, including Toy Gross Product Sales[1] by product category, for the year ended December 31, 2023 and 2022:

	Year Ended Dec 31,			
(US$ millions)	**2023**	**2022**	**$ Change**	**% Change**
Preschool and Dolls & Interactive	817.7	867.0	(49.3)	(5.7)%
Activities, Games & Puzzles and Plush	487.5	561.7	(74.2)	(13.2)%
Wheels & Action	409.3	450.8	(41.5)	(9.2)%
Outdoor	72.7	99.3	(26.6)	(26.8)%
Toy Gross Product Sales[1]	**1,787.2**	**1,978.8**	**(191.6)**	**(9.7)%**
Sales Allowances[2]	(246.3)	(241.2)	(5.1)	2.1 %
Sales Allowances % of Toy Gross Product Sales[1]	*13.8 %*	*12.2 %*		*1.6 %*
Toy revenue	**1,540.9**	**1,737.6**	**(196.7)**	**(11.3)%**

[1] Non-GAAP financial measure or ratio. See "Non-GAAP Financial Measures and Ratios".

[2] The Company enters into arrangements to provide sales allowances requested by customers relating to cooperative advertising, contractual and negotiated discounts, volume rebates, and costs incurred by customers to sell the Company's products.

Preschool and Dolls & Interactive decreased by $49.3 million or 5.7% to $817.7 million, due to *PAW Patrol, Purse Pets* and *Wizarding World,* offset in part by *Bitzee* and *Gabby's Dollhouse*.

Activities, Games & Puzzles and Plush decreased by $74.2 million or 13.2% to $487.5 million, mainly due to declines in the Games & Puzzles portfolio, *Kinetic Sand, Cool Maker, Pixobitz* and *Orbeez,* offset in part by *Rubik's.*

Wheels & Action decreased by $41.5 million or 9.2% to $409.3 million, led by decreases in *DC* and *Bakugan*, offset in part by an increase in *Monster Jam* and *HEXBUG*.

Outdoor declined by $26.6 million or 26.8% to $72.7 million, primarily driven by *SwimWays*.

Sales Allowances increased by $5.1 million to $246.3 million. As a percentage of Toy Gross Product Sales[1], Sales Allowances increased to 13.8% from 12.2%, primarily driven by higher markdowns and promotional activity in the fourth quarter, caused by pressures on consumer discretionary spending.

Revenue by Geographic Area

The following table provides a summary of Spin Master's Toy Gross Product Sales[1] by geographic area for the year ended December 31, 2023 and 2022:

	Year Ended Dec 31,					
(US$ millions)	**2023**	**% of GPS**	**2022**	**% of GPS**	**$ Change**	**Change in % of GPS**
North America	1,012.1	56.6 %	1,189.8	60.1 %	(177.7)	(3.5)%
Europe	505.9	28.3 %	525.0	26.5 %	(19.1)	1.8 %
Rest of World	269.2	15.1 %	264.0	13.3 %	5.2	1.8 %
International	775.1	43.4 %	789.0	39.9 %	(13.9)	3.5 %
Toy Gross Product Sales[1]	**1,787.2**	**100.0 %**	**1,978.8**	**100.0 %**	**(191.6)**	
Sales Allowances	(246.3)	13.8 %	(241.2)	12.2 %	(5.1)	1.6 %
Toy revenue	**1,540.9**		**1,737.6**		**(196.7)**	

[1] Non-GAAP financial measure or ratio. See "Non-GAAP Financial Measures and Ratios".

[1] Non-GAAP financial measure or ratio. See "Non-GAAP Financial Measures and Ratios".

As a percentage of Toy Gross Product Sales[1], North America decreased to 56.6% compared to 60.1%. International sales, comprised of the Europe and Rest of World, increased to 43.4% compared to 39.9%.

Toy Gross Product Sales in North America declined by $177.7 million or 14.9% to $1,012.1 million, with an unfavourable foreign exchange impact of $0.5 million. The decrease was driven by *Gabby's Dollhouse, PAW Patrol,* the Games & Puzzles portfolio, *DC, Bakugan*, *Kinetic Sand, Hatchimals* and *Purse Pets* partially offset by *Bitzee, Rubble & Crew* and *HEXBUG*.

Europe declined by $19.1 million or 3.6% to $505.9 million, with a favourable foreign exchange impact of $13.6 million. The decrease was driven by *PAW Patrol, DC, Bakugan, Purse Pets, Wizarding World* and *Hatchimals* partially offset by *Gabby's Dollhouse* and *Bitzee.*

Rest of World increased by $5.2 million or 2.0% to $269.2 million, with a favourable foreign exchange impact of $11.0 million. The increase was driven by *Gabby's Dollhouse* and *Bitzee* offset in part by *DC* and *PAW Patrol.*

Toys Segment Trend Analysis

(US$ millions)	Q4 2023	Q3 2023	Q2 2023	Q1 2023	Q4 2022	Q3 2022	Q2 2022	Q1 2022
Toy Gross Product Sales[1]	502.3	678.6	390.0	216.3	479.2	617.7	484.4	397.5
Toy revenue	406.8	601.5	346.3	186.3	396.7	552.4	437.6	350.9
Operating (Loss) Income	(30.0)	149.0	23.8	(41.8)	(43.3)	109.4	62.6	41.4
Operating Margin	(7.4)%	24.8%	6.9%	(22.4)%	(10.9)%	19.8%	14.3%	11.8%
Adjusted EBITDA[1]	19.3	166.8	47.7	(21.4)	(24.4)	126.9	83.2	58.9
Adjusted EBITDA Margin[1]	4.7%	27.7%	13.8%	(11.5)%	(6.2)%	23.0%	19.0%	16.8%
Selected Cash Flow and Balance Sheet Data								
Toys capital expenditures	7.2	7.3	12.3	7.8	7.5	7.9	9.8	7.2
Moulds, dies and tools, net carrying amount[2]	19.2	20.4	21.7	20.0	19.2	19.5	23.5	21.9

[1] Non-GAAP financial measure or ratio. See "Non-GAAP Financial Measures and Ratios".

[2] Net carrying amount represents balance as at end of the period.

Toy revenue seasonality factors cause the Company's operating results to fluctuate from quarter to quarter:

- Toy revenue is historically concentrated in the third and fourth quarters of each fiscal year, with the proportional Operating Income earned and cash flows generated during the same period.
- In 2022, a higher proportion of Toy Gross Product Sales[1] shifted into the first and second quarters from the third and fourth quarters as retailers ordered earlier in the year to minimize the then anticipated supply chain disruptions. The third and fourth quarters of 2022 were also pressured by the macroeconomic environment, particularly from higher inflation compounded by foreign exchange volatility and a carry-over of inventory at retailers from the first half of 2022. These factors resulted in a strong first half of 2022 with Toy Gross Product Sales[1] representing 45 percent of 2022 annual Toy Gross Product Sales[1] compared to 30%-35% typically.
- Toy Gross Product Sales[1] in the first half of 2023 was lower than 2022 due to lower sales volumes as retailers focused on decreasing their retail inventory carried over from Q4 2022.

Entertainment Segment Results

The following table provides a summary of the Entertainment segment's operating results for the three months ended December 31, 2023 and 2022:

(US$ millions)	Q4 2023	Q4 2022	$ Change	% Change
Entertainment revenue	55.2	31.2	24.0	76.9 %
Operating Income	9.7	19.1	(9.4)	(49.2)%
Operating Margin	17.6 %	61.2 %		(43.6)%
Adjusted Operating Income[1]	10.5	20.5	(10.0)	(48.8)%
Adjusted Operating Margin[1]	19.0 %	65.7 %		(46.7)%
Selected Cash Flow Data				
Entertainment capital expenditures	9.7	11.9	(2.2)	(18.5)%

[1] Non-GAAP financial measure or ratio. See "Non-GAAP Financial Measures and Ratios".

Entertainment revenue increased by $24.0 million or 76.9% to $55.2 million, from higher distribution revenue associated with content deliveries including *Unicorn Academy, Rubble & Crew* and *Vida the Vet* and from on-going distribution revenue related to *PAW Patrol: The Mighty Movie.* Constant Currency Entertainment Revenue[1] increased by $24.1 million or 77.2% to $55.3 million, up from $31.2 million.

Operating Income decreased by $9.4 million or 49.2% to $9.7 million. Operating Margin was 17.6% compared to 61.2%. Adjusted Operating Income[1] was $10.5 million compared to $20.5 million. Adjusted Operating Margin[1] was 19.0% compared to 65.7%.

The decline in Operating Income, Adjusted Operating Income[1], Operating Margin and Adjusted Operating Margin[1] was primarily due to the amortization of production costs and marketing related costs for *Unicorn Academy*.

Entertainment capital expenditures decreased by $2.2 million to $9.7 million, primarily due to lower content development production costs capitalized for *PAW Patrol: The Mighty Movie* and *Unicorn Academy,* offset by higher production costs capitalized for *Vida the Vet* and *Rubble & Crew.*

The following table provides a summary of the Entertainment segment's operating results for the year ended December 31, 2023 and 2022:

	Year Ended Dec 31,			
(US$ millions)	2023	2022	$ Change	% Change
Entertainment revenue	190.1	118.8	71.3	60.0 %
Operating Income	78.0	76.7	1.3	1.7 %
Operating Margin	41.0 %	64.6 %		(23.6)%
Adjusted Operating Income[1]	80.7	79.1	1.6	2.0 %
Adjusted Operating Margin[1]	42.5 %	66.6 %		(24.1)%
Selected Cash Flow and Balance Sheet Data				
Entertainment capital expenditures	52.1	54.9	(2.8)	(5.1)%
Entertainment content development, net carrying amount	48.3	77.1	(28.8)	(37.4)%

[1] Non-GAAP financial measure or ratio. See "Non-GAAP Financial Measures and Ratios".

Entertainment revenue increased by $71.3 million or 60.0% to $190.1 million, from higher distribution revenue associated with new content deliveries including *PAW Patrol: The Mighty Movie*, *Unicorn Academy, Rubble & Crew* and *Vida the Vet* as well as the Company's share of revenue from the *PAW Patrol* series and the continued distribution of *PAW Patrol: The Movie*. Constant Currency Entertainment Revenue[1] increased by $71.3 million or 60.0% to $190.1 million, up from $118.8 million.

Operating Income increased by $1.3 million or 1.7% to $78.0 million. Adjusted Operating Income[1] was $80.7 million compared to $79.1 million. Operating Income and Adjusted Operating Income[1] increased due to higher distribution revenue.

[1] Non-GAAP financial measure or ratio. See "Non-GAAP Financial Measures and Ratios".

Operating Margin decreased from 64.6% to 41.0%. Adjusted Operating Margin[1] decreased from 66.6% to 42.5%. The decrease in both Operating Margin and Adjusted Operating Margin[1] was driven primarily by the amortization of production costs from additional content deliveries, including *Unicorn Academy* and $13.4 million for *PAW Patrol: The Mighty Movie*.

Entertainment capital expenditures decreased by $2.8 million to $52.1 million, primarily as a result of lower content development production costs capitalized for *Unicorn Academy*, partially offset by higher production costs capitalized for *Rubble & Crew, Vida the Vet,* the *PAW Patrol* series and *PAW Patrol: The Mighty Movie*.

Entertainment content development, net carrying amount decreased by $28.8 million to $48.3 million, primarily as a result of amortization of production costs on delivered content, including $13.4 million for *PAW Patrol: The Mighty Movie*.

Entertainment Segment Trend Analysis

(US$ millions)	Q4 2023	Q3 2023	Q2 2023	Q1 2023	Q4 2022	Q3 2022	Q2 2022	Q1 2022
Entertainment revenue	55.2	63.4[1]	33.9	37.6	31.2	37.0	28.4	22.2
Operating Income	9.7	23.3	15.7	29.3	19.1	28.9	17.5	11.2
Operating Margin	17.6%	36.8%	46.3%	77.9%	61.2%	78.1%	61.6%	50.5%
Adjusted Operating Income[2]	10.5	24.0	16.3	29.9	20.5	29.2	18.0	11.4
Adjusted Operating Margin[2]	19.0%	37.9%	48.1%	79.5%	65.7%	78.9%	63.4%	51.4%
Selected Cash Flow and Balance Sheet Data								
Entertainment capital expenditures	9.7	13.1	10.9	18.4	11.9	21.3	14.9	6.8
Entertainment content development, net carrying amount[3]	48.3	68.8	90.8	90.5	77.1	57.4	41.3	30.2

[1] Includes Entertainment revenue associated with the theatrical release of *PAW Patrol: The Mighty Movie*.

[2] Non-GAAP financial measure or ratio. See "Non-GAAP Financial Measures and Ratios".

[3] Net carrying amount represents balance as at end of the period.

Entertainment segment results fluctuated from quarter to quarter due to the timing of content distribution, and mix of revenue:

- In Q3 2023, Entertainment revenue included $15.6 million of distribution revenue from the theatrical release of *PAW Patrol: The Mighty Movie*. Operating Margin and Adjusted Operating Margin[1] was lower as a result of the dilutive effect of the amortization of production costs of $11.0 million.
- In the first half of 2023, Entertainment content development, net carrying amount in intangibles assets increased primarily due to the capitalized costs for the production of *PAW Patrol: The Mighty Movie* and *Unicorn Academy.* These productions were delivered and amortized starting in the second half of 2023.
- In Q1 2023 and Q3 2022, the Entertainment segment experienced higher Operating and Adjusted Operating Margins[1] from higher margin accretive licensing and merchandising revenue, as well as lower costs due to fewer content deliveries compared to other quarters.

[1] Non-GAAP financial measure or ratio. See "Non-GAAP Financial Measures and Ratios".

Digital Games Segment Results

The following table provides a summary of the Digital Games segment's operating results for the three months ended December 31, 2023 and 2022:

(US$ millions)	Q4 2023	Q4 2022	$ Change	% Change
Digital Games revenue	40.6	37.9	2.7	7.1 %
Operating Income	9.7	10.1	(0.4)	(4.0)%
Operating Margin	23.9 %	26.6 %		(2.7)%
Adjusted Operating Income[1]	10.8	12.3	(1.5)	(12.2)%
Adjusted Operating Margin[1]	26.6 %	32.5 %		(5.9)%
Selected Cash Flow Data				
Digital Games capital expenditures	6.7	3.9	2.8	71.8 %

[1] Non-GAAP financial measure or ratio. See "Non-GAAP Financial Measures and Ratios".

Digital Games revenue increased by $2.7 million or 7.1% to $40.6 million, primarily due to higher in-game purchases in *Toca Life World* and higher subscription revenue from both *Piknik* and *PAW Patrol Academy*. Constant Currency Digital Games Revenue increased by $2.6 million or 6.9% to $40.5 million, up from $37.9 million.

Operating Income decreased by $0.4 million or 4.0% to $9.7 million. Adjusted Operating Income[1] decreased by $1.5 million or 12.2% to $10.8 million from $12.3 million. The decrease in Operating Income and Adjusted Operating Income[1] was due to launch marketing costs for *PAW Patrol Academy*.

Operating Margin decreased from 26.6% to 23.9%. Adjusted Operating Margin[1] decreased from 32.5% to 26.6%. Operating Margin and Adjusted Operating Margin[1] decreased due to launch marketing costs for *PAW Patrol Academy*.

Digital Games capital expenditures were $6.7 million compared to $3.9 million, an increase of $2.8 million or 71.8%, from higher development costs for *Toca Days, PAW Patrol Academy, Rubik's, Toca Life World, and Unicorn Academy*.

The following table provides a summary of the Digital Games segment's operating results for the year ended December 31, 2023 and 2022:

	Year Ended Dec 31,			
(US$ millions)	2023	2022	$ Change	% Change
Digital Games revenue	173.9	163.9	10.0	6.1 %
Operating Income	49.1	46.5	2.6	5.6 %
Operating Margin	28.2 %	28.4 %		(0.2)%
Adjusted Operating Income[1]	58.1	53.9	4.2	7.8 %
Adjusted Operating Margin[1]	33.4 %	32.9 %		0.5 %
Selected Cash Flow and Balance Sheet Data				
Digital Games capital expenditures	20.7	12.1	8.6	71.1 %
Digital Games development, net carrying amount	31.5	17.1	14.4	84.2 %

[1] Non-GAAP financial measure or ratio. See "Non-GAAP Financial Measures and Ratios".

Digital Games revenue increased by $10.0 million or 6.1% to $173.9 million, due to higher in-game purchases in *Toca Life World*. Constant Currency Digital Games Revenue[1] increased by $12.7 million or 7.7% to $176.6 million, up from $163.9 million.

Operating Income increased by $2.6 million or 5.6% to $49.1 million. Adjusted Operating Income[1] increased by $4.2 million or 7.8% to $58.1 million from $53.9 million. The increase in Operating Income and Adjusted

[1] Non-GAAP financial measure or ratio. See "Non-GAAP Financial Measures and Ratios".

Operating Income[1] are attributable to higher in-game purchases in *Toca Life World*, partially offset by higher product development and personnel costs.

Operating Margin was 28.2% compared to 28.4%. Adjusted Operating Margin[1] was 33.4% compared to 32.9%. Operating Margin decreased due to higher restructuring costs and Adjusted Operating Margin[1] increased due to lower administrative and marketing expenses.

Digital Games capital expenditures were $20.7 million compared to $12.1 million, an increase of $8.6 million or 71.1%, from higher development costs for *Toca Days, PAW Patrol Academy, Toca Life World, Rubik's Match* and *Unicorn Academy*.

Digital Games development, net carrying amount increased by $14.4 million to $31.5 million compared to $17.1 million, primarily as a result of higher development costs for *Toca Days, PAW Patrol Academy, Toca Life World, Rubik's Match* and *Unicorn Academy*.

Digital Games Segment Trend Analysis

(US$ millions)	Q4 2023	Q3 2023	Q2 2023	Q1 2023	Q4 2022	Q3 2022	Q2 2022	Q1 2022
Digital Games revenue	40.6	45.3	40.5	47.5	37.9	34.6	40.3	51.1
Operating Income	9.7	13.6	9.6	16.2	10.1	8.2	8.4	19.8
Operating Margin	23.9 %	30.0 %	23.7 %	34.1 %	26.6 %	23.7%	20.8%	38.7%
Adjusted Operating Income[1]	10.8	15.5	12.8	19.0	12.3	10.0	10.0	21.6
Adjusted Operating Margin[1]	26.6 %	34.2%	31.6%	40.0%	32.5 %	28.9%	24.8%	42.3%
Selected Cash Flow and Balance Sheet Data								
Digital Games capital expenditures	6.7	5.0	5.1	3.9	3.9	2.9	2.8	2.5
Digital Games development, net carrying amount[2]	31.5	25.3	22.0	19.4	17.1	14.6	14.2	13.6

[1] Non-GAAP financial measure or ratio. See "Non-GAAP Financial Measures and Ratios".

[2] Net carrying amount represents balance as at the end of the period.

Digital Games segment results fluctuated from quarter to quarter as a result of the following:

- Digital Games revenue is typically higher during traditional vacation periods and when new content is launched in each fiscal year, with proportionate Operating Income and cash flows generated during the same period.
- Operating and Adjusted Operating Margins[1] fluctuate between quarters due to the timing of product development and personnel related costs. Quarters with higher Digital Games revenue will also drive operating leverage, leading to higher Operating Margins.
- In 2023, Digital Games capital expenditure and development costs as wells as the net carrying amount of intangibles assets increased primarily due to the capitalized costs for the development of a number of new games including *Toca Days, Paw Patrol Academy, Toca Life World, Rubik's Match* and *Unicorn Academy*.

Corporate & Other for the three months and year ended December 31, 2023 as compared to the same period in 2022:

For the three months ended December 31, 2023, Operating Loss for Corporate & Other was $26.0 million, an increase of $16.1 million compared to an Operating Loss of $9.9 million, primarily related to foreign exchange loss of $18.2 million compared to a foreign exchange loss of $4.8 million. Adjusted Operating Loss was $3.5 million compared to $2.7 million.

For the year ended December 31, 2023, Operating Loss was $39.2 million compared to an Operating Income of $50.0 million, a change of $89.2 million primarily related to a foreign exchange loss of $14.7 million compared to a foreign exchange gain of $61.4 million. Adjusted Operating Loss[1] increased to $11.6 million compared to $9.7 million.

INVESTMENTS AND ACQUISITIONS

Acquisition of Melissa & Doug

On January 2, 2024, the Company, through its subsidiaries, completed the acquisition of all of the issued and outstanding capital stock in MND Holdings I Corp ("Melissa & Doug"). Melissa & Doug is a leading brand in early childhood play with offerings of open-ended, creative, and developmental toys. The acquisition will be reported in the Toys segment beginning from the date of acquisition.

The preliminary estimate of purchase consideration of $959.0 million, net of $32.7 million in estimated cash acquired is comprised of $950.0 million of base consideration adjusted for an estimated $9.0 million for net working capital and liabilities assumed. Spin Master funded the $959.0 million purchase price with $434.0 million cash and $525.0 million of debt. The debt was sourced through a partial drawdown of $300.0 million from the Company's Facility and $225.0 million from the Acquisition Facility.

Given the timing of the transaction and measurement uncertainty with final purchase agreement consideration adjustments, the purchase price allocation is ongoing and will be disclosed in the Company's first quarter 2024 condensed consolidated interim financial statements.

There were $10.1 million in transaction related costs included in administrative expenses in the Consolidated statement of earnings and comprehensive income for the year ended December 31, 2023.

Current year acquisitions

Acquisition of certain assets from 4D Brands International Inc.

On January 17, 2023, the Company acquired certain assets from 4D Brands International Inc. and 4D Cityscape Worldwide Limited, (collectively, the “Vendors”) creators of puzzle games. Management performed an analysis an analysis under IFRS 3, Business Combinations (“IFRS 3”) and has determined that the assets and processes acquired comprised a business and therefore, accounted for the transaction as a business combination using the acquisition method of accounting. This acquisition complements the Company’s existing puzzle games offering and has been reported in the Toys segment within the Activities, Games & Puzzles and Plush product category and included in the Games and Puzzles cash generating unit (“CGU”) beginning from the date of acquisition.

The total purchase consideration of $18.9 million is comprised of $14.6 million cash consideration and $4.1 million contingent consideration related to the estimated fair value of future royalties as well as certain performance metrics. The contingent consideration is recorded in provisions and contingent liabilities in the Consolidated statements of financial position.

Purchase consideration of $18.9 million has been allocated as follows: $8.5 million to intangible assets, $0.7 million to inventories and $0.4 million to prepaid and other assets, with the remainder of $9.3 million allocated to goodwill.

The Company incurred $0.2 million in transaction related costs which were included in administrative expenses in the Consolidated statements of earnings and comprehensive income.

Acquisition of certain assets from Innovation First International, Inc.

On February 2, 2023, the Company acquired certain assets from Innovation First, Inc., Innovation First International Inc., Innovation First Labs, Inc., Innovation First Logistics., Inc. Management performed an analysis under IFRS 3 and has determined that the assets and processes acquired comprised a business and therefore, accounted for the transaction as a business combination using the acquisition method of accounting. This acquisition is an opportunity for Spin Master to enter the niche market of robotic toys and grow the *HEXBUG* brand. The acquired business has been reported in the Toys segment within the Wheels & Action product category and included in the Wheels & Action CGU beginning from the date of acquisition.

The total purchase consideration of $14.6 million is comprised of $12.9 million cash consideration and $1.4 million contingent consideration related to the estimated fair value of future royalties. The contingent consideration is recorded in provisions and contingent liabilities in the interim statements of financial position.
The total purchase consideration of $14.6 million has been allocated as follows: $7.7 million to intangible assets, $2.9 million to inventories, $0.5 million to prepaid and other assets, and $0.4 million to property, plant and equipment with the remainder of $3.1 million allocated to goodwill.

The Company incurred $0.2 million in transaction related costs which were included in administrative expenses in the Consolidated statements of earnings and comprehensive income.

Prior year acquisitions

Acquisition of certain assets from SolidRoots, LLC

On August 2, 2022, the Company acquired certain assets from SolidRoots, LLC (“SolidRoots”), a creator of family board games. Management performed an analysis under IFRS 3 and determined that the assets and processes acquired comprised a business and therefore, accounted for the transaction as a business combination using the acquisition method of accounting. This acquisition complements the Company's existing board games offering and is reported in the Toys segment within the Activities, Games & Puzzles and Plush product category and included in the Games and Puzzles CGU beginning from the date of acquisition.

Purchase consideration of $10.7 million has been allocated as follows: $4.4 million to intangible assets (related to the brand), $2.0 million to inventories and $0.1 million to prepaid expenses and other assets, with the remainder of $4.2 million allocated to goodwill.

Acquisition of the remaining shares of Nørdlight Games AB

On August 24, 2021, the Company acquired 18.53% of the shares in Nørdlight Games AB (“Nørdlight”), a company that creates and develops digital games, based in Sweden. On August 8, 2022, the Company acquired the remaining 81.47% of the shares of Nørdlight, resulting in ownership and control of 100% of the voting shares in Nørdlight. This investment was classified in 2021 as an equity instrument measured at FVTOCI. Management performed an analysis under IFRS 3 and determined that the assets and processes acquired comprised a business and therefore, accounted for the transaction as a business combination using the acquisition method of accounting. The acquisition has been reported under the Digital Games segment and CGU beginning from the date of acquisition.

The Company paid cash consideration of $2.5 million. The total purchase consideration has been allocated to the identifiable assets of $0.5 million, and liabilities of $0.2 million, with the remainder $2.9 million allocated to goodwill.

The purchase agreement also includes contingent consideration of $4.9 million which is payable on achieving certain performance metrics and has been allocated a fair value of $nil in the total purchase consideration.

Spin Master Ventures

Spin Master Ventures ("SMV") focus is to accelerate growth by making minority investments in companies operating in each of the Company’s three creative centres comprising Toys, Entertainment and Digital Games. Spin Master has initially allocated $100 million of capital to SMV, to be funded from existing internal resources. As at December 31, 2023, the Company has invested $12.4 million.

The SMV portfolio currently consists of the following investments:

	Creative Centre	Location	Acquisition date	Initial investment	Dec 31, 2023	Dec 31, 2022
Classified as FVTPL						
Education technology company	Digital Games	Canada	Q3 2021	1.8	1.8	1.8
Virtual reality gaming company	Digital Games	U.K.	Q1 2022	0.5	0.5	0.5
Content streaming platform[1]	Entertainment	U.S.A	Q1 2022	0.5	—	—
Baby consumer product brand	Toys	U.S.A	Q2 2022 & Q2 2023	5.0	5.0	3.0
Animation technology company	Entertainment	U.S.A	Q4 2022 & Q3 2023	1.0	1.0	0.5
Classified as FVTOCI						
Mobile game development company[2]	Digital Games	Sweden	Q3 2021	0.6	—	—
Global publishing company	Entertainment	U.S.A	Q4 2022	3.0	3.0	3.0
				12.4	**11.3**	**8.8**

[1] Fair value loss of $0.5 million recorded in Q2 2022 through the statement of earnings

[2] Fair value gain of $0.1 million recorded in Q2 2022 through other comprehensive income. In Q3 2022, the Company acquired the remaining ownership interest and control of the minority interest investment.

SELECTED QUARTERLY FINANCIAL INFORMATION

The following table provides selected historical information and other data, which should be read in conjunction with the annual financial statements and current and past interim financial statements.

(in US$ millions, except EPS)	Q4 2023	Q3 2023	Q2 2023	Q1 2023	Q4 2022	Q3 2022	Q2 2022	Q1 2022
Revenue	502.6	710.2	420.7	271.4	465.8	624.0	506.3	424.2
Operating (Loss) Income	(36.6)	197.2	34.4	(6.1)	(24.0)	187.4	118.2	61.7
Operating Margin	(7.3)%	27.8%	8.2%	(2.2)%	(5.2)%	30.0%	23.3%	14.5%
Adjusted Operating Income (Loss)[1]	23.2	190.2	62.6	12.7	(5.5)	151.8	97.6	77.3
Adjusted Operating Margin[1]	4.6%	26.8%	14.9%	4.7%	(1.2)%	24.3%	19.3%	18.2%
Net (Loss) Income	(30.1)	155.4	28.0	(1.9)	(13.8)	141.4	88.1	45.6
Basic EPS	$(0.29)	$1.50	$0.27	$(0.02)	$(0.13)	$1.37	$0.86	$0.45
Diluted EPS	$(0.29)	$1.45	$0.26	$(0.02)	$(0.13)	$1.33	$0.83	$0.43
Adjusted EBITDA[1]	64.9	234.9	88.4	30.6	12.4	167.6	113.7	95.7
Adjusted EBITDA Margin[1]	12.9%	33.1%	21.0%	11.3%	2.7%	26.9%	22.5%	22.6%
Adjusted Net Income[1]	20.5	143.6	48.80	12.3	—	114.4	72.4	57.5
Adjusted Basic EPS[1]	$0.20	$1.39	$0.47	$0.12	$—	$1.11	$0.70	$0.56
Adjusted Diluted EPS[1]	$0.19	$1.34	$0.45	$0.12	$—	$1.08	$0.68	$0.55
Balance Sheet and Cash Flow								
Cash and cash equivalents	705.7	650.7	554.9	569.3	644.3	674.9	558.1	493.1
Cash provided by (used in) operating activities	67.9	144.3	19.1	(4.3)	(6.8)	207.3	111.6	(62.9)
Cash used in investing activities	(23.3)	(25.1)	(30.3)	(56.6)	(28.2)	(42.3)	(30.4)	(8.3)
Free Cash Flow[1]	44.3	118.9	(5.9)	(34.4)	(30.1)	175.3	84.1	(79.4)

[1] Non-GAAP financial measure or ratio. See "Non-GAAP Financial Measures and Ratios".

The seasonality factors outlined in the Toys, Entertainment and Digital Games segment trend analysis have the following impact on the Company's results from quarter to quarter:

- Revenue, Operating Income (Loss), Net Income (Loss), and cash flows generated are significantly affected by the seasonality factors of the Toys segment, with a higher concentration historically in the third and fourth quarters of each fiscal year.
- In 2022, a higher proportion of Toy Gross Product Sales[1] shifted into the first and second quarters from the third and fourth quarters as retailers ordered earlier in the year to minimize the then anticipated supply chain disruptions. The third and fourth quarters of 2022 were also pressured by the macroeconomic environment, particularly from higher inflation compounded by foreign exchange volatility and a carry-over of inventory at retailers from the first half of 2022. These factors resulted in a strong first half of 2022 with Toy Gross Product Sales[1] representing 45 percent of 2022 annual Toy Gross Product Sales[1] compared to 30%-35% typically.
- Quarters with higher cash used in investing activities reflect higher capital expenditures across the operating segments as well as periods with investment or acquisition related activity.
    - In Q1 2023, the Company acquired certain assets from 4D Brands International Inc. for total purchase considerations of $18.9 million which included $14.6 million of cash consideration and acquired certain assets from Innovation First, Inc. for total purchase consideration of $14.6 million ($12.9 million of cash consideration).
    - In the Q3 2022, the Company acquired certain assets from SolidRoots LLC for total purchase considerations of $10.7 million ($8.5 million of cash consideration) and acquired the remaining shares of Nørdlight Games AB for total purchase considerations of $3.2 million which included $2.5 million of cash consideration.

LIQUIDITY AND CAPITAL RESOURCES

As at December 31, 2023, the Company had Cash and cash equivalents of $705.7 million (December 31, 2022 - $644.3 million).

The Company has an unsecured five-year revolving credit facility (the "Facility") with a borrowing capacity of $510.0 million which matures on September 28, 2026, and contains certain financial covenants. The Facility also has an option which permits the Company to increase the total capital available by an additional $200.0 million. Total financing costs of $1.8 million, which include Facility amendment fees and related legal fees, are recognized in Other assets and are being amortized over the term of the amended and restated agreement.

On November 20, 2023, the Company entered into a one-year non-revolving credit facility (the "Acquisition Facility") in anticipation of the closing of the Melissa & Doug acquisition, with a borrowing capacity of $225.0 million which matures on November 19, 2024, and contains certain financial covenants. The Acquisition Facility was used to fund the acquisition of Melissa & Doug LLC. Total financing costs of $1.0 million, which include Facility arrangement and agency fees and related legal fees, are recognized in Other assets and are being amortized over the term of the facility.

As at December 31, 2023, there were $1.5 million (December 31, 2022 - $1.4 million) in letters of credit outstanding under the Facility. As at December 31, 2023, there was $nil drawn (December 31, 2022 - $nil) under the Facility.

The Company has an uncommitted overdraft facility agreement (the "European Facility") for $15.9 million (equivalent to €15.0 million). The European Facility will be used, if needed, to fund working capital requirements in Europe. As at December 31, 2023, the outstanding balance was $nil (December 31, 2022 - $nil).

The Company has an uncommitted revolving credit facility to finance television and film production (the "Production Facility"). The limit of the credit facility is $7.4 million (equivalent to CA$10.0 million). As at December 31, 2023, the outstanding balance of the Production Facility was $nil (December 31, 2022 - $nil).

As at December 31, 2023, the Company had unutilized liquidity of $1,439.2 million, comprised of $705.7 million in Cash and cash equivalents and $733.5 million under the Company's credit facilities.

On January 2, 2024, the Company utilized $434.0 million of cash and $525.0 million of debt comprised of $300.0 million from the Facility and $225.0 million from the Acquisition Facility to finance the acquisition of Melissa & Doug LLC.

The Company's primary source of liquidity is cash flow from operations. The Company's primary capital needs are related to inventory financing, accounts payable funding, and capital expenditures for Toys tooling, Entertainment content production, Digital Games development and to fund strategic acquisitions and minority investments. As a result of the seasonal nature of the toy industry, 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 third quarter, however, may be impacted by the factors discussed below.

The Company paid its first quarterly dividend in the third quarter of 2022. The declaration and payment of dividends on the Company's subordinate voting shares and multiple voting shares and the amount thereof are at the discretion of the Company's Board of Directors, which considers the Company's financial results, capital requirements, available cash flow, future prospects of the Company's business and other factors considered relevant from time to time.

Cash flows from operations could be negatively impacted by lower demand for the Company's products, which may result from factors such as adverse economic conditions and changes in 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 expects that cash on hand, future operating cash flows and the amount available under its committed credit facilities, are sufficient to finance capital expenditures and ongoing business requirements over the next 12 months. The Company continually assesses its liquidity needs and may consider additional financing related to the acquisition of Melissa & Doug (refer to Note 31 of the Consolidated financial statements). In addition, in order to manage its capital allocation, the Company may adjust the amount of dividends paid to shareholders or whether dividends are paid at all, purchase shares for cancellation under its NCIB program, issue new shares or issue or repay borrowings to ensure sufficient liquidity is available to support its financial obligations, and to execute its operating and strategic plan. The Company may also adjust its capital structure in light of changes in economic conditions, utilize short-term funding sources to manage its seasonal working capital requirements and long-term funding sources to manage the long-term capital investments of the business.

Short Form Base Shelf Prospectus

The Company filed a short form base shelf prospectus dated November 2, 2021, pursuant to which, for a period of 25 months thereafter, the Company (and shareholders of the Company) may sell up to an aggregate of CA$1.0 billion of subordinate voting shares, preferred shares, debt securities, subscription receipts, warrants or any combination thereof as a unit. This filing provides the Company with the flexibility to access debt and equity markets on a timely basis.

Subsequent to December 31, 2023, the Company intends to file a short form base shelf prospectus during the first quarter of 2024.

Capital and Investment Framework

Over the long term, the Company plans to use its cash on hand, cash from operations and its committed credit facility to fund seasonal working capital requirements related to product sales, television shows, feature films, short-form content, Digital Games development in addition to strategic acquisitions, minority investments, and capital investments.

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. The Company's capital expenditures are generally comprised of the purchase of tooling used in the manufacturing process of toys, entertainment content production and digital games development.

CASH FLOW

The following table provides a summary of Spin Master's consolidated cash flows for the three months ended December 31, 2023 and 2022:

(US$ millions)	Q4 2023	Q4 2022	$ Change
Net cash flows provided by (used in) operating activities	67.9	(6.8)	74.7
Net cash flows used in investing activities	(23.3)	(28.2)	4.9
Net cash flows used in financing activities	(8.2)	(8.5)	0.3
Net increase (decrease) in cash and cash equivalents (excluding the effect of foreign currency exchange rate changes on cash and cash equivalents)	**36.4**	**(43.5)**	**79.9**
Effect of foreign currency exchange rate changes on cash and cash equivalents	18.6	12.9	5.7
Cash and cash equivalents, beginning of period	650.7	674.9	(24.2)
Cash and cash equivalents, end of period	**705.7**	**644.3**	**61.4**

The following table provides a summary of Spin Master's consolidated cash flows for the year ended December 31, 2023 as compared to the same period in 2022:

(US$ millions)	Year Ended Dec 31, 2023	2022	$ Change
Net cash flows provided by operating activities	227.0	249.3	(22.3)
Net cash flows used in investing activities	(135.3)	(109.2)	(26.1)
Net cash flows used in financing activities	(44.1)	(20.3)	(23.8)
Net increase in cash and cash equivalents (excluding the effect of foreign currency exchange rate changes)	**47.6**	**119.8**	**(72.2)**
Effect of foreign currency exchange rate changes on cash and cash equivalents	13.8	(38.2)	52.0
Cash and cash equivalents, beginning of the year	644.3	562.7	81.6
Cash and cash equivalents, end of the year	**705.7**	**644.3**	**61.4**

Operating Activities as compared to the same period in 2022:

Cash flows provided by operating activities were $67.9 million for the three months ended December 31, 2023 compared to cash flows used in operating activities of $6.8 million driven by the change in non-cash working capital (an increase of $26.8 million as compared to a decrease of $1.9 million in the comparative period) and higher Adjusted Operating Income[1].

Cash flows provided by operating activities were $227.0 million for the year ended December 31, 2023 compared to $249.3 million driven by lower Adjusted Operating Income[1] and the change in non-cash working capital. Change in non-cash working capital increased $105.1 million as compared to an increase of $67.7 million.

The following table provides a summary of Spin Master's net changes in non-cash working capital for the year ended December 31, 2023 as compared to the same period in 2022:

(US$ millions)	Year Ended Dec 31, 2023	2022	$ Change
(Increase) decrease in:			
Trade receivables, net	(111.9)	61.4	(173.3)
Other receivables	(13.0)	0.6	(13.6)
Inventories, net	8.0	37.4	(29.4)
Prepaid expenses and other assets	(16.5)	(12.7)	(3.8)
Advances on royalties	(2.3)	1.3	(3.6)
	(135.7)	**88.0**	**(223.7)**
Increase (decrease) in:			
Trade payables and accrued liabilities	36.3	(157.3)	193.6
Deferred revenue	(0.5)	0.6	(1.1)
Provisions	(5.5)	1.0	(6.5)
Other	0.3	—	0.3
	30.6	**(155.7)**	**186.3**
Net changes in non-cash working capital	**(105.1)**	**(67.7)**	**(37.4)**

Net Working Capital[1]

The table below outlines key financial information pertaining to the Company's Net Working Capital[1]:

(US$ millions)	Dec 31, 2023	Dec 31, 2022	$ Change
Trade receivables, net[1]	414.4	311.0	103.4
Other receivables[2]	60.0	49.5	10.5
Inventories, net[3]	98.0	105.1	(7.1)
Prepaid expenses and other assets	40.9	22.3	18.6
Current assets	**613.3**	**487.9**	**125.4**
Trade payables	189.2	153.0	36.2
Accrued liabilities[4]	196.2	186.4	9.8
Deferred revenue	11.0	11.5	(0.5)
Provisions	32.1	30.7	1.4
Current liabilities	**428.5**	**381.6**	**46.9**
Net Working Capital[1]	**184.8**	**106.3**	**78.5**

[1] Trade receivables are net of allowance for doubtful accounts and provisions for sales allowances. Refer to Note 12 of the annual financial statements.

[2] Other receivables include investment tax credits receivable, royalties, sales tax and other balances. Refer to Note 12 of the annual financial statements.

[3] Inventories are net of write-downs. Refer to Note 13 of the annual financial statements.

[4] Accrued liabilities are comprised of payroll related liabilities, accrued royalties, commodity tax, dividends payable, accrued liability for the automatic share purchase plan, restructuring liability and other balances. Refer to Note 18 of the annual financial statements.

Net Working Capital[1] increased by $78.5 million to $184.8 million at December 31, 2023 from $106.3 million. Excluding the impact of foreign exchange, total Net Working Capital[1] increased by $105.1 million.

Trade receivables, net, increased by $103.4 million to $414.4 million at December 31, 2023 from $311.0 million, arising from the timing of orders and shipments, change in geographic and customer mix of Toy revenue and increased Entertainment revenue in the fourth quarter.

Other receivables increased by $10.5 million to $60.0 million at December 31, 2023 from $49.5 million, driven by an increase in Entertainment related investment tax credits receivables.

Inventories, net, decreased by $7.1 million to $98.0 million at December 31, 2023 from $105.1 million, due to the Company's continuing focus on optimizing inventory levels, lower freight costs and the closure of the manufacturing facility in Calais, France.

Trade payables and accrued liabilities increased by $46.0 million to $385.4 million at December 31, 2023 from $339.4 million, driven by the timing of purchasing activity and payments.

[1] Non-GAAP financial measure or ratio. See "Non-GAAP Financial Measures and Ratios"

Investing Activities as compared to the same period in 2022:

The following table provides a summary of Spin Master's consolidated cash flows used in investing activities for the three months ended December 31, 2023 and 2022:

(US$ millions)	Q4 2023	Q4 2022	$ Change
Property, plant and equipment			
Tooling	5.0	5.5	(0.5)
Other	0.7	2.0	(1.3)
Total property, plant and equipment	**5.7**	**7.5**	**(1.8)**
Intangible assets			
Entertainment content and Digital Games development	17.5	14.8	2.7
Computer software	0.4	1.0	(0.6)
Total intangible assets	**17.9**	**15.8**	**2.1**
Total capital expenditures	**23.6**	**23.3**	**0.3**
Business acquisitions, net of cash acquired	—	1.4	(1.4)
Minority interest and other investments, net of investment distribution income	0.5	3.5	(3.0)
Proceeds from sale of manufacturing operations	(0.8)	—	(0.8)
Cash used in investing activities	**23.3**	**28.2**	**(4.9)**

Cash used in investing activities was $23.3 million for the three months ended December 31, 2023 compared to $28.2 million primarily as a result of decreases in cash used in minority interest and other investment and business acquisitions.

The following table provides a summary of Spin Master's consolidated cash flows used in investing activities for the year ended December 31, 2023 as compared to the same period in 2022:

	Year Ended Dec 31,		
(US$ millions)	**2023**	**2022**	**$ Change**
Property, plant and equipment			
Tooling	20.6	23.0	(2.4)
Other	7.4	7.4	—
Total property, plant and equipment	**28.0**	**30.4**	**(2.4)**
Intangible assets			
Entertainment content and Digital Games development	73.1	63.7	9.4
Computer software	3.0	4.8	(1.8)
Brands, licenses and trademark acquisitions	3.3	0.5	2.8
Total intangible assets	**79.4**	**69.0**	**10.4**
Total capital expenditures	**107.4**	**99.4**	**8.0**
Business acquisitions	26.5	11.6	14.9
Minority interest and other investments, net of investment distribution income	2.2	7.4	(5.2)
Proceeds from sale of manufacturing operations	(0.8)	(9.2)	8.4
Cash used in investing activities	**135.3**	**109.2**	**26.1**

For the year ended December 31, 2023, cash used in investing activities was $135.3 million compared to $109.2 million. The increase was primarily related to the business acquisitions of 4D Brands International Inc. and Innovation First for a total of $26.5 million and an asset acquisition from a games and puzzles company for $3.3 million, compared to $11.6 million in the prior year related to the acquisition of remaining shares of Nordlight Games AB for $2.1 million and asset acquisition from SolidRoots LLC for $8.5 million. In addition, there were higher investments in Entertainment content and Digital Games development.

Financing Activities as compared to the same period in 2022:

Cash flows used in financing activities were $8.2 million for the three months ended December 31, 2023 compared to $8.5 million primarily from the payment of lease liabilities.

For the year ended December 31, 2023, cash flows used in financing activities were $44.1 million compared to $20.3 million primarily from the payment of quarterly cash dividends for the full year of 2023 compared to a partial year in 2022 when the dividend program was launched and the repurchase of subordinate voting shares under the Company's NCIB program.

Free Cash Flow[1] as compared to the same period in 2022:

The following table provides a reconciliation of Spin Master's consolidated Free Cash Flow[1] to cash from operating activities and cash used in investing activities for the three months ended December 31, 2023 and 2022:

(US$ millions)	Q4 2023	Q4 2022	$ Change
Cash flows provided by (used in) operating activities	67.9	(6.8)	74.7
Cash flows used in investing activities	(23.3)	(28.2)	4.9
Add:			
Business acquisitions, net of cash acquired	—	0.4	(0.4)
Advance paid for business acquisitions	—	1.0	(1.0)
Minority interest and other investments	0.5	3.5	(3.0)
Proceeds from sale of manufacturing operations	(0.8)	—	(0.8)
Free Cash Flow[1]	**44.3**	**(30.1)**	**74.4**

[1] Non-GAAP financial measure or ratio. See "Non-GAAP Financial Measures and Ratios".

Free Cash Flow[1] was $44.3 million for the three months ended December 31, 2023 compared to $(30.1) million, an increase of $74.4 million. Free Cash Flow[1] increased due to the change in non-cash working capital (an increase of $26.8 million as compared to a decrease of $1.9 million in the comparative period) and higher Adjusted Operating Income[1].

The following table provides a reconciliation of Spin Master's consolidated Free Cash Flow[1] to cash from operating activities and cash used in investing activities for the year ended December 31, 2023 as compared to the same period in 2022:

	Year Ended Dec 31,		
(US$ millions)	2023	2022	$ Change
Cash flows provided by operating activities	227.0	249.3	(22.3)
Cash flows used in investing activities	(135.3)	(109.2)	(26.1)
Add:			
Business acquisitions, net of cash acquired	26.5	10.6	15.9
Advance paid for business acquisitions	—	1.0	(1.0)
Asset acquisition	3.3	—	3.3
Investment distribution income	(0.3)	(0.1)	(0.2)
Minority interest and other investments	2.5	7.5	(5.0)
Proceeds from sale of manufacturing operations	(0.8)	(9.2)	8.4
Free Cash Flow[1]	**122.9**	**149.9**	**(27.0)**

[1] Non-GAAP financial measure or ratio. See "Non-GAAP Financial Measures and Ratios".

For the year ended December 31, 2023, Free Cash Flow[1] was $122.9 million compared to $149.9 million, a decrease of $27.0 million. Free Cash Flow[1] declined primarily due to lower Adjusted Operating Income[1] and the change in non-cash working capital.

[1] Non-GAAP financial measure or ratio. See "Non-GAAP Financial Measures and Ratios".

OUTLOOK

The Company expects for 2024:

- Toy Gross Product Sales, excluding Melissa & Doug[1] to be in line with 2023.
- Toy Gross Product Sales, excluding Melissa & Doug[1] seasonality to be approximately 28% to 32% in the first half.
- Consolidated Revenue, excluding Melissa & Doug[1], to be in line with 2023.
- Adjusted EBITDA Margin, excluding Melissa & Doug and net cost synergies realized[1] to be in line with 2023.

Incrementally, the Company expects for 2024:

- Melissa & Doug Toy Gross Product Sales[1] to contribute between $420 million to $430 million.
- Melissa & Doug Toy Gross Product Sales[1] seasonality to be approximately 20% to 25% in the first half.
- Melissa & Doug Revenue[1] to contribute between $370 million to $375 million.
- Melissa & Doug Adjusted EBITDA Margin[1] of approximately 19.5%.
- To achieve in addition approximately $6 million in net cost synergies towards the target of approximately $25 million to $30 million in run-rate net cost synergies by the end of 2026.

CONTRACTUAL OBLIGATIONS & 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 intellectual properties to ensure availability and timely delivery of future purchases of goods and services. These arrangements include commitments for future services, purchases, commitments to settle foreign currency forward contracts 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, 2023, 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 twelve years in length and minimum guarantees to licensors are primarily due within 24 months.

(US$ millions)	<1 Year	1-5 Years	> 5 Years	Total
Lease obligations - undiscounted	13.2	37.0	31.4	81.6
Guaranteed payments due to licensors	11.3	42.9	—	54.2
Purchase obligations	7.3	15.3	—	22.6
Other	0.1	0.1	—	0.2
Total commitments	**31.9**	**95.3**	**31.4**	**158.6**

OFF-BALANCE SHEET ARRANGEMENTS

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

CAPITALIZATION

Share Capital

As at February 28, 2024, there were 103.8 million shares outstanding comprised of 68.7 million multiple voting shares and 35.1 million subordinate voting shares.

As of February 28, 2024, pursuant to grants under the Company's Long-Term Incentive Plan, 1.1 million subordinate voting shares were issuable under outstanding Restricted Stock Units, up to 1.4 million 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 0.5 million subordinate voting shares were issuable under outstanding Share Option grants.

The following table provides a summary of dividends declared and paid.

Declaration Date	Record Date	Payment Date	Rate per Share (CA$)	Dividends declared and accrued (in US$ millions)
February 28, 2024	March 29, 2024	April 12, 2024	0.06	4.6
November 1, 2023	December 29, 2023	January 12, 2024	0.06	4.6
August 2, 2023	September 29, 2023	October 13, 2023	0.06	4.6
May 3, 2023	June 30, 2023	July 14, 2023	0.06	4.7
March 8, 2023	March 31, 2023	April 14, 2023	0.06	4.6
November 2, 2022	December 30, 2022	January 13, 2023	0.06	4.6
July 27, 2022	September 29, 2022	October 14, 2022	0.06	4.6

During the year ended December 31, 2023, dividends of $18.4 million (2022 - $4.6 million) were paid.

Secondary Offering

On November 10, 2022, the Company announced a secondary offering (the “Secondary Offering”) on a bought deal basis of its subordinate voting shares through a secondary sale of shares by an entity owned and or controlled by a Director of the Company (the “Selling Shareholder”). The Secondary Offering of 1,900,000 subordinate voting shares raised gross proceeds of approximately CA$61.0 million for the Selling Shareholder, at a price of CA$32.10 per subordinate voting share and was completed on November 17, 2022. The Company did not receive any proceeds from the Secondary Offering, and the underwriting fees and other expenses related to the Secondary Offering were paid by the Selling Shareholder. To satisfy the sale under the Secondary Offering, the Selling Shareholder converted 1,900,000 multiple voting shares into subordinate voting shares on a one-for-one basis.

Normal Course Issuer Bid

On January 5, 2023, the Company launched, and the Toronto Stock Exchange ("TSX") accepted the notice to launch an NCIB. Under the NCIB, the Company can repurchase its subordinate voting shares on the open market at its discretion and subject to compliance with applicable securities laws. The NCIB period commenced on January 9, 2023, and will end on the earlier of January 8, 2024, and the completion of purchases under the NCIB, of up to 2,845,904 subordinate voting shares, which represented approximately 10% of the "public float" (within the meaning of the rules of the TSX) upon launch of the NCIB.

The following table summarizes the Company’s activities under the NCIB for the year ended December 31, 2023:

(US$ millions)	Year Ended Dec 31, 2023
Subordinate voting shares repurchased under the NCIB for cancellation (number of shares)	397,700
Cash consideration paid	10.5
Reduction in share capital	4.7
Premium paid on repurchased and cancelled shares recorded in retained earnings	5.8

From time to time, the Company participates in an automatic share purchase plan (“ASPP”) with its designated broker in order to facilitate the repurchase of subordinate voting shares. During the year ended December 31, 2023, 397,700 subordinate voting shares have been repurchased and cancelled at a cost of $10.5 million. On April 14, 2023, upon the expiry of the ASPP commitment period, the Company derecognized the remaining obligation for the outstanding repurchase commitment in trade payables and accrued liabilities.

Subsequent to December 31, 2023, the TSX has accepted the Company's notice to launch a Normal Course Issuer Bid (the "Bid"). Under the Bid, the Company may repurchase on the open market at its discretion and subject to compliance with applicable securities laws, during the period commencing on March 4, 2024 and ending on the earlier of March 3, 2025 and the completion of purchases under the Bid, up to 2,984,559 subordinate voting shares, representing approximately 10% of the "public float" (within the meaning of the rules of the TSX), subject to the normal terms and limitations of such bids. Under the TSX rules, the average daily trading volume of the subordinate voting shares on the TSX during the six months ended January 31, 2024 was approximately 65,548 and, accordingly, daily purchases on the TSX pursuant to the Bid will be limited to 16,387 subordinate voting shares, other than purchases made pursuant to the block purchase exception. The actual number of subordinate voting shares which may be purchased pursuant to the Bid and the timing of any such purchases will be determined by the management of the Company, subject to applicable law and the rules of the TSX.

Purchases are expected to be made through the facilities of TSX and/or alternative Canadian trading systems, or by such other means as may be permitted by the Ontario Securities Commission or other applicable Canadian Securities Administrators, at prevailing market prices. The Bid will be funded using existing cash resources and draws on its credit facility, and any subordinate voting shares repurchased by the Company under the Bid will be cancelled.

As of February 19, 2024, the Company had 35,058,092 issued and outstanding subordinate voting shares and a "public float" (within the meaning of the rules of the TSX) of 29,845,990 subordinate voting shares.

The Company believes that the purchases are in the best interest of the Company and constitute a desirable use of its funds. The program will be executed consistent with Spin Master's capital allocation strategy of prioritizing investment to grow the business over the long term.

Pursuant to a previous notice of intention to conduct a normal course issuer bid, under which the Company sought acceptance of the TSX to purchase up to 2,845,904 subordinate voting shares and which was announced by the Corporation on January 5, 2023 and expired on January 8, 2024, the Company repurchased and cancelled 397,700 subordinate voting shares on the open market at an average purchase price of $36.51 per share.

The Company has also agreed to the form of an ASPP with a designated broker to allow for the purchase of subordinate voting shares under the Bid at times when the Company would ordinarily not be permitted to purchase shares due to regulatory restrictions or self-imposed blackout periods. The ASPP has been cleared by the TSX and will be entered into in connection with the commencement of the Bid.

RISKS RELATING TO SPIN MASTER'S BUSINESS

An investment in securities of the Company involves significant risks. Investors should carefully consider the risks described below, the other information described elsewhere in this MD&A (as updated by subsequent interim MD&A) and those risks set out in the Company's most recently filed Annual Information Form before making a decision to buy securities of the Company. If any of the following or other risks occur, the Company's business, prospects, financial condition, financial performance and cash flows could be materially adversely impacted. In that case, the ability of the Company to make distributions to holders of Subordinate Voting Shares could be adversely affected, the trading price of securities of the Company could decline and investors could lose all or part of their investment in such securities. These factors are also currently, and in the future may be, amplified by the global economic or geopolitical climate and additional or unforeseen circumstances, developments, or risks, including pandemics or other public health crises. There is no assurance that risk management steps taken will avoid future loss due to the occurrence of the below described or other unforeseen risks.

If Spin Master does not create original, or enhance existing, products, brands, entertainment properties, and digital games products 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 and sell original products, brands, entertainment properties, and digital games products and to identify changing consumer sentiments and 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 products, will depend on its ability to satisfy play preferences, enhance existing products, engineer, develop, introduce and achieve market acceptance of its original products, brands, entertainment properties, and digital games products. If the Company is unable to anticipate consumer preferences, its products, brands, entertainment properties, and digital games products may not be accepted by children, parents, or families, demand for the Company's products, brands, entertainment properties, and digital games products 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, entertainment properties, and digital games products. Failure to anticipate, identify and react to changes in children's interests and consumer preferences could significantly lower sales of its products, brands, entertainment properties, and digital games products 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 from year to year and season to season and are difficult to anticipate. Significant, sudden shifts in demand are caused by consumer preferences, technologies, and trends, which are often unpredictable and can result in short consumer life cycles. 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, entertainment properties, and digital games products or the failure of Spin Master's original products, brands, entertainment properties, and digital games products 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 companies that develop, market and sell analog toys and games, products which combine analog and digital play, digital games products, and other entertainment and consumer products, as well as with retailers who offer such products under their own private labels often at lower prices. 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. In addition to existing customers, 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. 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.

Spin Master also faces competition in the entertainment industry. Some of the Company's competitors in the content market have interests in multiple media businesses which are often vertically integrated. Spin Master's ability to compete in this market depends on several factors, including its ability to develop 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 IP 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, therefore, 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 resources.

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 resources. 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. The Company's may not be able to renew its licenses or licensors may seek to terminate Spin Master's license. 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.

Spin Master is a party to several 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 ability to license IP and the ability of its licensors to obtain, maintain and enforce its licensed IP, particularly 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 not renew its expiring licenses or 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 may not be able to sustain or manage its growth strategy, which may prevent the Company from increasing its 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 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.

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. 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 because of weakening global economic conditions, tightening of consumer credit, inflation, rising interest rates and mortgage rates, 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.

Consumer spending habits, including spending on Spin Master products, are affected by, among other things, prevailing economic conditions, inflation, rising interest rates and mortgage rates, levels of employment, fuel prices, salaries and wages, the availability of consumer credit, foreclosures, bankruptcies, falling home prices, 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.

In addition to experiencing potentially lower revenues during times of economic difficulty, to maintain sales during such times, Spin Master may need to reduce the price of its products, increase promotional spending and/or sales allowances, offer incentives or take other steps to encourage retailer and consumer purchase of its products. Those steps may lower the Company's net revenues or increase its costs, thereby decreasing its operating margins and lowering its profitability. These challenges can be exacerbated if customers accumulate excess retail inventories over time due to their purchases of Spin Master's products exceeding sales of those products to ultimate consumers. It can then take the Company significant time, working with retailers, to reduce those excess retail inventories, and in the interim its sales of new products can be negatively impacted.

During periods of increased cost inflation, Spin Master has increased prices of certain products, and may in the future need to increase prices further in order to cover increased costs of goods sold, which may reduce demand for products. There can be no guarantee that Spin Master will be able to successfully increase prices in the future or that the price increases Spin Master has already taken will offset the entirety of additional costs it has incurred and may incur in the future. In addition, geopolitical instability (such as the ongoing conflict between Russia and Ukraine and the ongoing conflict in the Middle East involving Israel and Hamas) and related sanctions could continue to have significant ramifications on global financial markets, including volatility in the U.S. and global financial markets. The inability to adequately increase prices to offset increased costs and inflationary pressures, or otherwise mitigate the impact of these macro-economic conditions and market disruptions, may also increase costs and/or decrease profit margins.

While historically the Company's sales have been resilient to recessionary environments, there is no assurance that this historical trend will continue, or that increased inflation or price sensitivity on the part of retailers or consumers will not influence Spin Master's sales. Any reduction in discretionary spending by consumers in the face of macro-economic factors could unfavourably impact the Company's future sales and materially and adversely affect its financial performance and results of operations.

Disruptions in Spin Master's manufacturing operations or supply chain due to political instability, civil unrest, future pandemic or other public health crises, or earthquakes or other natural disasters outside of Spin Master's control, and actions taken by governments, businesses, and individuals in response to such events have adversely affected and could further adversely affect Spin Master's business, financial position, sales, and results of operations.

Spin Master's business and operations could be materially and adversely affected by political instability, civil unrest, future pandemics or other public health crises, earthquakes, natural disasters, and other natural or man-made economic, political, or environmental disruptions. Disruptions, and government responses to any disruption, could adversely affect Spin Master's business, financial position, sales, and results of operations and may vary based on the length and severity of the disruption. For example, the COVID-19 pandemic and the actions taken by governments, businesses, and individuals in response thereto affected how Spin Master and its suppliers and partners operated their businesses, caused supply chain disruption and retail store closures, and adversely affected Spin Master's operating results. While the impact of the COVID-19 pandemic has largely subsided, the impact of any new outbreaks of COVID-19, other variants, or other public health crises on Spin Master's business and financial results will depend on future developments, which are highly uncertain and cannot be predicted.

The Company utilizes third-party manufacturers and suppliers in China, as well as in Vietnam, India, Mexico, Indonesia, Hungary, Poland and the Netherlands. The risk of political instability and civil unrest in certain of these countries, which could temporarily or permanently damage the manufacturing operations of the Company or its third-party manufacturers. Outbreaks of communicable diseases have also been known to occur in certain of these countries and around the world. Other disruptions from public health crises such as these result from, among other things, workers contracting diseases, restrictions on factory openings, restrictions on travel, restrictions on shipping and shopping, and the closure of critical infrastructure. The design, development, manufacture, distribution and sale of the Company's products has suffered and could further suffer if a significant number of the Company's employees or the employees of its third-party manufacturers, their suppliers, or of businesses where the Company's products are sold, contract communicable diseases such as these, or if the Company, the Company's third-party manufacturers, or their suppliers are adversely affected by other impacts of such diseases.

Furthermore, a catastrophic event where Spin Master or its third-party manufacturers and suppliers has important operations, such as an earthquake, tsunami, flood, typhoon, fire, power outage or other natural or manmade disaster, including as a result of climate change, could disrupt Spin Master's operations or those of its business partners and impair production or distribution of its products, damage inventory, interrupt critical functions, or otherwise affect its business negatively.

The impact of these events could further result in:

- third-party suppliers resulting in limitations on Spin Master's ability to design, develop, manufacture, and distribute products effectively, efficiently, and in a timely manner;
- delays in entertainment content releases from licensors, or changes in release plans, that can adversely impact sales of the Company's products;
- disruptions or restrictions on the ability of Spin Master's employees, suppliers, and manufacturers to work effectively, including due to illness, quarantines, government actions, and facility closures or other similar restrictions; and
- increased operational risks, including increased risks of accounts receivable collection, insolvency of retailers (particularly specialty retailers), delays in payment, and negotiations with third parties over payment terms or the ability to perform under certain contracts or licenses.

Any one of these factors, or a combination thereof, could impact Spin Master's ability to meet demand for its products or could increase the costs of its products. To the extent any of these disruptions become prolonged or recur, particularly during seasonally high periods of production or distribution, Spin Master's ability to meet demand may be materially impacted. Insurance for certain disruptions may not be available or affordable. Such disruptions in the markets in which Spin Master, its employees, consumers, customers, business partners, licensees, licensors, suppliers, and manufacturers operate, can have, and at times in the past have had, a significant negative impact on Spin Master's business, liquidity, financial position, sales, and results of operations. In addition, the contingency plans the Company has developed to help mitigate the impact of disruptions in its operations, have not and may not prevent its business, financial position, sales, and results of operations from being adversely affected by a significant disruption to its operations, suppliers or demand for the Company's products.

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.

Spin Master's business is subject to seasonality factors, and therefore its annual financial performance depends, in large part, on its sales relating to the holiday seasons and the timing of its product launches. 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. Typically, a large percentage of the Company's Toy revenue is concentrated in the third and fourth quarters, with a large percentage of retail sales occurring during the period from September through December in anticipation of the traditional holiday season. Generally, the first quarter is the period of lowest shipments and revenues in the toy industry and therefore, the least profitable because of certain fixed costs. Further, ecommerce continues to grow significantly and accounts for a higher portion of the ultimate sales of the Company's products to consumers. Ecommerce retailers tend to hold less inventory and take inventory closer to the time of sale to consumers than traditional retailers. 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 because 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 and pandemics, terrorist attacks, wars or other conflicts, 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, that interfere with the manufacture or shipment of goods during critical months leading up to the peak purchasing season.

If Spin Master fails to meet transportation schedules, it could damage the Company's relationships with retailers, increase the Company's distribution and logistics 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 more than 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.

Spin Master's dependence on third-party manufacturers, distributors, distribution centres and logistics service providers present risks to the Company's business and exposes it to risks associated with international operations.

All of Spin Master's products are manufactured by third-party manufacturers, most of which are in Asia and primarily in China, and transported, 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 service providers, or if there was any material failure, inadequacy or interruption resulting from its third-party service providers due to factors beyond the Company's control. Although Spin Master's external sources of manufacturing and its distribution centres and logistics service providers can be shifted over a period 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, and significant capital investments could be required to remediate the problem.

Given that all of Spin Master's products are manufactured by third-party manufacturers, public health crises, such as the COVID-19 pandemic, and other factors affecting political, social and economic activity where the Company's manufacturers are located, may affect the movement of people and products into and from those locations to the Company's major markets, including North America and Europe. Public health crises impacting the Company's third-party manufacturers, distributors, distribution centres and logistics service providers had and can have a significant negative impact on Spin Master's business.

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, including the impacts of climate change (which have resulted in rolling blackouts in China in previous years to meet provincial climate targets), 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 distribution centres and logistics service providers to transport its products to the markets in which they are sold and on third-party distributors to distribute those products within those markets. Any disruption affecting the ability of the Company's third-party service providers to timely deliver or distribute its products to its customers could cause delays in product sales, cause customers to cancel orders, have a material adverse effect on Spin Master's revenue and profitability, and harm its reputation.

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 several 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 using 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.

Significant increases in the price of commodities, transportation, or labour, if not offset by declines in other input costs, or a reduction or interruption in the delivery of raw materials, components, and finished products from Spin Master's vendors, could adversely affect Spin Master's business, financial condition, and results of operations.

Cost increases, whether resulting from rising costs of materials, transportation, services, labour, or compliance with existing or future regulatory requirements, impact the profit margins realized by Spin Master on the sale of its products. Because of market conditions, timing of pricing decisions, and other factors, there can be no assurance that Spin Master will be able to offset any of these increased costs by adjusting the prices of its products. Increases in prices of Spin Master's products may not be sustainable and could 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 its suppliers and internal manufacturing capacity. Additionally, as Spin Master cannot guarantee the stability of its major suppliers, major suppliers may stop manufacturing components at any time with little or no notice. If Spin Master is required to use alternative sources, it may be required to redesign some aspects of the affected products, which may involve delays and additional expense. Reductions or interruptions in supplies or in the delivery of finished products, whether resulting from more stringent regulatory requirements, disruptions in transportation, port delays, labour strikes or disputes, lockouts, loss or impairment of key manufacturing facilities, discontinuity or disruptions in information technology systems, changes in trade policy, an outbreak of a severe public health crisis, natural disasters, including severe weather due to climate change or otherwise, the occurrence or threat of wars or other conflicts, or a significant increase in the price of one or more supplies (or an inability to procure sufficient supplies), such as fuel or resin (which is an oil-based product used in plastics), the cost of transportation, or otherwise, have at times adversely affected and could in the future adversely affect Spin Master business, financial condition, and results of operations. Recently, the Panama Canal drought and Suez Canal attacks have, and could continue to, adversely impact the reliability and cost of the Company's export shipments to customers. Additionally, the Company is looking to reduce the amount of virgin plastic it uses and to use sustainable alternatives where available. The availability, efficacy and cost effectiveness of these materials is essential to the future of Spin Master's business, and an inability to continue to source these sustainable alternatives could in the future adversely affect Spin Master business, financial condition, and results of operations.

Failure to leverage Spin Master's portfolio of franchises 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 Entertainment Industry.

The 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 production or that Spin Master's entertainment programming will generate product sales.

The business of producing and distributing television programs is highly competitive. There are numerous suppliers of entertainment content and Spin Master faces intense competition with other producers and distributors, many of whom are substantially larger and have greater resources. Further, vertical integration of the television broadcast industry worldwide and the creation and expansion of new networks, which create a substantial portion of their own programming, has decreased access for programs produced by third-party production companies. The Company competes with other television production companies for ideas and storylines created by third parties as well as for access to animation studios, writers, producers, 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.

Spin Master also faces competition from both regulated and unregulated players using existing or new technologies and from illegal services. The rapid deployment of new technologies, services and products have reduced the traditional lines between internet and broadcast services and further expanded the competitive landscape. The Company may also be affected by changes in customer discretionary spending patterns, which in turn are dependent on consumer confidence, disposable consumer income and general economic conditions. New or alternative media technologies and business models, such as video-on-demand, subscription-video-on-demand, high-definition television, personal video recorders, mobile television, internet protocol television, over-the-top internet-based video entertainment services, connected televisions, virtual multichannel programming distributors, audio streaming platforms, podcasting and direct-to-home satellite compete for audiences. As well, mobile devices like smartphones and tablets allow consumers to access content anywhere, anytime and are creating consumer demand for mobile, portable or free content. These technologies and business models may increase audience fragmentation. Technological developments may also disrupt traditional distribution platforms by enabling content owners to provide content directly to consumers, thus bypassing traditional content aggregators.

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 ultimately control the timing and way 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.

Production of film and television programs requires a significant amount of capital. Unforeseen events such as labour disputes, changes related to technology, special effects or other aspects of production, shortage of necessary equipment, or other unforeseen events affecting aspects of production 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 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.

Financial risks exist in productions relating to tax credits. There can be no assurance that industry funding assistance programs and Federal or Provincial government 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 or that Spin Master's production projects will continue to qualify for them. 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 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 content. 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. If Spin Master produces a line of products based on entertainment-based properties, the success of the entertainment series has a critical impact on the level of consumer interest in the associated products being offered by the Company. Spin Master relies on the efforts of third parties, such as licensors, film studios, content producers and distribution channels with whom the Company works, with respect to development of content and timing of media development, release dates and the ultimate consumer interest in and success of these media efforts. Spin Master does not fully control when or if any particular project will be developed or released, and the Company's licensors, media partners or other third parties may change their plans with respect to projects and release dates or cancel development all together. Lack of control can make it difficult for the Company to successfully develop and market products in conjunction with such entertainment projects, given the lengthy lead times involved in product development and successful marketing efforts. Any delay or cancellation of planned product development work, releases, or media support may decrease the number of products sold by the Company, which could harm its business. If any production or entertainment releases are delayed, it could adversely affect the Company's business, financial condition, and performance.

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 brands. 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 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 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. Cyberattacks are increasing in their frequency, sophistication, and intensity, and are becoming increasingly difficult to detect. The risk of cyberattacks may increase as AI becomes more widespread. They are often carried out by motivated, well-resourced, skilled, and persistent actors, including nation states, organized crime groups, "hacktivists" and employees or contractors acting with malicious intent. Cyberattacks could include the deployment of harmful malware and key loggers, ransomware, a denial of-service attack, a malicious website, the use of social engineering and other means to affect the confidentiality, integrity and availability of the Company's technology systems and data or the compromise of the Company's source code and games assets. Cyberattacks could also include supply chain attacks, which could cause a delay in the manufacturing of the Company's products. Such incidents could also lead to product source codes and game distribution platform exploitation, should undetected viruses, spyware, or other malware be inserted into the Company's products, services, or networks. 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. 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 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 and digital games business, 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.

Spin Master relies extensively on information technology in its operations, and any material failure in design, inadequacy, interruption, or security breach of that technology could have a material adverse impact on the Company's business, financial condition, and performance.

Spin Master relies extensively on various information technology systems and software applications across its operations to manage many aspects of the business, including product development, management of its supply chain, sale and delivery of its products, financial reporting, collection and storage of data, and various other processes and transactions. If Spin Master does not allocate and effectively manage the resources necessary to build and sustain the proper technology infrastructure, it could be subject to transaction errors, processing inefficiencies, loss of customers, business disruptions, or loss of or damage to IP through security breach. Many of these systems are managed by third-party service providers. The Company relies on such third parties to provide services on a timely and effective basis, but the Company ultimately does not control their performance. The Company is critically dependent on the integrity, security and consistent operations of these systems and related back-up systems. In addition, Spin Master's distributors, suppliers, and other external business partners utilize their own information technology systems that are subject to similar risks to Spin Master as described above. Their failure to perform as expected or as required by contract, or a cyber-attack on them that disrupts their systems, could result in significant disruptions and costs to Spin Master's operations or, in the case of third- party service providers, a penetration of Spin Master's systems. These systems are subject to damage or interruption from power outages, computer and telecommunications failures, computer viruses, malware and other security breaches, catastrophic events such as hurricanes, fires, floods, earthquakes, tornadoes, acts of war or terrorism and usage errors by employees or partners. The efficient operation and successful growth of Spin Master's business depends on these information systems, including its ability to operate them effectively and to select and implement appropriate upgrades or new technologies and systems and adequate disaster recovery systems successfully. The failure of the information systems design, to perform as designed or Spin Master's failure to implement and operate them effectively could disrupt the Company's business, require significant capital investments to remediate a problem or subject the Company to liability and could have a material adverse effect on its business, financial condition, and performance.

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 strategies and patterns 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 proportion of Spin Master's revenue. 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, return substantial amounts of Spin Master's products, favour its competitors or new entrants, 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 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 because 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.

Failure to maintain existing relationships, or to develop new relationships, with 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 develop 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 content. A portion of Spin Master's entertainment properties, brands and content have been sourced from external collaborators. If Spin Master fails to maintain existing relationships or to develop 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 content, which in turn would materially and adversely harm its business, financial condition, and 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 international growth strategy is subject to risks beyond its control, and accordingly, there can be no assurance that the Company's international growth strategy will be successful. The lack of success in the Company's international 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. 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. 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.

Spin Master's business, financial condition, cash flows and results of operations are subject to risks arising from the international scope of its operations.

Spin Master conducts a significant portion of its business outside the United States and Canada and may, in the future, expand the portion of its business internationally and its operations into new countries, including emerging markets. Spin Master sells its products in many countries around the world. All of Spin Master's foreign operations are subject to risks inherent in conducting business abroad, including, among other things:

- difficulties in coordinating and managing foreign operations, including ensuring that foreign operations comply with foreign laws as well as Canadian and U.S. laws applicable to Canadian companies with U.S. and foreign operations, such as export and sanctions laws and the FCPA, the Canadian Corruption of Foreign Public Officials Act and other applicable worldwide anti-bribery laws;
- price and currency exchange controls;
- restrictions on the repatriation of funds;
- scarcity of hard currency, including the U.S. dollar, which may require a transfer or loan of funds to the operations in such countries, which they may not be able to repay on a timely basis;
- political and economic instability;
- ongoing uncertainties as a result of instability or changes in geopolitical conditions, including military or political conflicts, such as those caused by the ongoing conflicts between Russia and Ukraine or Israel and Hamas (the potential escalation or geographic expansion of which could heighten other risks identified elsewhere in this "Risk Factors" section);
- compliance with multiple regulatory regimes;
- compliance with economic sanctions laws and other laws that apply to Spin Master's activities in the countries where Spin Master operates;
- less established legal and regulatory regimes in certain jurisdictions, including as relates to enforcement of anti-bribery and anti-corruption laws and the reliability of the judicial systems;
- differing degrees of protection for intellectual property;
- unexpected changes in foreign regulatory requirements, including quality standards and other certification requirements;
- new export license requirements;
- adverse changes in tariff and trade protection measures;
- differing labor regulations;
- potentially negative consequences from changes in or interpretations of tax laws;
- restrictive governmental actions;
- possible nationalization or expropriation;
- credit market uncertainty;
- restrictions on business activities and other challenges associated with pandemics, including the lingering COVID-19 pandemic, epidemics, outbreaks of an infectious disease or similar events;
- differing local practices, customs and cultures, some of which may not align or comply with Spin Master's company practices and policies or Canadian or U.S. laws and regulations;
- difficulties with licensees, contract counterparties, or other commercial partners; and
- differing local product preferences, and product and packaging regulation which may lead to increased costs.

As a result of changes to Canadian or U.S. policy, there may be changes to existing trade agreements and greater restrictions on trade generally. In addition, support for protectionism and rising anti-globalization sentiment in Canadian, the United States, and other countries may slow global growth. In particular, a protracted and wide-ranging trade conflict between the United States and China could adversely affect global economic growth. Concerns also remain around the social, political and economic impacts of the changing political landscape in Europe and elsewhere. In addition, there are growing concerns over an economic slowdown in emerging markets in light of capital outflows in favor of developed markets and expected interest rate increases. Broader geopolitical tensions remain high among the United States, Russia, China and across the Middle East.

Given the international scope of Spin Master's operations, any of the above factors, including sanctions, export controls, tariffs, trade wars and other governmental actions, could have a material adverse effect on Spin Master's business, financial condition, cash flows and results of operations and could cause the market value of Spin Master's Subordinate Voting Shares to decline. Similarly, adverse economic conditions impacting Spin Master's customers in these countries or uncertainty about global economic conditions could cause purchases of Spin Master's products to decline, which would adversely affect the Company's revenues and operating results. Moreover, Spin Master's projected revenues and operating results are based on assumptions concerning certain levels of customer spending. Any failure to attain Spin Master's projected revenues and operating results as a result of adverse economic or market conditions could have a material adverse effect on Spin Master's business, financial condition, cash flows and results of operations and could cause the market value of Spin Master's Subordinate Voting Shares to decline.

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 revenues to come from new and emerging markets. 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, but are not limited to: 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 Master'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.

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, which 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, which could result in liability to the Company or reputational harm among the Company's customers.

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.

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 meet product introduction schedules 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 increase its efficiency, reduce its costs, improve the execution of its core business, globalize and extend its brands, develop or extend entertainment properties, leverage new trends, create new brands or franchises, offer new innovative products and technologies, enhance product safety, develop its employees, improve productivity, simplify processes, maintain customer service levels, drive sales growth, 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 initiatives. In addition, Spin Master may anticipate introducing a specific product, product line or brand at a certain time in the future. There is no guarantee that Spin Master will be able to manufacture, source and ship new or continuing products in a timely manner and on a cost-effective basis. The risk is also exacerbated by the increasing sophistication of many of the products the Company is designing, and the brands being developed in terms of combining digital and analog technologies and providing greater innovation and product differentiation. Unforeseen delays or difficulties in the development process or significant increases in the planned cost of development for new products may cause the introduction date for products to be later than anticipated or, in some situations, may cause a product or new product introduction to be discontinued. Failure to implement any of these initiatives, or the delay of the anticipated launch, or the failure of any of these initiatives or launches to produce the results anticipated by management, 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 raw materials and labour 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, whether resulting from more stringent regulatory requirements, disruptions in transportation, port delays, labour strikes, lockouts, an outbreak of a severe public health crisis, severe weather due to climate change or otherwise, the occurrence of threat of wars or other conflicts, 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.

Political developments, including trade relations, and the threat or occurrence of war or terrorist activities, and/or trade actions could adversely impact Spin Master, its personnel and facilities, its customers and suppliers, retail and financial markets, and general economic conditions.

Spin Master's business is worldwide in scope and can be directly and indirectly impacted in a negative way by geopolitical tensions. Political instability, civil unrest, the deterioration of the political, economic, or social situation in a country in which Spin Master has significant sales or operations, or the breakdown of trade relations between the U.S. and a foreign country in which Spin Master has significant manufacturing facilities or other operations, could adversely affect Spin Master's business, financial condition and results of operations. For example, a change in trade status between the U.S. and a foreign country could result in a substantial increase in the import duty of toys manufactured in that foreign country and imported into the U.S. The U.S. has in the past implemented certain trade actions directed at China, including imposing increased tariffs on certain goods imported into the U.S. from China. China has also implemented various trade actions directed at the United States. Further trade actions by the United States or China could result in diverting more production to, or sourcing from, countries other than China, and could cause customers in some countries or regions, such as China, to seek domestic or non-U.S. sources for products that Spin Master sells, or to be pressured or incentivized by foreign governments not to purchase goods of U.S. or Canadian companies, all of which could harm Spin Master's future sales in these markets.

In addition, the United States, United Kingdom, and European Union, among other jurisdictions, have each imposed export controls, as well as financial and economic sanctions, currency controls, and other trade actions, on certain products, technologies, industry sectors, and parties in Russia because of the conflicts between Russia and Ukraine, which have resulted and could further result in retaliatory measures and actions by Russia. Any increased trade barriers or restrictions on global trade imposed by the U.S., or further retaliatory trade measures taken by China, Russia, or other countries in response, could adversely affect Spin Master's business, financial condition, and performance.

The occurrence of war or hostilities between countries or threat of terrorist activities, including the ongoing conflicts between Russia and Ukraine or Israel and Hamas, and the responses to and results of these activities, could adversely impact Spin Master, its personnel and facilities, its customers and suppliers, retail and financial markets, and general economic conditions.

Global climate change, evolving stakeholder regulations and expectations for corporate responsibility matters, and Spin Master's related goals present challenges to its business and reputation that could adversely affect Spin Master.

The effects of global climate change create financial, operational, and reputational risks to Spin Master's business, both directly and indirectly. There is a consensus that greenhouse gas ("GHG") emissions are linked to global climate change, and that these emissions must be reduced dramatically to avert the worst effects of climate change. Spin Master's operations may be vulnerable to the adverse effects of climate change, which are predicted to increase the frequency and severity of weather events and other natural cycles such as wildfires, heatwaves, floods, and droughts. The effects of climate change may cause disruptions in Spin Master's operations, including its supply chain and the productivity of its third-party manufacturers, increase Spin Master's production costs, impose capacity restraints, and impact the types of products that consumers purchase, including for example an increased focus on eco-friendly toys, all of which may cause Spin Master to suffer losses and additional costs to maintain or resume operations. Spin Master may be subject to decreased availability or less favorable pricing for certain commodities that are necessary for Spin Master's products. In addition, Spin Master may incur capital expenditures, compliance costs, and other costs to comply with increasingly stringent environmental laws, enforcement policies and regulatory reporting requirements. In addition, as costs and taxes are imposed on fossil fuels, which are the inputs for resin and fuel for shipping, the cost of production will increase, which could result in increased expenses to Spin Master, which may not be offset by increased prices, if such increases cannot be passed on to consumers.

The effect of increased severity of extreme weather could affect the quality of the Company's products and its ability to distribute them in a timely fashion. For example, monsoons in South, Southeast and East Asia can cause excessive moisture, which can affect or damage products and product packaging, leading to write-offs, transport delays, and affect the Company's ability to deliver on its retail customers' quality needs. There are also certain areas, for example, the Pearl River Delta in southern China, which are major areas for toy manufacturing, but are also subject to severe flood threats from watershed floods, sea level rise and storm surges. Increased heat could cause working conditions to deteriorate for those employed in physical labour in the Company's supply chains. Increased heat has also led to blackouts and brownouts in certain parts of the world, which would also impact the ability of the Company's employees and supply chains to be productive or to access the Company's systems. Droughts or inadequate water supply in certain parts of the world could also have a negative impact on the Company's manufacturing facilities, for example in France, where the facilities are powered by nuclear energy which requires water to cool. Similarly, in areas where the Company may be powered by hydroelectric energy, such as in Canada or in certain parts of China, inadequate water supply could lead to a lack of energy production. These could be a risk in the medium and long term for the Company.

A variety of stakeholders, including regulators, investors, advisory firms, rating agencies, and customers, are establishing laws, regulations, expectations, reporting obligations and/or assessments reflecting their expectations for corporate practices related to climate change and other corporate responsibility matters. In 2022, Spin Master announced its intention to develop and release a climate action plan. Spin Master has previously purchased offsets relating to Scope 1 and 2 GHG emissions, as well as some of the Company's Scope 3 GHG emissions. The Company has also planned for a 50% reduction in plastic packaging by 2025 and utilizing eco-friendly inks on 50% of packaging by 2025. Spin Master has subsequently established additional goals related to environmental, social, and governance ("ESG") matters, some of which is detailed in the Company's Corporate Social Responsibility reports, available on its website. Such goals are based on management's current assumptions related to scientific or technological developments, carbon markets, the workforce and hiring market, and other matters that are subject to change in the future, as well as standards for measuring progress that are still in development, and subject to a number of significant risks and uncertainties. Spin Master's efforts to be responsive to climate change, to reduce its carbon footprint, and regarding other ESG matters cannot provide assurance that Spin Master will successfully achieve its ESG goals, that related costs may not be higher than expected, that proposed regulation or deregulation related to climate change and other ESG matters will not be more aggressive than Spin Master's measures and result in higher costs (or require additional resources), or that any investments Spin Master makes in furtherance of achieving such goals will meet expectations or any applicable binding or non-binding legal standards, any one of which could have an adverse effect on Spin Master's financial condition, results of operations, or reputation.

Spin Master's failure, or perceived failure, to achieve its goals regarding climate change or other ESG matters could damage its reputation, causing investors, consumers, and other stakeholders to lose confidence in Spin Master and its brands, and negatively impact Spin Master's operations. Climate-related litigation has increased in recent years, including claims involving the failure of organizations to mitigate their impacts on climate change, the failure of organizations to adapt to climate change, and the insufficiency of disclosure around material financial risks or inaccuracy of climate-related disclosure. Additionally, as consumers and customers continue to put an increased priority on purchasing products that are sustainably manufactured and packaged, Spin Master may need to incur increased costs in order to effectively source materials that are more sustainable, as well as increased costs for additional transparency, due diligence, and reporting. If Spin Master's ESG practices do not meet, or are not viewed as meeting, investor or other stakeholder expectations and standards (which are continually evolving and may emphasize different priorities than the ones Spin Master chooses to focus on), or if Spin Master does not or appears not to achieve its ESG goals, then Spin Master's brand, reputation, and employee retention may be negatively impacted. Furthermore, if regulators disagree with the Company's ESG disclosures, for example because they believe them to be incomplete or misleading, the Company may face regulatory enforcement action, and its business or reputation could be adversely affected. There is also a risk that a significant reorientation in the market following the implementation of measures relating to ESG disclosure requirements could be adverse to the Company's business if the Company is perceived to be presenting a product or business as having green or sustainable characteristics where this is not, in fact, the case (i.e., "greenwashing"). Additionally, compliance with any new regulations or laws generally increases the Company's regulatory burden and could make compliance more difficult and expensive, thereby adversely impacting the Company's financial position.

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

Spin Master's operating procedures and requirements for both its own manufacturing facilities and 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.

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 can 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, systems, technological, personnel or financial problems associated with the integration of acquired businesses. The need to integrate the operations, systems, technologies, products, and personnel of each acquired company, the inefficiencies and lack of control that may result if such integration is delayed or not implemented, and unforeseen difficulties and expenditures that may arise in connection with integration. 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. Acquisitions of businesses and brands could also be adversely affected by changes in Spin Master's business strategy. 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 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 global operations means business is transacted in many different currencies and 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 and local currencies in which the Company operates 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 operates in a highly regulated environment in the U.S., Canada, and international markets, including its products and the importation and exportation of its products. These policies or regulations may include accounting standards, taxation requirements (including changes in applicable income tax rates, new tax laws, and revised tax law interpretations), product safety and other safety standards, supply chain management (such as the Fighting Against Forced Labour and Child Labour in Supply Chains Act and similar legislation relating to modern slavery), trade restrictions, duties and tariffs (including international trade laws and regulations, export controls, and economic sanctions), and regulations regarding currency and financial matters, anticorruption standards, environmental matters, advertising directed toward children, product content, screen time, cybersecurity and privacy and data protection, as well as other administrative and regulatory restrictions. In addition, as Spin Master enters into new areas of investment, product development, or other business activities, it will have to learn to navigate the regulatory framework surrounding those areas, which may be continuing to develop. The steps Spin Master takes to comply with these laws, regulations, and policies do not ensure that Spin Master will be in compliance in the future. Compliance with these various laws, regulations, and policies imposes significant costs on Spin Master's business, and failure to comply could result in monetary liabilities and other penalties and could lead to negative media attention and consumer dissatisfaction, which could have an adverse effect on Spin Master's business, financial condition, and results of operations.

Many foreign countries have laws that permit governmental entities to restrict or prohibit marketing or distribution of interactive entertainment software products (and similar legislation has been introduced at one time or another at the federal and state levels in the U.S., including legislation that attempts to impose additional taxes based on content). In addition, certain jurisdictions have laws that restrict or prohibit marketing or distribution of interactive entertainment software products with random digital item mechanics, which some of the Company's online games and services include, or subject such products to additional regulation and oversight, such as reporting to regulators, mandatory disclosure to consumers of item drop rates, and higher age ratings for products that contain such mechanics.

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. 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, increases in import and excise duties and/or sales or value added taxes in the jurisdictions in which Spin Master operates could affect the affordability of Spin Master's products and, therefore, reduce demand.

In recent years, the Organisation for Economic Co-operation and Development (the "OECD"), with the support of the G20, has developed proposals to address perceived base erosion and profit shifting ("BEPS"). BEPS refers to tax planning strategies that exploit gaps and mismatches in tax rules to artificially shift profits to locations with low or no tax and little or no economic activity, for the purpose of reducing a multinational group's aggregate tax liability. In 2021, the OECD/G20 Inclusive Framework on BEPS published a statement updating and finalizing the key components of a "two pillar" plan for global tax reform, as agreed among a number of countries across the globe. Pillar I addresses tax nexus and the allocation of profits for tax purposes. Under Pillar II, a global minimum tax at the rate of 15% would be imposed on certain companies whose revenues exceed a threshold. In December 2022, the member states of the European Union unanimously voted to adopt the OECD's minimum tax rules and phase them into national law, and in February 2023 the OECD released technical guidance on the global minimum tax which was agreed by consensus of the BEPS 2.0 (Pillars I and II) signatory jurisdictions. Under the European Union's minimum tax directive, member states are to adopt domestic legislation implementing the minimum tax rules effective for periods beginning on or after December 31, 2023, with the "under-taxed profit rule" to take effect for periods beginning on or after December 31, 2024. Legislatures in multiple countries outside of the European Union have also drafted legislation to implement the OECD's minimum tax proposal. The Canadian Department of Finance released its own Pillar II draft legislation in 2023, but it was not substantively enacted as of December 31, 2023. As a result of these developments, the tax laws of certain countries in which Spin Master and its affiliates do business could change on a prospective or retroactive basis, and any such changes, including the adoption of the global minimum tax rules, could have a material adverse effect on Spin Master's aggregate tax liability and effective tax rate in the future.

The challenge of continuously developing and offering products and entertainment experiences 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 computers, 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 and digital games compete with the offerings of consumer electronics companies, gaming, digital media and social media companies. To meet this challenge, the Company is designing and marketing products and digital games 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 mobile digital 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 technology-based play as well as analog 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 digital games and technologically advanced or sophisticated products tend to be higher than for many of Spin Master's more traditional products. Heavy competition in digital entertainment products and difficult economic conditions may increase the risk of Spin Master not achieving sales sufficient to recover the increased development costs associated with these products. Designing, developing, and producing sophisticated digital games 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 mobile digital games, 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, the EU General Data Protection Regulation, Canada's Personal Information Protection and Electronic Documents Act, the California Consumer Protection Act, the California Consumer Privacy Rights Act, the Virginia Consumer Data Protection Act, the Colorado Privacy Act, the Connecticut Data Privacy Rights Act, and the Utah Consumer Privacy Act contain detailed requirements regarding collecting and processing personal information, and impose certain limitations on how such information may be used, the length for which it may be stored, with whom it may be shared, and the effectiveness of consumer consent. In addition to the comprehensive U.S. state privacy laws and regulations that have or will be going into effect in 2024, similar laws are being proposed elsewhere, which impose additional obligations such as additional rights processes, new contractual requirements, opt outs for certain uses and disclosures of sensitive personal information, and opt outs from sharing personal information for targeted advertising.

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, executives, designers, inventors, technical, sales, marketing and in the Entertainment and Digital Games creative centres. The loss of services of any of the Company's key personnel could harm its business. Labour shortages and increased labour costs as a result of increased competition for qualified talent, higher employee turnover rates, increases in employee benefit costs, wage inflation, strikes, or other employee-related disruptions to Spin Master's workforce can negatively impact its business. In addition, changes to Spin Master's current and future work environments may not meet the needs or expectations of its employees or be perceived as less favourable compared to other companies' policies, which could negatively impact Spin Master's ability to hire and retain qualified personnel. Recruiting and retaining skilled personnel is costly and highly competitive around the world. 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.

Spin Master's business, financial condition, and performance could be adversely affected by strikes or other union job actions.

Any strike, prolonged or new, by, or lockout of, one or more of the unions that provide personnel essential to the development, production or distribution of films or television programs, such as the five-months long strike by the Writers Guild of America, which ended in September 2023, and the four-months long strike by the American actors' union SAG-AFTRA, which ended in November 2023, could delay or halt activities in the entertainment industry which may effect third-party owners for IP which the Company licenses. Halts or delays, depending on the length of time, could cause a delay or interruption in development, production and release of new films and entertainment programs, for which the Spin Master licenses the IP and delay and/or lower the revenues the Company expected to receive from entertainment related toys, games and other merchandise.

Natural disasters 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, terrorist attacks, wars and other conflicts, or an outbreak of a public health pandemic 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.

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.

Expansion of social media platforms, resulting in negative publicity and product reviews or harmful leaks of information 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 eliminated and may materially and adversely impact its business, financial condition, and performance.The inappropriate use of certain social media vehicles could cause also brand damage or information leakage or could lead to legal implications from the improper collection and/or dissemination of personally identifiable information or the improper dissemination of material non-public information (including violations of applicable securities laws). In addition, negative posts, or comments about the Company and/or any of its key personnel on any social networking web site could seriously damage the Company's reputation. Further, the disclosure of non-public company sensitive information through external media channels could lead to information loss as there might not be structured processes in place to secure and protect information. If the Company's non-public sensitive information is disclosed or if its reputation or that of its key personnel is seriously damaged through social media, it could have a material adverse effect on the Company's business, financial condition, and results of operations.

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 because 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.

Rapid developments in artificial intelligence ("AI") could adversely impact Spin Master's business

AI capabilities are continuing to develop rapidly and are becoming more generally available, increasing the risk that AI could become disruptive to the Company's business. Failure to keep pace with the advancement of new technologies such as AI could impact the Company's competitive advantage and negatively affect the Company's business, financial condition, and results of operations.

Implementation and reliance on new technologies, including machine learning and generative AI, within the Company and through third-party providers, increase the risk that flaws in algorithms, processes, or data may result in inaccurate decisions and potentially increase the cost of operational or cybersecurity related interruptions. Leveraging these new and rapidly evolving technologies may also increase other risks such as risks relating to indirect infringement on intellectual property or privacy and could carry social or ethical implications including unintended bias that could increase reputational risk and potentially result in regulatory fines or penalties. Future legislative action limiting or otherwise regulating the use of these technologies could also adversely impact the Company's ability to operate using them, which, in turn, could negatively affect the Company's business, financial condition and results of operations.
There is also a risk that AI could be used to infringe upon the Company's intellectual property, impersonate the Company's people, falsely represent Spin Master's products, or be used in other ways that could result in operational or reputational harm.

Spin Master may face increased costs in achieving its sustainability goals, and any failure to achieve its goals could result in reputational damage.

Spin Master believes the long-term viability and health of the Company's own operations and its supply chain, and the significant potential for environmental improvements, are critical to its business success. The Company has set key goals and objectives in this area. Spin Master devotes resources and expenditures to help achieve these goals. It is possible that the Company will incur expenses in trying to achieve these goals with no assurance that it will be successful. Additionally, Spin Master's reputation could be damaged if it fails to achieve the sustainability goals, or if the Company or others in the industry do not act, or are perceived not to act, responsibly with respect to the production and packaging of its products.

Spin Master may be subject to risks relating to its minority investments.

Spin Master may invest in companies at different stages of development, including early-stage companies and emerging businesses, which are developing products, emerging technologies and pioneering services that will require significant additional development, testing and investment prior to any commercialization. There can be no assurance that the technologies or products these companies have under development will materialize, be capable of being produced in commercial quantities at reasonable costs or be successfully marketed, which could result in a loss of all or a substantial part of Spin Master's investment in these companies. The Company expects that its minority investments will complement its acquisition strategy, however certain minority investments may not be suitable acquisition targets. If Spin Master's minority investments are suitable acquisition targets, it may not be able to acquire these targets on acceptable terms. Spin Master may not realize the expected returns or anticipated benefits from its minority investments to the degree anticipated.

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 Spin Master's 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.

The decision to pay dividends on the Subordinate Voting Shares and Multiple Voting Shares and the amount of such dividends is subject to the discretion of Spin Master's board of directors based on numerous factors and may vary from time to time.

Although the Company currently pays quarterly cash dividends on its outstanding Subordinate Voting Shares and Multiple Voting Shares, these cash dividends may be reduced or suspended. The amount of cash available to the Company to pay dividends, if any, can vary significantly from period to period for a number of reasons, including, among other things: the Company's operational and financial performance; fluctuations in market prices; the amount of cash required or retained for debt service or repayment; amounts required to fund capital expenditures and working capital requirements; access to capital markets; foreign currency exchange rates and interest rates; and the other risk factors set forth herein.

The decision whether to pay dividends and the amount of any such dividends are subject to the discretion of the board of directors of the Company, which quarterly evaluates proposed dividend payments and the solvency test requirements of the Business Corporations Act (Ontario). In addition, the level of dividends per Subordinate Voting Share and Multiple Voting Share will be affected by the number of outstanding Subordinate Voting Shares and Multiple Voting Shares and other securities that may be entitled to receive cash dividends or other payments. Dividends may be increased, reduced, or suspended depending on the Company's operational success. The market value of Subordinate Voting Shares may deteriorate if the Company is unable to meet dividend expectations in the future, and that deterioration may be material.

The market price of the Subordinate Voting Shares has been volatile.

Volatility in the Company's business can result in significant Subordinate Voting Share price and volume fluctuations. Factors such as changes in the Company's operating results, announcements by the Company's customers, competitors or other events affecting companies in the toy, entertainment or digital games industries, currency fluctuations, general market fluctuations, macro-economic conditions, and public health crises may cause the market price of the Subordinate Voting Shares to decline. In addition, if the Company's operating results do not meet the expectations of securities analysts or investors, the price of the Subordinate Voting Share could decline. Furthermore, the existence of the Company's NCIB may cause the Subordinate Voting Share price to be higher than it would be in the absence of such a program and repurchases under the NCIB expose the Company to risks resulting from a reduction in the size of its "public float", which may reduce the Company's trading volume as well as its Subordinate Voting Share price.

There can be no assurance that the Company will repurchase Subordinate Voting Shares for cancellation.

Although the Company currently has an NCIB in effect, whether the Company repurchases Subordinate Voting Shares under such NCIB for cancellation, and the amount and timing of any such repurchases, is subject to capital availability and periodic determinations by management and the board of directors that Subordinate Voting Share repurchases are in the best interest of the Company's shareholders and are in compliance with all applicable laws and agreements. Any future permitted Subordinate Voting Share repurchases, including their timing and amount, may be affected by, among other factors: the Company's views on potential future capital requirements for strategic transactions, including acquisitions; changes to applicable tax laws or corporate laws; and changes to the Company's business model. In addition, the amount the Company spends and the number of Subordinate Voting Shares the Company is able to repurchase for cancellation under any NCIB or substantial issuer bid may further be affected by a number of other factors, including the price of the Subordinate Voting Shares and blackout periods in which the Company is restricted from repurchasing Subordinate Voting Shares (other than pursuant to an automatic share repurchase plan). The Company's Subordinate Voting Share repurchases may change from time to time, and the Company cannot provide assurance that it will repurchase any or, if commenced, continue to repurchase any Subordinate Voting Shares for cancellation in any amounts or at all. Once commenced, a reduction in or elimination of the Company's Subordinate Voting Share repurchases could have a negative effect on the price of the Subordinate Voting Shares.

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

Foreign currency risk

Due to the structure 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 periodically enters into derivative financial instruments such as foreign exchange forward contracts to manage its foreign currency risk on cash flows denominated in currencies other than the US$.

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 may be exposed to interest rate risk should it borrow under its credit facilities 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 51.7% and 52.2% of consolidated Toy Gross Product Sales[1] for the years ended December 31, 2023 and 2022 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 fulfil their financial obligations.

This risk is mitigated through financial arrangements such as cash in advance of shipment, letters of credit or bank or parental guarantees. In addition, the Company purchases Accounts Receivables insurance for our global customer base, who are not covered by other financial arrangements. This process, in conjunction with an established credit limit and payment term, mitigates the Company's risk of loss. The financial arrangements, insurance policies and customer credit limits are reviewed annually.

RELATED PARTY TRANSACTIONS

In the normal course of operations, the Company engaged the services of a law firm whose managing partner is also a member of the Company's Board of Directors, which have been made on terms equivalent to those that prevail in arm's length transactions.

For the three months and year ended December 31, 2023, related party transactions were included in administrative expenses in the Consolidated statements of earnings and comprehensive income of the Company in the amount of $0.5 million (2022 - $0.5 million) and $2.0 million (2022 - $1.3 million), respectively. As at December 31, 2023, amounts payable to the director's law firm were $0.4 million (December 31, 2022 - $0.4 million).

During the three months ended June 30, 2023, the Company paid incentive compensation related taxation liabilities of $3.7 million on behalf of three members of the Company's Board of Directors. These amounts were repaid by all three directors to the Company during the three months ended June 30, 2023.

CRITICAL ACCOUNTING ESTIMATES

The Company’s material accounting policies are described in Note 2 of the Company's 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, related disclosures and the reported amounts of revenues and expenses during the periods covered by the financial statements. Refer to Note 3 of the Company's audited consolidated financial statements for additional information.

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 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 are CGUs of the Company.

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.

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.

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.

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 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.

Sales allowances

A sales allowance is established to reflect amounts for programs which can be contractual or discretionary by nature, and can include negotiated discounts, customer audits, defective products and refund of costs incurred by customers to sell the Company’s products. Contractual allowances are fixed and determinable at the time of sale and are recorded at the time of sale as a reduction to revenue. Discretionary allowances can vary depending on future outcomes such as nature of the product, customer sales volume, inventory position, product performance at retail, historical performance, market conditions and other considerations. The Company may adjust its estimate of sales allowances when facts and circumstances used in the estimation process change.

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 statements of earnings and comprehensive income 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.

Business combinations

Business combinations are accounted for using the acquisition method of accounting. The Company determines the fair value of the identifiable assets acquired and the liabilities assumed 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. Refer to note 28 of the Consolidated financial statements for further details on acquisitions.

CHANGES IN ACCOUNTING POLICIES

Standards, Amendments and Interpretations Issued and Adopted

Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgements — Disclosure of Accounting Policies

The amendments to IAS 1 require that the Company discloses its material accounting policies instead of its significant accounting policies. The amendments also clarify that accounting policies related to immaterial transactions, other events or conditions are themselves immaterial and as such need not be disclosed, and not all accounting policy information that relates to material transactions, other events or conditions is material to the financial statements. Accounting policy information may be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. Effective January 1, 2023, the Company adopted the amendments to IAS 1 and IFRS Practice Statement 2. As a result of the adoption of these amendments, there were no adjustments to the presentation or amounts recognized in these Consolidated financial statements.

Amendments to IAS 8 Accounting Polices, Changes in Accounting Estimates and Errors — Definition of Accounting Estimates

The amendments introduce a new definition for accounting estimates: clarifying that they are monetary amounts in the financial statements that are subject to measurement uncertainty. The amendments also clarify the relationship between accounting policies and accounting estimates by specifying that a company develops an accounting estimate to achieve the objective set out by an accounting policy. Furthermore, the amendments clarify that a change in accounting estimate that results from new information or new developments is not correction of an error. Effective January 1, 2023, the Company adopted the changes to IAS 8 and the adoption of these amendments did not have a material impact on these Consolidated financial statements.

Amendments to IAS 12 Income Taxes — Deferred Tax related to Assets and Liabilities arising from a Single Transaction

The amendments narrow the scope of the initial recognition exemption so that it does not apply to transactions that give rise to equal taxable and deductible temporary differences such as deferred taxes on leases and decommissioning obligations. Effective January 1, 2023, the Company adopted the changes to IAS 12 and the adoption of these amendments did not have a material impact on these Consolidated financial statements.

Amendments to IAS 12 Income Taxes — International Tax Reform — Pillar Two Model Rules

In May 2023, the IASB amended IAS 12 Income Taxes to include a temporary exception to the requirements to recognize and disclose information about deferred tax assets and liabilities related to the new global minimum tax regime ("Pillar Two"). The Company has applied this temporary exception.

Pillar Two legislation has been enacted or substantively enacted in certain jurisdictions in which the Company operates. Certain jurisdictions of the Organization for Economic Co-operation and Development ("OECD") have agreed to implement a new global minimum tax regime based on model rules. The proposed Pillar Two rules are intended to ensure that large multinational enterprises pay a minimum tax of 15% on the income arising in each jurisdiction in which they operate. These rules may come into effect in 2024.

The Company has performed an assessment of its potential exposure to Pillar Two income taxes. The assessment of the potential exposure to Pillar Two income taxes is based on the most recent tax filings, country-by-country reporting and financial statements for the constituent entities in the Company. Based on the assessment, the effective tax rates calculated in accordance with Pillar Two in most of the jurisdictions in which the Company operates are above 15%. However, there are a limited number of jurisdictions where the transitional safe harbour relief does not apply and effective tax rates calculated in accordance with the Pillar Two are close to 15%. The Company does not expect a material exposure to Pillar Two income taxes in those jurisdictions.

Standards, Amendments and Interpretations Issued but not yet Adopted

The following new standards, amendments and interpretations have been issued but are not effective for the year ended December 31, 2023 and, accordingly, have not been adopted. The Company is currently assessing the impact, if any, on the Consolidated financial statements.

Amendment *to IFRS 16 Leases — Lease Liability in a Sale and Leaseback*

The amendments to IFRS 16 add subsequent measurement requirements for sale and leaseback transactions that satisfy the requirements in IFRS 15 to be accounted for as a sale. The amendments require the seller-lessee to determine 'lease payments' or 'revised lease payments' such that the seller-lessee does not recognize a gain or loss that relates to the right of use retained by the seller-lessee, after the commencement date. The amendments are effective for annual reporting periods beginning on or after January 1, 2024. The Company is currently assessing the impact of the standard on its consolidated financial statements.

Amendments to IAS 1 Presentation of Financial Statements — Non-current Liabilities with Covenants

The amendments specify that only covenants that an entity is required to comply with on or before the end of the reporting period affect the entity's right to defer settlement of a liability for at least twelve months after the reporting date (and therefore must be considered in assessing the classification of the liability as current or non-current). Such covenants affect whether the right exists at the end of the reporting period, even if compliance with the covenant is assessed only after the reporting date (e.g. a covenant based on the entity's financial position at the reporting date that is assessed for compliance only after the reporting date).

The IASB also specifies that the right to defer settlement of a liability for at least twelve months after the reporting date is not affected if an entity only has to comply with a covenant after the reporting period. However, if the entity's right to defer settlement of a liability is subject to the entity complying with covenants within twelve months after the reporting period, an entity discloses information that enables users of financial statements to understand the risk of the liabilities becoming repayable within twelve months after the reporting period. This would include information about the covenants (including the nature of the covenants and when the entity is required to comply with them), the carrying amount of related liabilities and facts and circumstances, if any, that indicate that the entity may have difficulties complying with the covenants.

The amendments are applied retrospectively for annual reporting periods beginning on or after January 1, 2024. The Company is currently assessing the impact of the standard on its consolidated financial statements.

Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures—Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognized in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognized in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture. The effective date of the amendments has yet to be set by the IASB. The Company is currently assessing the impact of the standard on its consolidated financial statements.

Amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures—Supplier Finance Arrangements

The amendments add a disclosure objective to IAS 7 stating that an entity is required to disclose information about its supplier finance arrangements that enables users of financial statements to assess the effects of those arrangements on the entity's liabilities and cash flows. In addition, IFRS 7 was amended to add supplier finance arrangements as an example within the requirements to disclose information about an entity's exposure to concentration of liquidity risk. The amendments, which contain specific transition reliefs for the first annual reporting period in which an entity applies the amendments, are applicable for annual reporting periods beginning on or after January 1, 2024. The Company is currently assessing the impact of the standard on its consolidated financial statements.

Amendments to IAS 21 The Effects of Changes in Foreign Exchange Rates—Lack of Exchangeability

The amendments clarify:

a. when a currency is exchangeable into another currency; and

b. how a company estimates a spot rate when a currency lacks exchangeability.

A currency is exchangeable into another currency when a company is able to exchange that currency for the other currency at the measurement date and for a specified purpose. When a currency is not exchangeable, a company needs to estimate a spot rate. When estimating a spot rate, a company can use an observable exchange rate without adjustment or another estimation technique or another estimation technique. The amendment also requires companies to provide new disclosures to help users assess the impact of using an estimated exchange rate on the financial statements.The amendments apply for annual reporting periods beginning on or after January 1, 2025. The Company is currently assessing the impact of the standard on its consolidated financial statements.

FINANCIAL INSTRUMENTS

Foreign exchange forward contracts

The Company periodically enters into derivative financial instruments such as foreign exchange forward contracts to manage its foreign currency risk on cash flows denominated in currencies other than the US dollar.

As at December 31, 2023, the Company is committed under outstanding foreign exchange contracts representing a total net sell commitment of $74.7 million (December 31, 2022 - net sell commitment of $20.3 million). These foreign exchange contracts have maturity dates varying from March 2024 to March 2025. The fair value of foreign exchange forward contracts at December 31, 2023 resulted in an unrealized gain of $4.1 million, which is recorded in Other assets (2022 - $1.7 million) and an unrealized loss of $2.3 million recorded in accrued liabilities (2022 - $6.3 million). For the year ended December 31, 2023, net realized losses on the Company's matured foreign exchange contracts were $8.7 million (2022 - realized gains of $3.1 million) and are included in the Consolidated statements of earnings and comprehensive income.

These fair values are categorized within Level 2 of the fair value hierarchy. The fair values of over-the-counter derivative financial instruments are based on broker or observable market rates. Those quotes are tested for reasonableness by discounting expected future cash flows using market interest and exchange rates for a similar instrument at the measurement date. Fair values reflect the credit risk of the instrument for the Company and counterparty when appropriate. 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. Realized and unrealized gains and losses on derivative financial instruments may be offset by realized and unrealized losses and gains on the underlying exposures being hedged and are recorded in earnings as they occur.

Investment in a limited partnership

The fair value of the investment in a limited partnership as at December 31, 2023 is recorded in Other assets at $3.7 million (December 31, 2022 - $3.9 million) with $0.1 million of net unrealized gain (2022 - net unrealized gain of $nil) recognized in Other expense, net in the Consolidated statements of earnings and comprehensive income for the year ended December 31, 2023. For the year ended December 31, 2023, the Company recognized $0.1 million (2022 - $0.1 million) of distribution income in Other expense, net, respectively.

This fair value is categorized within Level 3 of the fair value hierarchy. The fair value of the investment in a limited partnership is estimated using various valuation techniques through the partnership based on the type of investment held by the fund. The quantitative unobservable inputs used in the fair value measurement are not developed by the Company and include assumptions regarding long-term revenue growth rates and discount rates, among others.

From inception, the Company has paid $2.9 million and is obligated to pay the remaining $0.1 million upon receiving capital calls over the remaining term of the limited partnership agreement. The investment in a limited partnership is held for medium to long-term strategic purposes.

Minority interest and other investments

The fair value of the Minority interest and other investments recorded in other assets are as follows:

(US$ millions)	Dec 31, 2023	Dec 31, 2022
Minority interest and other investments classified as FVTOCI	3.0	3.0
Minority interest and other investments classified as FVTPL	8.3	5.8
Minority interest and other investments	11.3	8.8

For the year ended December 31, 2023, there were no gains or losses (2022 - $0.5 million loss) recognized for the Minority interest and other investments classified as FVTPL in the Consolidated statements of earnings and comprehensive income within Other expense, net.

For the year ended December 31, 2023, there were no gains or losses (2022 - $0.1 million gain) recognized for Minority interest and other investments classified as FVTOCI in the Consolidated statements of earnings and comprehensive income within Other comprehensive gain (loss).

These investments are categorized within Level 3 of the fair value hierarchy. The fair value of these investments is estimated using various valuation techniques. The quantitative unobservable inputs used in the fair value measurement are not developed by the Company and include assumptions regarding long-term revenue growth rates and discount rates, among others.

DISCLOSURE CONTROLS AND PROCEDURES

The Chief Executive Officer 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, 2023 and have concluded that the Company's DC&P was effective as at December 31, 2023.

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, 2023 and have concluded that the Company's ICFR was effective as at December 31, 2023.

There have been no changes in the Company’s ICFR during the year ended December 31, 2023 which have materially affected, or are reasonably likely to materially affect, the Company’s ICFR and its disclosure controls and procedures.

LIMITATIONS OF AN INTERNAL CONTROL SYSTEM

The Chief Executive Officer and the Chief Financial Officer believe that any Disclosure Controls and Procedures 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-GAAP FINANCIAL MEASURES AND RATIOS

In addition to using financial measures prescribed under IFRS, references are made in this MD&A to the following terms, each of which is a non-GAAP financial measure:

- Adjusted EBITDA
- Adjusted Operating Income (Loss)
- Adjusted Net Income (Loss)
- Free Cash Flow
- Toy Gross Product Sales
- Melissa & Doug Toy Gross Product Sales
- Toy Gross Product Sales, excluding Melissa & Doug
- Melissa & Doug Revenue
- Consolidated Revenue, excluding Melissa & Doug
- Revenue, excluding *PAW Patrol: The Mighty Movie* Distribution Revenue
- Adjusted EBITDA, excluding *PAW Patrol: The Mighty Movie* Distribution Revenue
- Constant Currency Toy Gross Product Sales
- Constant Currency Sales Allowances
- Constant Currency Digital Games Revenue
- Constant Currency Entertainment Revenue
- Constant Currency Revenue
- Adjusted Selling, General and Administration Expenses ("Adjusted SG&A")
- Net Working Capital

Non-GAAP financial measures do not have any standardized meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other issuers.

Additionally, references are made in this MD&A to the following terms, each of which is a non-GAAP financial ratio:

- Adjusted EBITDA Margin
- Adjusted Operating Margin
- Adjusted Basic EPS
- Adjusted Diluted EPS
- Sales Allowance as a percentage of Toy Gross Product Sales
- Adjusted SG&A as a percentage of Revenue
- Percentage change in Constant Currency Toy Gross Product Sales
- Percentage change in Constant Currency Digital Games Revenue
- Percentage change in Constant Currency Revenue
- Percentage change in Constant Currency Entertainment Revenue
- Adjusted EBITDA Margin, excluding *PAW Patrol: The Mighty Movie* Distribution Revenue
- Adjusted EBITDA Margin, excluding *PAW Patrol: The Movie* Distribution Revenue
- Melissa & Doug Adjusted EBITDA Margin
- Adjusted EBITDA Margin, excluding Melissa & Doug

Non-GAAP financial ratios are ratios or percentages that are calculated using a Non-GAAP financial measure. Non-GAAP financial ratios do not have any standardized meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other issuers.

Management believes the Non-GAAP financial measures and Non-GAAP financial ratios defined above are important supplemental measures of operating performance and highlight trends in the business. Management believes that these measures allow for assessment of the Company's operating performance and financial condition on a basis that is consistent and comparable between reporting periods. The Company believes that investors, lenders, securities analysts and other interested parties frequently use these Non-GAAP financial measures and Non-GAAP financial ratios in the evaluation of issuers.

Non-GAAP Financial Measures

Adjusted EBITDA is calculated as Operating Income before interest income and interest expense and depreciation and amortization (EBITDA) excluding adjustments that do not necessarily reflect the Company's underlying financial performance. These adjustments include restructuring and other related costs, foreign exchange gains or losses, share based compensation expenses, acquisition related contingent consideration, impairment of intangible assets, impairment of goodwill, investment distribution income, loss on Minority interest and other investments, acquisition related deferred incentive compensation, net unrealized gain or loss on investment, impairment of property, plant and equipment, legal settlement, transaction cost and gain on disposal of asset. Adjusted EBITDA is used by management as a measure of the Company's profitability. Refer to the "Reconciliation of Non-GAAP Financial Measures" section below for a reconciliation of this metric to Operating Income (Loss), the closest IFRS measure.

Adjusted Operating Income (Loss) is calculated as Operating Income (Loss) excluding adjustments (as defined in Adjusted EBITDA). Adjusted Operating Income (Loss) is used by management as a measure of the Company's profitability. Refer to the "Reconciliation of Non-GAAP Financial Measures" section below for a reconciliation of this metric to Operating Income (Loss), the closest IFRS measure.

Adjusted Net Income (Loss) is calculated as Net Income (Loss) excluding adjustments (as defined in Adjusted EBITDA), the corresponding impact these items have on income tax expense. Management uses Adjusted Net Income (Loss) to measure the underlying financial performance of the business on a consistent basis over time. Refer to the "Reconciliation of Non-GAAP Financial Measures" section below for a reconciliation of this metric to Operating Income (Loss), the closest IFRS measure.

Free Cash Flow is calculated as cash flows provided by/used in operating activities reduced by cash flows used in investing activities and adding back cash used for business acquisitions, advance paid for business acquisitions, asset acquisitions, investment in limited partnership, Minority interest and other investments, proceeds from sale of manufacturing operations and net of investment distribution income. Management uses the Free Cash Flow metric to analyze the cash flows being generated by the Company's business. Refer to the "Reconciliation of Non-GAAP Financial Measures" section for a reconciliation of this metric to Cash flow from operating activities, the closest IFRS measure.

Toy Gross Product Sales represent Toy revenues, excluding the impact of Sales Allowances. As Sales Allowances are generally not associated with individual products, the Company uses Toy Gross Product Sales to provide meaningful comparisons across product categories and geographical results to highlight trends in Spin Master's business. For a reconciliation of Toy Gross Product Sales to Revenue, the closest IFRS measure, refer to the "Revenue" section within the "Financial Performance" section for the three and year ended December 31, 2023, and the "Reconciliation of Non-GAAP Financial Measures" section for the previous eight fiscal quarters.

Melissa & Doug Toy Gross Product Sales represent Toy revenues contributed by Melissa & Doug, excluding the impact of Sales Allowances, to measure the underlying financial performance of the business on a consistent basis over time.

Toy Gross Product Sales, excluding Melissa & Doug represent Toy revenues, excluding Melissa & Doug Toy Gross Product Sales and the impact of Sales Allowances, to measure the underlying financial performance of the business on a consistent basis over time.

Melissa & Doug Revenue represent revenue contributed by Melissa & Doug, to measure the underlying financial performance of the business on a consistent basis over time.

Consolidated Revenue, excluding Melissa & Doug is calculated as revenue excluding Melissa & Doug Revenue, to measure the underlying financial performance of the business on a consistent basis over time.

Revenue, excluding *PAW Patrol: The Mighty Movie* Distribution Revenue is calculated as revenue excluding distribution revenue of $15.6 million related to *PAW Patrol: The Mighty Movie.* Revenue, excluding *PAW Patrol: The Mighty Movie* Distribution Revenue is used to measure the underlying financial performance of the business on a consistent basis over time. Refer to the "Reconciliation of Non-GAAP Financial Measures" section for a reconciliation of this metric to Revenue, the closest IFRS measure.

Adjusted EBITDA, excluding *PAW Patrol: The Mighty Movie* Distribution Revenue is calculated as Adjusted EBITDA excluding distribution revenue of $15.6 million related to *PAW Patrol: The Mighty Movie.* Adjusted EBITDA, excluding *PAW Patrol: The Mighty Movie* Distribution Revenue is used by management as a measure of the Company's profitability on a consistent basis over time. Refer to the "Reconciliation of Non-GAAP Financial Measures" section below for a reconciliation of this metric to Net Income, the closest IFRS measure.

Constant Currency Toy Gross Product Sales, Constant Currency Sales Allowances, Constant Currency Toy Revenue, Constant Currency Entertainment Revenue, Constant Currency Digital Games Revenue, and Constant Currency Revenue represent Toy Gross Product Sales, Sales Allowance, Toy revenue, Entertainment revenue, Digital Games revenue, and Revenue presented excluding the impact from changes in foreign currency exchange rates, respectively. 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. Management uses Constant Currency Toy Gross Product Sales, Constant Currency Sales Allowances, Constant Currency Toy Revenue, Constant Currency Entertainment Revenue, Constant Currency Digital Games Revenue, and Constant Currency Revenue to measure the underlying financial performance of the business on a consistent basis over time. Refer to the "Reconciliation of Non-GAAP Financial Measures" section for a reconciliation of these metrics to Revenue, the closest IFRS measure.

Adjusted SG&A is calculated as selling, general and administrative expenses adjusted for restructuring and other related costs, share based compensation expenses, transaction costs and bad debt recovery. Refer to the Adjusted SG&A table for the three months and year ended December 31, 2023 as compared to the same period in 2022 in this MD&A. Management uses Adjusted SG&A to measure the underlying financial performance of the business on a consistent basis over time. Refer to the "Selling, General & Administrative Expenses" section within the "Financial Performance" section for a reconciliation of these metrics to selling, general & administrative Expenses, the closest IFRS measure.

Net Working Capital is calculated as the difference between total current assets and total current liabilities. Refer to the Total Net Working Capital table for the year ended December 31, 2023 as compared to the same period in 2022 in this MD&A. Management uses Net Working Capital to measure the underlying financial performance of the business on a consistent basis over time. Refer to the "Cash Flow" section for a composition of this metric to total current assets and total current liabilities, the closest IFRS measures.

Non-GAAP Financial Ratios

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 Operating Margin is calculated as Adjusted Operating Income (Loss) divided by Revenue. Management uses Adjusted Operating Margin to evaluate the Company's performance compared to internal targets and to benchmark its performance against key competitors.

Adjusted Basic EPS is calculated by dividing Adjusted Net Income (Loss) by the weighted average number of shares outstanding during the period. Adjusted Diluted EPS is calculated by dividing Adjusted Net Income (Loss) by the weighted average number of common shares outstanding, assuming the conversion of all dilutive securities were exercised during the period. Management uses Adjusted Basic EPS and Adjusted Diluted EPS to measure the underlying financial performance of the business on a consistent basis over time.

Sales Allowances as a percentage of Toy Gross Product Sales is calculated by dividing Sales Allowances by Toy Gross Product Sales. Management uses Sales Allowance as a percentage of Toy Gross Product Sales to identify and compare the cost of doing business with individual retailers, different geographic markets and amongst various distribution channels.

Adjusted SG&A as a percentage of Revenue is calculated by dividing Adjusted SG&A by Revenue. Management uses Adjusted SG&A as a percentage of Revenue to measure the underlying financial performance of the business on a consistent basis over time.

Percentage change in Constant Currency Toy Gross Product Sales is calculated by dividing the change in Toy Gross Product Sales excluding the impact from changes in foreign currency exchange rates by the Toy Gross Product Sales of the comparative period. Management uses Percentage change in Constant Currency Toy Gross Product Sales to measure the underlying financial performance of the business on a consistent basis over time excluding the impact from changes in foreign currency exchange rates.

Percentage change in Constant Currency Sales Allowances is calculated by dividing the change in Sales Allowances excluding the impact from changes in foreign currency exchange rates by the Sales Allowances of the comparative period. Management uses Percentage change in Constant Currency Sales Allowances to measure the underlying financial performance of the business on a consistent basis over time excluding the impact from changes in foreign currency exchange rates.

Percentage change in Constant Currency Toy Revenue is calculated by dividing the change in Toy Revenue excluding the impact from changes in foreign currency exchange rates by the Toy Revenue of the comparative period. Management uses Percentage change in Constant Currency Toy Revenue to measure the underlying financial performance of the business on a consistent basis over time excluding the impact from changes in foreign currency exchange rates.

Percentage change in Constant Currency Entertainment Revenue is calculated by dividing the change in Entertainment revenue excluding the impact from changes in foreign currency exchange rates by the Entertainment revenue of the comparative period. Management uses Percentage change in Constant Currency Entertainment Revenue to measure the underlying financial performance of the business on a consistent basis over time excluding the impact from changes in foreign currency exchange rates.

Percentage change in Constant Currency Digital Games Revenue is calculated by dividing the change in Digital Games revenue excluding the impact from changes in foreign currency exchange rates by the Digital Games revenue of the comparative period. Management uses Percentage change in Constant Currency Digital Games Revenue to measure the underlying financial performance of the business on a consistent basis over time excluding the impact from changes in foreign currency exchange rates.

Percentage change in Constant Currency Revenue is calculated by dividing the change in Revenue excluding the impact from changes in foreign currency exchange rates by the Revenue of the comparative period. Management uses Percentage change in Constant Currency Revenue to measure the underlying financial performance of the business on a consistent basis over time excluding the impact from changes in foreign currency exchange rates.

Adjusted EBITDA Margin, excluding *PAW Patrol: The Mighty Movie* Distribution Revenue is calculated as Adjusted EBITDA excluding *PAW Patrol: The Mighty Movie* Distribution Revenue divided by Revenue, excluding *PAW Patrol: The Mighty Movie* Distribution Revenue. Management uses Adjusted EBITDA Margin excluding *PAW Patrol: The Mighty Movie* Distribution Revenue to evaluate the Company's performance compared to internal targets and to benchmark its performance against key competitors on a consistent basis over time.

Melissa & Doug Adjusted EBITDA Margin is calculated as Melissa & Doug Adjusted EBITDA divided by Melissa & Doug Revenue. Melissa & Doug Adjusted EBITDA is calculated as Operating Income before interest income and interest expense and depreciation and amortization (EBITDA) contributed by Melissa and Doug and adjustments that do not necessarily reflect the Melissa & Doug's underlying financial performance. These adjustments include restructuring and other related costs, foreign exchange gains or losses, share based compensation expenses, impairment of intangible assets, impairment of goodwill, investment distribution income, loss on investments, net unrealized gain or loss on investment, impairment of property, plant and equipment, legal settlement, transaction cost and gain on disposal of asset. Management uses Melissa & Doug Adjusted EBITDA Margin to measure the underlying financial performance of the business on a consistent basis over time.

Adjusted EBITDA Margin, excluding Melissa & Doug is calculated as Adjusted EBITDA excluding Melissa & Doug Adjusted EBITDA Margin, to measure the underlying financial performance of the business on a consistent basis over time.

Reconciliation of Non-GAAP Financial Measures

The following table presents a reconciliation of Operating income to Adjusted Operating Income, Adjusted EBITDA, Adjusted EBITDA, excluding *PAW Patrol: The Movie* Distribution Revenue and Adjusted Net Income for the years ended December 31, 2023, 2022 and 2021:

	Year Ended Dec 31,		
(in US$ millions)	**2023**	**2022**	**2021**
Net income	151.4	261.3	198.6
Income tax expense	49.8	79.1	63.4
Interest (income) expense	(12.3)	2.9	10.2
Depreciation and amortization expenses	130.1	68.2	111.9
EBITDA	**319.0**	**411.5**	**384.1**
Operating income	188.9	343.3	272.2
Impairment of goodwill[1]	26.7	—	1.9
Share based compensation[2]	20.1	17.6	15.3
Restructuring and other related costs[3]	18.1	4.9	2.5
Foreign exchange loss (gain)[4]	14.7	(61.4)	(2.9)
Transaction costs[5]	11.1	1.0	2.8
Impairment of intangible assets[6]	8.2	1.1	2.6
Acquisition related deferred incentive compensation[7]	7.6	10.3	6.8
Loss on Minority interest and other investments[8]	—	0.5	—
Acquisition related contingent consideration[9]	(6.8)	2.6	2.7
Legal settlement recovery[10]	(0.6)	(0.5)	—
Impairment of property, plant and equipment[11]	0.9	1.9	—
Gain on disposal of asset[12]	—	—	(0.2)
Investment distribution income[13]	(0.1)	(0.1)	(0.6)
Net unrealized gain on investment[14]	(0.1)	—	(0.9)
Adjusted Operating Income	**288.7**	**321.2**	**302.2**
Depreciation and amortization	130.1	68.2	111.9
Adjusted EBITDA	**418.8**	**389.4**	**414.1**
Distribution revenue related to *PAW Patrol: The Mighty Movie* in 2023 and *PAW Patrol: The Movie* in 2021	(15.6)	—	(26.0)
Adjusted EBITDA, excluding *PAW Patrol: The Mighty Movie* Distribution Revenue in 2023 and *PAW Patrol: The Movie* Distribution Revenue in 2021	**403.2**	**389.4**	**388.1**
Distribution revenue related to *PAW Patrol: The Mighty Movie* in 2023 and *PAW Patrol: The Movie* in 2021	15.6	—	26.0
Income tax expense	(49.8)	(79.1)	(63.4)
Interest income (expense)	12.3	(2.9)	(10.2)
Depreciation and amortization	(130.1)	(68.2)	(111.9)
One-time income tax recovery[15]	(0.9)	—	—
Tax effect of adjustments[16]	(25.1)	5.1	(7.3)
Adjusted Net Income	**225.2**	**244.3**	**221.3**

1 Impairment of goodwill associated with assets held for sale and three CGUs. See Note 17 of the Consolidated financial statements.
2 Related to non-cash expenses associated with the Company's share option expense and long-term incentive plan. See Note 22 of the Consolidated financial statements.
3 Restructuring and other related costs in the current year relates to the reduction in the Company's global workforce and closure of its manufacturing facility in Calais, France. Prior year's amounts relate to changes in personnel. See Note 8 of the Consolidated financial statements
4 Includes foreign exchange losses (gains) generated by the translation and settlement of monetary assets/liabilities denominated in a currency other than the functional currency of the applicable entity and losses (gains) related to the Company's hedging programs. See Note 9 of the Consolidated financial statements.
5 Professional fees incurred relating to acquisitions (including Melissa & Doug) and other transactions.
6 Impairment of intangible assets related to content development projects, app development projects and components of computer software. See Note 16 of the Consolidated financial statements
7 Deferred incentive compensation associated with acquisitions. See Note 6 of the Consolidated financial statements.
8 Fair value loss on the Minority interest and other investments classified as FVTPL.
9 (Recovery) expense for acquisition related contingent consideration. See Note 6 of the Consolidated financial statements.
10 Legal settlement in the first, second and fourth quarters of 2022. See Note 6 of the Consolidated financial statements.
11 Impairment of property plant and equipment related to Tooling. See Note 15 of the Consolidated financial statements.
12 Gain on disposal of intangible asset in 2021.
13 Distribution income related to investment in limited partnership. See Note 29 of the Consolidated financial statements.
14 Net unrealized gain related to investment in limited partnership. See Note 29 of the Consolidated financial statements.
15 Adjustment of one-time income tax recovery (net of one-time income tax expense).
16 Tax effect of adjustments (Footnotes 1-14). Adjustments are tax effected at the effective tax rate of the given period.

The following table provides reconciliations of Operating (Loss) Income to Adjusted Operating Income (Loss), Adjusted EBITDA, Adjusted EBITDA excluding *PAW Patrol: The Mighty Movie* Distribution Revenue, and Adjusted Net Income for the previous eight fiscal quarters:

(in US$ millions)	Q4 2023	Q3 2023	Q2 2023	Q1 2023	Q4 2022	Q3 2022	Q2 2022	Q1 2022
Operating (Loss) Income	**(36.6)**	**197.2**	**34.4**	**(6.1)**	**(24.0)**	**187.4**	**118.2**	**61.7**
Share based compensation[1]	4.8	5.1	4.8	5.4	4.7	4.3	4.5	4.1
Foreign exchange loss (gain)[2]	18.2	(19.2)	11.4	4.3	4.8	(43.5)	(32.3)	9.6
Restructuring and other related costs (recovery)[3]	3.8	0.8	9.7	3.8	(0.2)	—	4.5	0.6
Acquisition related deferred incentive compensation[4]	1.6	1.8	2.1	2.1	2.2	2.8	2.6	2.7
Impairment of intangible assets[5]	5.8	0.2	1.0	1.2	1.1	—	—	—
Impairment of goodwill[6]	25.7	—	—	1.0	—	—	—	—
Transaction costs[7]	3.8	5.2	1.5	0.6	0.2	0.3	0.4	0.1
Impairment of property, plant and equipment[8]	0.7	—	—	0.2	0.9	1.0	—	—
Legal settlement (recovery) expense	(0.1)	(0.7)	—	0.2	1.6	—	(0.6)	(1.5)
Net unrealized loss (gain) on investment[9]	0.2	—	(0.3)	—	0.1	—	(0.1)	—
Net realized (gain) loss on investment[10]	—	(0.2)	0.1	—	—	—	(0.1)	—
Loss on Minority interest and other investments[11]	—	—	—	—	—	—	0.5	—
Acquisition related contingent consideration[12]	(4.7)	—	(2.1)	—	3.1	(0.5)	—	—
Adjusted Operating Income (Loss)	**23.2**	**190.2**	**62.6**	**12.7**	**(5.5)**	**151.8**	**97.6**	**77.3**
Depreciation and amortization	41.7	44.7	25.8	17.9	17.9	15.8	16.1	18.4
Adjusted EBITDA	**64.9**	**234.9**	**88.4**	**30.6**	**12.4**	**167.6**	**113.7**	**95.7**
Distribution revenue related to *PAW Patrol: The Mighty Movie*[13]	—	(15.6)	—	—	—	—	—	—
Adjusted EBITDA, excluding *PAW Patrol: The Mighty Movie* Distribution Revenue	**64.9**	**219.3**	**88.4**	**30.6**	**12.4**	**167.6**	**113.7**	**95.7**
Income tax recovery (expense)	3.4	(44.2)	(9.6)	0.6	8.5	(45.6)	(27.8)	(14.2)
Interest income (expense)	3.1	2.4	3.2	3.6	1.7	(0.4)	(2.3)	(1.9)
Depreciation and amortization	(41.7)	(44.7)	(25.8)	(17.9)	(17.9)	(15.8)	(16.1)	(18.4)
One-time income tax expense (recovery)[14]	5.7	(6.6)	—	—	—	—	—	—
Tax effect of normalization adjustments[15]	(14.9)	1.8	(7.4)	(4.6)	(4.7)	8.6	4.9	(3.7)
Adjusted Net Income	**20.5**	**143.6**	**48.8**	**12.3**	**—**	**114.4**	**72.4**	**57.5**

[1] Related to non-cash expenses associated with the Company's share option expense and long-term incentive plan.
[2] Includes foreign exchange losses (gains) generated by the translation and settlement of monetary assets/liabilities denominated in a currency other than the functional currency of the applicable entity and losses (gains) related to the Company's hedging programs.
[3] Restructuring expense in the current year relates to the reduction in the Company's global workforce and closure of its manufacturing facility in Calais, France. Prior year's amounts relate to changes in personnel.
[4] Deferred incentive compensation associated with acquisitions.
[5] Impairment of intangible assets related to content development projects and computer software.
[6] Impairment of goodwill associated with three CGUs.
[7] Professional fees incurred relating to acquisitions (including Melissa & Doug) and other transactions.
[8] Impairment of property plant and equipment related to tooling.
[9] Net unrealized (gain) loss related to investment in limited partnership.
[10] Net realized loss (gain) related to investment in limited partnership, net of distribution income.
[11] Fair value loss on the Minority interest and other investments classified as FVTPL.
[12] Expense associated with contingent consideration for acquisitions.
[13] Distribution revenue related to *PAW Patrol: The Mighty Movie* recognized in Q3 2023 within Entertainment segment.
[14] Adjustment of one-time income tax recovery (expense).
[15] Tax effect of adjustments (Footnotes 1-13). Adjustments are tax effected at the effective tax rate of the given period.

The following table provides reconciliations from Cash provided by operating activities and Cash used in investing activities to Free Cash Flow for the years ended December 31, 2023, 2022 and 2021:

	Year Ended Dec 31,		
(US$ millions)	**2023**	**2022**	**2021**
Cash provided by operating activities	227.0	249.3	419.1
Cash used in investing activities	(135.3)	(109.2)	(153.2)
Add:			
Business acquisitions, net of cash acquired[1]	26.5	10.6	70.9
Minority interest and other investments[2]	2.5	7.5	2.4
Investment in limited partnership[3]	—	—	1.0
Advance paid for business acquisitions[4]	—	1.0	—
Investment in trademark license agreement	3.3	—	—
Proceeds from sale of investments[5]	(0.8)	(9.2)	—
Investment distribution income[6]	(0.3)	(0.1)	(0.6)
Free Cash Flow	**122.9**	**149.9**	**339.6**

[1] Cash paid relating to acquisitions of 4D Brands International Inc. and Innovation First International Inc. in 2023 (2022 - SolidRoots and Nørdlight, 2021 - Rubik's, Originator Inc. and a product invention and development company).

[2] Cash paid in relation to the Minority interest and other investments during 2023, 2022 and 2021.

[3] Cash paid to fund capital calls relating to the Investment in a limited partnership in 2021.

[4] Cash advance paid in 2022 relating to the acquisition of 4D Brands International Inc., and Innovation First, Inc.

[5] Cash received for the sale of manufacturing assets in Calais, France in Q4 2023 (Tarboro, North Carolina in Q1 2022).

[6] Distribution income earned relating to the investment in a limited partnership.

The following table provides reconciliations from Cash provided by (used in) operating activities and Cash used in investing activities to Free Cash Flow for the previous eight fiscal quarters:

(in US$ millions)	**Q4 2023**	**Q3 2023**	**Q2 2023**	**Q1 2023**	**Q4 2022**	**Q3 2022**	**Q2 2022**	**Q1 2022**
Cash provided by (used in) operating activities	67.9	144.3	19.1	(4.3)	(6.8)	207.3	111.6	(62.9)
Cash used in investing activities	(23.3)	(25.1)	(30.3)	(56.6)	(28.2)	(42.3)	(30.4)	(8.3)
Add (Deduct):								
Business acquisitions, net of cash acquired[1]	—	—	—	26.5	0.4	10.2	—	—
Asset acquisition[2]	—	—	3.3	—	—	—	—	—
Advance paid for business acquisitions[3]	—	—	—	—	1.0	—	—	—
Investment distribution income[4]	—	(0.3)	—	—	—	—	(0.1)	—
Minority interest and other investments[5]	0.5	—	2.0	—	3.5	—	3.0	1.0
Proceeds from sale of manufacturing operations[6]	(0.8)	—	—	—	—	—	—	(9.2)
Free Cash Flow	**44.3**	**118.9**	**(5.9)**	**(34.4)**	**(30.1)**	**175.3**	**84.1**	**(79.4)**

[1] Cash paid relating to acquisitions of 4D Brands and *HEXBUG*, both in Q1 2023 (2022 - SolidRoots and Nørdlight, both in Q3 2022).

[2] Cash paid for the assets acquired from a games and puzzles company.

[3] Cash advance paid in 2022 relating to the acquisition of 4D Brands International Inc., and Innovation First, Inc.

[4] Distribution income earned relating to the investment in a limited partnership.

[5] Cash paid in relation to the Minority interest and other investments.

[6] Cash received for the sale of manufacturing assets in Calais, France in Q4 2023 (Tarboro, North Carolina in Q1 2022).

The following table provides reconciliations of Toy Gross Product Sales to Revenue for the previous eight fiscal quarters:

(in US$ millions)	Q4 2023	Q3 2023	Q2 2023	Q1 2023	Q4 2022	Q3 2022	Q2 2022	Q1 2022
Toy Gross Product Sales	502.3	678.6	390.0	216.3	479.2	617.7	484.4	397.5
Sales Allowances	(95.5)	(77.1)	(43.7)	(30.0)	(82.5)	(65.3)	(46.8)	(46.6)
Toy revenue	406.8	601.5	346.3	186.3	396.7	552.4	437.6	350.9
Entertainment revenue	55.2	63.4	33.9	37.6	31.2	37.0	28.4	22.2
Digital Games revenue	40.6	45.3	40.5	47.5	37.9	34.6	40.3	51.1
Revenue	**502.6**	**710.2**	**420.7**	**271.4**	**465.8**	**624.0**	**506.3**	**424.2**

The following table presents a reconciliation of Revenue to Revenue, excluding *PAW Patrol: The Mighty Movie* Distribution Revenue for the previous eight fiscal quarters:

(in US$ millions)	Q4 2023	Q3 2023	Q2 2023	Q1 2023	Q4 2022	Q3 2022	Q2 2022	Q1 2022
Revenue	502.6	710.2	420.7	271.4	465.8	624.0	506.3	424.2
Distribution revenue related to *PAW Patrol: The Mighty Movie*	—	(15.6)	—	—	—	—	—	—
Revenue, excluding PAW Patrol: The Mighty Movie Distribution Revenue	**502.6**	**694.6**	**420.7**	**271.4**	**465.8**	**624.0**	**506.3**	**424.2**

The following table presents a reconciliation of Revenue to Revenue, excluding *PAW Patrol: The Mighty Movie* Distribution Revenue for the year ended December 31, 2023 and 2022:

	Year Ended Dec 31,	
(US$ millions)	2023	2022
Revenue	$ 1,904.9	$ 2,020.3
Distribution revenue related to *PAW Patrol: The Movie*	(15.6)	—
Revenue, excluding *PAW Patrol: The Mighty Movie* Distribution Revenue	**$ 1,889.3**	**$ 2,020.3**

The following tables present reconciliations of Revenue to Constant Currency Toy Gross Product Sales, Revenue to Constant Currency Entertainment revenue and Revenue to Constant Currency Digital Games Revenue for the three months and year ended December 31, 2023 and 2022:

			Year Ended Dec 31,	
(US$ millions)	**Q4 2023**	**Q4 2022**	**2023**	**2022**
Constant Currency Toy Gross Product Sales	490.6	498.3	1,763.1	2,030.6
Impact of foreign exchange	11.7	(19.1)	24.1	(51.8)
Toy Gross Product Sales	**502.3**	**479.2**	**1,787.2**	**1,978.8**
Constant Currency Sales Allowances	(92.5)	(87.4)	(240.2)	(254.6)
Impact of foreign exchange	(3.0)	4.9	(6.1)	13.4
Sales Allowances	(95.5)	(82.5)	(246.3)	(241.2)
Toy revenue	**406.8**	**396.7**	**1,540.9**	**1,737.6**
Constant Currency Entertainment revenue	55.3	33.2	190.1	123.2
Impact of foreign exchange	(0.1)	(2.0)	—	(4.4)
Entertainment revenue	**55.2**	**31.2**	**190.1**	**118.8**
Constant Currency Digital Games revenue	40.5	40.1	176.6	171.9
Impact of foreign exchange	0.1	(2.2)	(2.7)	(8.0)
Digital Games revenue	**40.6**	**37.9**	**173.9**	**163.9**
Constant Currency Revenue	493.9	484.2	1,889.6	2,071.1
Impact of foreign exchange	8.7	(18.4)	15.3	(50.8)
Revenue	**502.6**	**465.8**	**1,904.9**	**2,020.3**

The following tables present the composition of Percentage change in Constant Currency Toy Gross Product Sales, Percentage change in Constant Currency Sales Allowance, Percentage change in Constant Currency Entertainment Revenue, Percentage change in Percentage change in Constant Currency Digital Games Revenue and Percentage change in Constant Currency Revenue for the three months and year ended December 31, 2023 and 2022:

			$ Change			% Change	
(US$ millions)	**Q4 2023**	**Q4 2022**	**As reported**	**Impact of foreign exchange**	**In Constant Currency**	**As reported**	**In Constant Currency**
Toy Gross Product Sales	502.3	479.2	23.1	(11.7)	11.4	4.8%	2.4 %
Sales Allowances	(95.5)	(82.5)	(13.0)	3.0	(10.0)	15.8%	12.1 %
Toy revenue	406.8	396.7	10.1	(8.7)	1.4	2.5%	0.4 %
Entertainment revenue	55.2	31.2	24.0	0.1	24.1	76.9%	77.2 %
Digital Games revenue	40.6	37.9	2.7	(0.1)	2.6	7.1%	6.9 %
Revenue	502.6	465.8	36.8	(8.7)	28.1	7.9%	6.0 %

	Year Ended Dec 31,		$ Change			% Change	
(US$ millions)	**2023**	**2022**	**As reported**	**Impact of foreign exchange**	**In Constant Currency**	**As reported**	**In Constant Currency**
Toy Gross Product Sales	1,787.2	1,978.8	(191.6)	(24.1)	(215.7)	(9.7)%	(10.9)%
Sales Allowances	(246.3)	(241.2)	(5.1)	6.1	1.0	2.1%	(0.4)%
Toy revenue	1,540.9	1,737.6	(196.7)	(18.0)	(214.7)	(11.3)%	(12.4)%
Entertainment revenue	190.1	118.8	71.3	—	71.3	60.0%	60.0 %
Digital Games revenue	173.9	163.9	10.0	2.7	12.7	6.1%	7.7 %
Revenue	1,904.9	2,020.3	(115.4)	(15.3)	(130.7)	(5.7)%	(6.5)%

ADDENDUM

Effective January 1, 2024, Spin Master has changed its product categories to align with the Company's product offerings going forward. The following table restates 2023 Toy Gross Product Sales[1] in the same format that the Company presents Toy Gross Product Sales[1] in 2024:

(US$ millions)	Q1 2023	Q2 2023	Q3 2023	Q4 2023	Total
Preschool, Infant & Toddler and Plush	$ 82.6	$ 164.9	$ 301.4	$ 169.3	$ 718.2
Activities, Games & Puzzles and Dolls & Interactive	$ 62.6	$ 109.7	$ 218.7	$ 196.0	$ 587.0
Wheels & Action	$ 43.7	$ 101.1	$ 151.2	$ 113.3	$ 409.3
Outdoor	$ 27.4	$ 14.3	$ 7.3	$ 23.7	$ 72.7
Gross Product Sales[1]	**$ 216.3**	**$ 390.0**	**$ 678.6**	**$ 502.3**	**$ 1,787.2**

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 acquisition of Melissa & Doug, including its expected impact on the Company's business, financial performance and creation of value; the Company's outlook for 2024; future financial performance and growth expectations, as well as the drivers and trends in respect thereof; the Company's priorities, plans and strategies; content, digital game and product pipeline and launches, as well as their impacts; deployment of cash; dividend policy and future dividends; financial position, cash flows, liquidity and financial performance; the creation of long term shareholder value; and the Company’s intention to commence the Bid, the timing, quantity and funding of any purchases of subordinate voting shares under the Bid and the ASPP, and the expected facilities through which any such purchases may be made.

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 Company will be able to successfully integrate the acquisition; the Company will be able to successfully expand its portfolio across new channels and formats, and internationally; achieve other expected benefits through this acquisition; management’s estimates and expectations in relation to future economic and business conditions and other factors in relation to the Company's financial performance in addition to the proposed transaction and resulting impact on growth in various financial metrics; the realization of the expected strategic, financial and other benefits of the proposed transaction in the timeframe anticipated; the absence of significant undisclosed costs or liabilities associated with the proposed transaction; Melissa & Doug’s business will perform in line with the industry; there are no material changes to Melissa & Doug’s core customer base; implementation of certain information technology systems and other typical acquisition related cost savings; the Company’s dividend payments being subject to the discretion of the Board of Directors and dependent on a variety of factors and conditions existing from time to time; seasonality; ability of factories to manufacture products, including labour size and allocation, tooling, raw material and component availability, ability to shift between product mix, and customer acceptance of delayed delivery dates; the steps taken will create long term shareholder value; 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, maintain and renew broader licenses from third parties for premiere children's properties consistent with past practices, and the success of the licenses; 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 and minority investment 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; the Company will be able to continue to develop and distribute entertainment content in the form of movies, TV shows and short form content; the Company will be able to continue to design, develop and launch mobile digital games to be distributed globally via app stores;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, retailers and license partners; the Company will continue to attract qualified personnel to support its development requirements; the Company's key personnel will continue to be involved in the Company products, mobile digital games and entertainment properties will be launched as scheduled; and the availability of cash for dividends 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, risks relating to the inability to successfully integrate the Melissa & Doug business; the potential failure to realize anticipated benefits from the proposed transaction; concentration of manufacturing and geopolitical risks; uncertainty and adverse changes in general economic conditions and consumer spending habits and the factors discussed in the Company's disclosure materials, including the Annual or subsequent, most recent interim 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.sedarplus.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,including the expected performance of the Company and Melissa & Doug. 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.

Spin Master Corp.

Consolidated financial statements

For the years ended December 31, 2023 and December 31, 2022

Table of contents

Deloitte LLP
Bay Adelaide East
8 Adelaide Street West
Suite 200
Toronto ON M5H 0A9
Canada

Tel: 416-601-6150
Fax: 416-601-6151
www.deloitte.ca

Independent Auditor's Report

To the Shareholders and the Board of Directors 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, 2023 and 2022, and the consolidated statements of earnings and comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including material accounting policy information (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, 2023 and 2022, 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.

Key Audit Matter

A key audit matter is a matter that, in our professional judgment, was of most significance in our audit of the consolidated financial statements for the year ended December 31, 2023. This matter was addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

Provisions for sales allowances - Refer to Notes 2F, 3D and 12 to the financial statements

Key Audit Matter Description

The Company routinely enters into arrangements with its customers to provide sales incentives, support customer promotional activities and provide compensation for defective merchandise. Such arrangements are considered variable consideration for revenue recognition purposes, and the Company uses the expected value method to quantify the variable consideration. A sales allowance is established to reflect amounts for programs which can be contractual or discretionary by nature. Contractual allowances are fixed and determinable at the time of sale, which do not require management to make significant judgments. The determination of the provisions for discretionary sales allowances are impacted by various current and forward-looking factors including customer sales volumes, channel inventory positions, product performance at retail, historical performance, market conditions and other considerations.

Given the significant judgments made by management to estimate the provisions for discretionary sales allowances, performing audit procedures to evaluate their reasonableness required a high degree of auditor judgment and an increased extent of audit effort.

How the Key Audit Matter Was Addressed in the Audit

Our audit procedures related to the determination of the provisions for discretionary sales allowances included the following procedures, among others:

- Evaluated management's methods regarding the development of the provisions for discretionary sales allowances.
- Evaluated the reasonableness of the assumptions used by management to develop the provisions for discretionary sales allowances, including assessing the completeness and appropriateness of information considered by management.
- Tested the underlying inputs used in the determination of the provisions for discretionary sales allowances.
- Assessed management's historical ability to estimate the provisions for discretionary sales allowances by comparing the prior year estimated amounts to actual allowances utilized in the current year.
- Evaluated the reasonableness of the provisions for discretionary sales allowances by comparing a sample to the actual results of transactions occurring after year end.

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.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

/s/ Deloitte LLP

Chartered Professional Accountants
Licensed Public Accountants
Toronto, Ontario
February 28, 2024

Spin Master Corp.

Consolidated statements of financial position

(in US$ millions)	Notes	Dec 31, 2023	Dec 31, 2022[1]
Assets			
Current assets			
Cash and cash equivalents	**11**	705.7	644.3
Trade receivables, net	**12**	414.4	311.0
Other receivables	**12**	60.0	49.5
Inventories, net	**13**	98.0	105.1
Prepaid expenses and other assets	**14**	40.9	22.3
		1,319.0	**1,132.2**
Non-current assets[1]			
Intangible assets[1]	**16**	281.3	279.8
Goodwill	**17**	165.9	179.0
Right-of-use assets	**26**	53.6	62.9
Property, plant and equipment	**15**	32.6	36.0
Deferred income tax assets	**10**	110.8	94.7
Other assets	**14**	26.5	20.5
		670.7	**672.9**
Total assets[1]		**1,989.7**	**1,805.1**
Liabilities			
Current liabilities[1]			
Trade payables and accrued liabilities	**18**	385.4	339.4
Provisions	**21**	32.1	30.7
Lease liabilities	**26**	11.4	16.3
Deferred revenue	**19**	11.0	11.5
Income tax payable[1]	**10**	6.6	29.7
		446.5	**427.6**
Non-current liabilities			
Deferred income tax liabilities	**10**	59.1	55.7
Lease liabilities	**26**	50.7	54.9
Provisions	**21**	14.3	15.1
		124.1	**125.7**
Total liabilities[1]		**570.6**	**553.3**
Shareholders' equity			
Share capital	**22**	783.4	754.7
Retained earnings[1]		604.5	477.4
Contributed surplus		27.4	40.7
Accumulated other comprehensive income (loss)		3.8	(21.0)
Total shareholders' equity[1]		**1,419.1**	**1,251.8**
Total liabilities and shareholders' equity[1]		**1,989.7**	**1,805.1**

[1] December 31, 2022 restated for the change in accounting policy (see Note 4).

Approved by the Board of Directors on February 28, 2024.

The accompanying notes on pages 8 to 55 are an integral part of these Consolidated financial statements.

Spin Master Corp.

Consolidated statements of earnings and comprehensive income

(in US$ millions, except earnings per share)	Notes	Year Ended Dec 31, 2023	2022
Revenue	**5**	1,904.9	2,020.3
Cost of sales		866.5	916.5
Gross profit		**1,038.4**	**1,103.8**
Expenses			
Selling, general and administrative	**8**	775.7	782.1
Depreciation and amortization	**8**	25.4	28.9
Other expense, net	**6**	33.7	10.9
Foreign exchange loss (gain), net	**9**	14.7	(61.4)
Operating Income		**188.9**	**343.3**
Interest income	**7**	(27.4)	(10.7)
Interest expense	**7**	15.1	13.6
Income before income tax expense		**201.2**	**340.4**
Income tax expense	**10**	49.8	79.1
Net Income		**151.4**	**261.3**
Earnings per share			
Basic	**23**	1.46	2.54
Diluted	**23**	1.43	2.45
Weighted average number of shares (in millions)			
Basic	**23**	103.5	102.9
Diluted	**23**	105.7	106.4

(in US$ millions)		Year Ended Dec 31, 2023	2022
Net Income		151.4	261.3
Items that may be subsequently reclassified to Net Income			
Foreign currency translation gain (loss)		24.8	(79.8)
Items that are not subsequently reclassified to Net Income			
Gain on minority interest and other investments	**14, 29**	—	0.1
Other comprehensive gain (loss)		**24.8**	**(79.7)**
Total comprehensive income		**176.2**	**181.6**

The accompanying notes on pages 8 to 55 are an integral part of these Consolidated financial statements.

Spin Master Corp.

Consolidated statements of changes in shareholders' equity

(in US$ millions)	Note	Share capital	Retained earnings	Contributed surplus	Accumulated other comprehensive income (loss)	Total
Balance at January 1, 2022		**736.9**	**216.0**	**40.8**	**58.7**	**1,052.4**
Change in accounting policy	**4**	—	9.3	—	—	**9.3**
Balance at January 1, 2022 (restated)[1]		**736.9**	**225.3**	**40.8**	**58.7**	**1,061.7**
Net Income		—	261.3	—	—	**261.3**
Other comprehensive loss - foreign currency translation		—	—	—	(79.8)	**(79.8)**
Other comprehensive income - other		—	—	—	0.1	**0.1**
Share-based compensation	**22**	—	—	17.6	—	**17.6**
Dividends declared	**22**	—	(9.2)	—	—	**(9.2)**
Share options exercised and common shares issued	**22**	0.2	—	(0.1)	—	**0.1**
Shares issued upon settlement of long-term incentive plan	**22**	17.6	—	(17.6)	—	**—**
Balance at December 31, 2022		**754.7**	**477.4**	**40.7**	**(21.0)**	**1,251.8**
Balance at January 1, 2023[1]		**754.7**	**477.4**	**40.7**	**(21.0)**	**1,251.8**
Net Income		—	151.4	—	—	**151.4**
Other comprehensive income - foreign currency translation		—	—	—	24.8	**24.8**
Share-based compensation	**22**	—	—	20.1	—	**20.1**
Dividends declared	**22**	—	(18.5)	—	—	**(18.5)**
Shares issued upon settlement of long-term incentive plan	**22**	33.4	—	(33.4)	—	**—**
Subordinate voting shares purchased and cancelled	**22**	(4.7)	(5.8)	—	—	**(10.5)**
Balance at December 31, 2023		**783.4**	**604.5**	**27.4**	**3.8**	**1,419.1**

[1] Restated for the change in accounting policy (see Note 4)

The accompanying notes on pages 8 to 55 are an integral part of these Consolidated financial statements.

Spin Master Corp.

Consolidated statements of cash flows

(in US$ millions)	Notes	Year Ended Dec 31, 2023	2022
Operating activities			
Net Income		151.4	261.3
Adjustments to reconcile net income to cash provided by operating activities			
Income tax expense	**10**	49.8	79.1
Interest income	**7**	(27.4)	(10.7)
Depreciation and amortization	**8**	130.1	68.2
Loss on disposal of non-current assets	**15, 16, 26.**	1.1	1.5
Interest and accretion expense	**7**	5.1	5.5
Amortization of Facility fee costs	**7**	0.5	0.4
Gain on investment in limited partnership, net	**29**	(0.4)	—
Impairment of non-current assets	**15, 16, 17**	35.8	3.0
Loss on minority interest and other investments	**6**	—	0.5
Unrealized foreign exchange loss (gain), net	**9**	26.1	(40.3)
Share-based compensation expense	**22**	20.1	17.6
Net changes in non-cash working capital	**24**	(105.1)	(67.7)
Net change in non-cash provisions and other assets		(2.1)	1.0
Income taxes paid		(93.6)	(83.6)
Income taxes received		7.8	4.5
Interest received		27.8	9.0
Cash provided by operating activities		**227.0**	**249.3**
Investing activities			
Investment in property, plant and equipment	**15**	(28.0)	(30.4)
Investment in intangible assets	**16**	(79.4)	(69.0)
Business acquisitions, net of cash acquired	**28**	(26.5)	(10.6)
Advance paid for business acquisitions		—	(1.0)
Investment distribution income	**29**	0.3	0.1
Minority interest and other investments	**14**	(2.5)	(7.5)
Proceeds from sale of non-current assets		0.8	9.2
Cash used in investing activities		**(135.3)**	**(109.2)**
Financing activities			
Payment of lease liabilities	**26**	(14.9)	(15.8)
Dividends paid	**22**	(18.4)	(4.6)
Proceeds from issuance of common shares from exercise of share options	**22**	—	0.1
Repurchase of subordinate voting shares under the NCIB	**22**	(10.5)	—
Payment of financing costs related to the Facility	**14, 20**	(0.3)	—
Cash used in financing activities		**(44.1)**	**(20.3)**
Effect of foreign currency exchange rate changes on cash and cash equivalents		13.8	(38.2)
Net increase in cash and cash equivalents during the year		**61.4**	**81.6**
Cash and cash equivalents, beginning of the year		644.3	562.7
Cash and cash equivalents, end of the year		**705.7**	**644.3**

The accompanying notes on pages 8 to 55 are an integral part of these Consolidated financial statements.

1. Description of business

Spin Master Corp. was formed by the amalgamation of Spin Master Corp. (formerly SML Investments Inc. which was incorporated on June 9, 2004 under the *Business Corporations Act* (Ontario)), SML Investments 2008 Inc. and Varadi Bee Corp. pursuant to the filing of articles of amalgamation under the *Business Corporations Act* (Ontario) on July 29, 2015. The Company is a leading global children's entertainment company, creating exceptional play experiences through its three creative centres: Toys, Entertainment and Digital Games. Its head and registered office is located at 225 King Street West, Suite 200, Toronto, Canada, M5V 3M2. Spin Master Corp. and its subsidiaries are together referred to, in these Consolidated financial statements, as the “Company” or “Spin Master”.

The Company has three reportable operating segments: Toys, Entertainment and Digital Games (see Note 30).

2. Summary of material 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”) as issued by the International Accounting Standards Board ("IASB").

All financial information is presented in millions of United States dollars ("US$") and has been rounded to the nearest hundred thousand, except as otherwise indicated.

These Consolidated financial statements were approved and authorized for issuance by the Board of Directors on February 28, 2024.

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

Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgements — Disclosure of Accounting Policies

The amendments to IAS 1 require that the Company discloses its material accounting policies instead of its significant accounting policies. The amendments also clarify that accounting policies related to immaterial transactions, other events or conditions are themselves immaterial and as such need not be disclosed, and not all accounting policy information that relates to material transactions, other events or conditions is material to the financial statements. Accounting policy information may be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. Effective January 1, 2023, the Company adopted the amendments to IAS 1 and IFRS Practice Statement 2. As a result of the adoption of these amendments, there were no adjustments to the presentation or amounts recognized in these Consolidated financial statements.

Amendments to IAS 8 Accounting Polices, Changes in Accounting Estimates and Errors — Definition of Accounting Estimates

The amendments introduce a new definition for accounting estimates: clarifying that they are monetary amounts in the financial statements that are subject to measurement uncertainty. The amendments also clarify the relationship between accounting policies and accounting estimates by specifying that a company develops an accounting estimate to achieve the objective set out by an accounting policy. Furthermore, the amendments clarify that a change in accounting estimate that results from new information or new developments is not correction of an error. Effective January 1, 2023, the Company adopted the changes to IAS 8 and the adoption of these amendments did not have a material impact on these Consolidated financial statements.

Amendments to IAS 12 Income Taxes — Deferred Tax related to Assets and Liabilities arising from a Single Transaction

The amendments narrow the scope of the initial recognition exemption so that it does not apply to transactions that give rise to equal taxable and deductible temporary differences such as deferred taxes on leases and decommissioning obligations. Effective January 1, 2023, the Company adopted the changes to IAS 12 and the adoption of these amendments did not have a material impact on these Consolidated financial statements.

2. **Summary of material accounting policies *(continued)***

Amendments to IAS 12 Income Taxes — International Tax Reform — Pillar Two Model Rules

In May 2023, the IASB amended IAS 12 Income Taxes to include a temporary exception to the requirements to recognize and disclose information about deferred tax assets and liabilities related to the new global minimum tax regime ("Pillar Two"). The Company has applied this temporary exception.

Pillar Two legislation has been enacted or substantively enacted in certain jurisdictions in which the Company operates. Certain jurisdictions of the Organization for Economic Co-operation and Development ("OECD") have agreed to implement a new global minimum tax regime based on model rules. The proposed Pillar Two rules are intended to ensure that large multinational enterprises pay a minimum tax of 15% on the income arising in each jurisdiction in which they operate. These rules may come into effect in 2024.

The Company has performed an assessment of its potential exposure to Pillar Two income taxes. The assessment of the potential exposure to Pillar Two income taxes is based on the most recent tax filings, country-by-country reporting and financial statements for the constituent entities in the Company. Based on the assessment, the effective tax rates calculated in accordance with Pillar Two in most of the jurisdictions in which the Company operates are above 15%. However, there are a limited number of jurisdictions where the transitional safe harbour relief does not apply and effective tax rates calculated in accordance with the Pillar Two are close to 15%. The Company does not expect a material exposure to Pillar Two income taxes in those jurisdictions.

(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 statements of earnings and comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

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 to 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 Company in a business combination includes 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.

All other subsequent changes in the fair value of contingent consideration classified as a liability are accounted for in accordance with the relevant policy. Other contingent consideration is remeasured to fair value at subsequent reporting dates with changes in fair value recognized in profit or loss.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Company 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.

2. Summary of material accounting policies *(continued)*

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, 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 quarterly 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 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 for goodwill is recognized directly in profit or loss, and an impairment 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

Toy revenue

The Company's Toy revenue is derived from the sale of toys and related products to customers who are retailers or distributors in domestic and international markets. Toy 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.

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 of the sale of goods to customers and revenues from sale of goods are recognized upon the passing of control to the customer.

The Company routinely enters into arrangements to provide sales allowances requested by customers relating to cooperative advertising, contractual and negotiated discounts, volume rebates, and costs incurred by customers to sell the Company's products. Such programs are based primarily on the customer inventory position, purchase levels, customer performance of specified promotional activities and other specified factors, as agreed to with customers as well as the nature of the product.

Toy gross product sales represent sales of the Company's products to customers, excluding the impact of sales allowances. Toy revenue represents the amount of consideration to which the Company expects to be entitled through the sale of goods excluding sales tax and after the application of the variable consideration constraint. Variable consideration includes estimates for sales allowances, defective products, 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 allowances and returns accruals as required. Note 3 - Significant accounting judgments and estimates outlines additional details on sales allowances.

Entertainment revenue

Entertainment revenues are comprised of distribution revenues and licensing and merchandising revenues.

Distribution revenues are primarily generated through the sale of entertainment content produced by the Company, in accordance with the relevant agreements. Such agreements are assessed as either providing the customer with a 'right-to-use' or 'right-to-access'. Applicable revenues are recognized at a point-in-time or over time based on the classification determined. Judgment is required in determining the appropriate classification. Licenses to distribute entertainment content grants licensees a right to use the Company's brands and other intellectual property. Licensees pay a fixed fee for licenses of the produced content. Revenue is recognized upon delivery of the entertainment programming and is measured based on the consideration to which the Company expects to be entitled upon delivery. There are no future performance obligations associated with the delivery of the entertainment content.

Licensing and merchandising revenues are generated through licensing the Company's brands and other intellectual property. The license agreements relating to the Company's brands provide access to the intellectual

2. Summary of material accounting policies *(continued)*

property over the term of the licenses and are considered right-to-access licenses 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 licensing and merchandising and/or content distribution, are recorded in deferred revenue until all of the foregoing revenue recognition conditions have been met.

Digital Games revenue

The Company develops digital games which are distributed via third-party platform providers. The Company controls most aspects of the digital games delivered to the end user. The third-party platform providers are providing the service of distributing digital games via their online store/marketplace and administrating payment receipt from the end users. The Company has determined that it is the principal in the arrangement and accordingly, Digital Games revenues are recorded 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 digital games is recognized when control is transferred. This condition is typically met when the end-user purchases and downloads the digital games from the third-party. The end users can make in-app purchases and the Company recognizes revenue at the time of sale as there are no additional performance obligations other than the delivery of digital games to the third-party platform providers or the delivery of the item purchased within the digital games.

The Company also generates recurring subscription revenue from certain digital games. Revenue is recognized ratably over the contractual subscription term, beginning on the date that the subscription is made available to the end user.

Disaggregation of revenue

The Company disaggregates its revenues into Toys, Entertainment and Digital Games. The Company also disaggregates components of Toy revenues by geographic segment: North America, Europe and Rest of World as well as into four major product categories as follows: (i) Preschool and Dolls & Interactive, (ii) Activities, Games & Puzzles and Plush, (iii) Wheels & Action and (iv) Outdoor.

The Company believes the disaggregation of revenue described above collectively depicts how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. See Note 30 Segment information for further information.

(G) Leases

The Company assesses whether a contract is or contains a lease, at inception of a contract. The Company recognizes a right-of-use asset and a corresponding lease liability with respect to all lease agreements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Company recognizes the leases as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are assumed.

The Company considers the lease term to be the noncancellable period of the lease, including any extension options where the Company is reasonably certain to exercise the option, and any termination options where the Company is reasonably certain not to exercise the option.

Lease liability

Lease liabilities are initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Company uses its incremental borrowing rate. The incremental borrowing rate is defined as the rate of interest that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. Lease payments included in the measurement of the lease liability comprise:

- fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees;
- the exercise of purchase options, if the lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

2. Summary of material accounting policies *(continued)*

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Company remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate;
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used); and
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

Right-of-use asset

Right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Company expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The Company applies IAS 36 *Impairment of Assets* to determine whether a right-of-use asset is impaired.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognized as an expense in the period in which the event or condition that triggers those payments occurs and are included in administrative expenses in the Consolidated statements of earnings and comprehensive income.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components and instead account for any lease and associated non-lease components as a single arrangement. The Company has elected to use this practical expedient.

(H) Foreign currencies

The Company reports its financial results in United States dollars. The functional currency of Spin Master Corp. is the Canadian dollar ("CAD"). The functional currency of the Company's consolidated subsidiaries is typically the economic currency in the associated jurisdiction. At December 31, 2023 and 2022, the functional currencies of the Company's subsidiaries included the US dollar, the Canadian dollar, the Euro, the Great Britain pound sterling, the Hong Kong dollar, the Mexican peso, the Chinese yuan, the Vietnamese dong, the Japanese yen, the Swedish krona, the Australian dollar, the Indian rupee, the Polish zloty, and the Russian ruble.

For the purposes of presenting these Consolidated financial statements, the Company's monetary assets and liabilities denominated in foreign currencies are translated using the closing exchange rate at the balance sheet date. Non-monetary items carried at fair value that are denominated in a foreign currency are translated at the rate prevailing when the fair value was determined. Non-monetary items denominated in a foreign currency that are measured at historical cost are translated using the exchange rate at the date of the transaction. Foreign currency exchange gains or losses are recognized in profit or loss.

Assets and liabilities of the Company’s consolidated subsidiaries whose functional currency is other than the presentation currency are translated into US$ using the closing exchange rate at the balance sheet date. Income and expenses are translated using the average exchange rate for the period. The resulting foreign exchange gains and losses are recognized in the foreign currency translation adjustment as part of other comprehensive income. Realized gains and losses are recognized in profit or loss at the time of settlement.

2. Summary of material accounting policies *(continued)*

(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 share options, Restricted Stock Units ("RSUs") and Performance Share Units ("PSUs").

(J) Income taxes

Income tax expense or recovery represents the sum of the taxes currently payable or receivable 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 (recovery)" as reported on the Consolidated statements of earnings 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 or recovery 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.

Current and deferred tax for the period

Current and deferred tax expense or recovery 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 and cash equivalents

Cash and cash equivalents is net of outstanding bank overdrafts, if applicable. Cash equivalents consist of highly liquid marketable investments with a maturity date of 90 days or less.

(L) Property, plant and equipment

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

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. Repairs and maintenance costs are recognized in profit or loss as incurred.

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.

2. Summary of material accounting policies *(continued)*

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

Classes	Estimated Useful Life
Land	Indefinite
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:

Classes	Estimated Useful Life
Brands	Indefinite
Trademarks and licenses	Lesser of trademark and license term or 5 years
Customer lists	5 years
Intellectual property ("IP")	10 years
Digital Games development	1-5 years
Entertainment content development	1-5 years
Computer software	30% declining balance
Computer software - other	1-5 years

Intangible assets acquired separately in an asset acquisition

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

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.

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, on the same basis as intangible assets that are acquired separately.

2. Summary of material accounting policies *(continued)*

Internally-generated intangible assets - research and development expenditures

Expenditures on research activities are recognized as incurred and recorded as Product development expenses within Selling, general and administrative in the Consolidated statements of earnings and comprehensive income. 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, on the same basis as intangible assets that are acquired separately.

Entertainment content development

Entertainment content development includes film and television production assets. The Company has access to government programs, including tax credits that are designed to aid in the film and television production and distribution in Canada. 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. Capitalized costs net of expected federal and provincial tax credits are amortized and charged to amortization expense. The consumption of entertainment content development assets is measured through amortization expense with rates ranging from 25% to 100% at the time of delivery for a full season. Entertainment content development assets which are not fully amortized upon delivery are amortized at rates ranging from 50% to 75% of the remaining balance annually thereafter depending on the expected future benefit attributed to the entertainment content development assets.

Deferred revenue related to entertainment content development assets arises as a result of consideration received in advance of the Company fulfilling its obligations.

Please refer to Note 4 for the change in accounting for entertainment content development assets.

Digital Games development

Digital Games development includes digital games related applications. The Company has access to government programs, including tax credits that are designed to aid in the development of interactive digital media in Canada. These 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. These capitalized costs, net of expected provincial tax credits, are charged to amortization expense based on the useful life of the related digital game.

Impairment of definite life tangible and intangible assets

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 (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.

2. Summary of material accounting policies *(continued)*

Recoverable amount is the higher of fair value less costs of disposal 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 equal to the difference between the carrying and recorded amounts is recognized immediately in profit or loss.

When an impairment 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 been recognized for the asset (or CGU) in prior years. A reversal of an impairment 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 for a portion 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 by the first-in, first-out method. Cost 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.

Deferred consideration

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.

Provision for defectives

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 earnings and comprehensive income.

Supplier obligations

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 consigned parts and finished goods inventory.

(Q) Share-based payments

The Company has a Long-Term Incentive Plan ("LTIP") which provides for the issuance of securities under which grants may be made by the Company to employees. The Company, at the discretion of the Board of Directors, grants options to purchase subordinate voting shares, share units (in the form of RSUs and PSUs), stock appreciation rights, shares of restricted stock and any other equity based awards. These awards may be settled in cash or issued shares, or a combination of both at the discretion of the Board of Directors. LTIP liabilities are recorded in shareholders equity and not marked to market.

2. **Summary of material accounting policies *(continued)***

Under the plan, the exercise price of each option equals the market price of the Company's shares on the date of grant and the options have a maximum term of ten years. Options vest between zero and four years.

The costs of equity-settled awards are measured using the Black-Scholes valuation model using management's inputs and assumptions. Share-based compensation expense for equity-settled awards is recognized in administrative expenses over the vesting period of each award, with a corresponding increase to contributed surplus, based on the vesting period that has elapsed and the Company's best estimate of the number of equity instruments that will vest.

(R) Dividends

The Company has a policy of declaring dividends at the discretion of the Board of Directors. Dividends declared are payable to the Company's shareholders and recognized as a liability in the Consolidated statements of financial position in the period in which the dividends are approved by the Company's Board of Directors.

(S) 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 statements 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"), fair value through other comprehensive income ("FVTOCI") or amortized cost.

The Company has made the following classifications:

Cash and cash equivalents	Amortized cost
Trade receivables	Amortized cost
Other receivables	Amortized cost
Other assets	Amortized cost
Investment in a limited partnership	FVTPL
Minority interest and other investments	FVTPL/FVTOCI
Trade payables and accrued liabilities	Amortized cost
Loans and borrowings	Amortized cost
Interest payable	Amortized cost
Foreign exchange forward contracts	FVTPL

The Company classifies its financial assets in the following measurement categories:

- those to be measured at amortized cost; and
- those to be measured subsequently at fair value (either through OCI or through profit or loss)

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 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 whose 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.

2. Summary of material accounting policies *(continued)*

Financial assets at fair value

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;
- 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.

For financial assets measured at fair value, gains and losses will either be recorded in profit or loss (within Other expense, net) or OCI.

Financial assets at fair value - Investment in a limited partnership and minority interest and other investments

The Company measures the Investment in a limited partnership and minority interest and other investments (collectively, "investments") at fair value.

For investments in equity instruments that are not held for trading, FVTPL or FVTOCI designation will depend on whether the Company has made an irrevocable election at the time of initial recognition to account for the equity investment at FVTOCI. If the irrevocable election is made, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment.

Distribution income from investments are recognized in profit or loss within Other expense, net when the Company's right to receive payments is established, irrespective of fair value designation.

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 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 expected credit losses 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 decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment 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.

(T) 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. Summary of material accounting policies *(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.

(U) 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.

(V) 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 and cash equivalents, trade and other receivables, as well as trade payables and other liabilities. Fair value amounts represent point-in-time estimates and may not reflect fair value in the future.

(W) Future changes in accounting standards

Certain new accounting standards, amendments to accounting standards and interpretations have been published that are not yet effective for periods beginning on or after January 1, 2023 and have not been early adopted by the Company.

The Company is currently assessing the impact, if any, on the Consolidated financial statements.

Amendment to IFRS 16 Leases — Lease Liability in a Sale and Leaseback

The amendments to IFRS 16 add subsequent measurement requirements for sale and leaseback transactions that satisfy the requirements in IFRS 15 to be accounted for as a sale. The amendments require the seller-lessee to determine 'lease payments' or 'revised lease payments' such that the seller-lessee does not recognize a gain or loss that relates to the right of use retained by the seller-lessee, after the commencement date. The amendments are effective for annual reporting periods beginning on or after January 1, 2024. The Company is currently assessing the impact of the standard on its consolidated financial statements.

Amendments to IAS 1 Presentation of Financial Statements — Non-current Liabilities with Covenants

The amendments specify that only covenants that an entity is required to comply with on or before the end of the reporting period affect the entity’s right to defer settlement of a liability for at least twelve months after the reporting date (and therefore must be considered in assessing the classification of the liability as current or non-current). Such covenants affect whether the right exists at the end of the reporting period, even if compliance with the covenant is assessed only after the reporting date (e.g. a covenant based on the entity’s financial position at the reporting date that is assessed for compliance only after the reporting date).

The IASB also specifies that the right to defer settlement of a liability for at least twelve months after the reporting date is not affected if an entity only has to comply with a covenant after the reporting period. However, if the entity’s right to defer settlement of a liability is subject to the entity complying with covenants within twelve months after the reporting period, an entity discloses information that enables users of financial statements to understand the risk of the liabilities becoming repayable within twelve months after the reporting period. This would include information about the covenants (including the nature of the covenants and when the entity is required to comply with them), the carrying amount of related liabilities and facts and circumstances, if any, that indicate that the entity may have difficulties complying with the covenants.

The amendments are applied retrospectively for annual reporting periods beginning on or after January 1, 2024. The Company is currently assessing the impact of the standard on its consolidated financial statements.

2. Summary of material accounting policies *(continued)*

Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures — Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognized in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognized in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture. The effective date of the amendments has yet to be set by the IASB. The Company is currently assessing the impact of the standard on its consolidated financial statements.

Amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures — Supplier Finance Arrangements

The amendments add a disclosure objective to IAS 7 stating that an entity is required to disclose information about its supplier finance arrangements that enables users of financial statements to assess the effects of those arrangements on the entity's liabilities and cash flows. In addition, IFRS 7 was amended to add supplier finance arrangements as an example within the requirements to disclose information about an entity's exposure to concentration of liquidity risk. The amendments, which contain specific transition reliefs for the first annual reporting period in which an entity applies the amendments, are applicable for annual reporting periods beginning on or after January 1, 2024. The Company is currently assessing the impact of the standard on its consolidated financial statements.

Amendments to IAS 21 The Effects of Changes in Foreign Exchange Rates — Lack of Exchangeability

The amendments clarify:

a. when a currency is exchangeable into another currency; and
b. how a company estimates a spot rate when a currency lacks exchangeability.

A currency is exchangeable into another currency when a company is able to exchange that currency for the other currency at the measurement date and for a specified purpose. When a currency is not exchangeable, a company needs to estimate a spot rate. When estimating a spot rate, a company can use an observable exchange rate without adjustment or another estimation technique or another estimation technique. The amendment also requires companies to provide new disclosures to help users assess the impact of using an estimated exchange rate on the financial statements.The amendments apply for annual reporting periods beginning on or after January 1, 2025. The Company is currently assessing the impact of the standard on its consolidated financial statements.

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 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.

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

(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 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 amounts for programs which can be contractual or discretionary by nature, and can include negotiated discounts, customer audits, defective products and refund of costs incurred by customers to sell the Company’s products. Contractual allowances are fixed and determinable at the time of sale and are recorded at the time of sale as a reduction to revenue. Discretionary allowances can vary depending on future outcomes such as nature of the product, customer sales volume, inventory position, product performance at retail, historical performance, market conditions and other considerations. The Company may adjust its estimate of sales allowances when facts and circumstances used in the estimation process change.

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

(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 statements of earnings and comprehensive income 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.

(F) Business combinations

Business combinations are accounted for using the acquisition method of accounting. The Company determines the fair value of the identifiable assets acquired and the liabilities assumed 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. Refer to note 28 for further details on acquisitions.

4. Change in accounting policy

Effective January 1, 2023, the Company adopted a voluntary change to its accounting policy for the determination of the unit of account used for measuring the entertainment content development assets. The new measurement basis changes the unit of account for the entertainment content assets from episodic to a full season. Previously, the Company amortized the entertainment content development assets at the time of delivery of each episode or film.

Management believes this change in unit of account results in more relevant and reliable information as the new policy better reflects the consumption of the entertainment content development assets to reflect their anticipated pattern of future economic benefits.

Under the new accounting policy, the consumption of entertainment content development assets will be measured through amortization expense with rates ranging from 25% to 100% at the time of delivery for a full season. Entertainment content development assets which are not fully amortized upon delivery will be amortized at rates ranging from 50% to 75% of the remaining balance annually thereafter depending on the expected future benefit attributed to the entertainment content development assets.

The change in accounting policy was applied retrospectively to all periods presented within the Company's Consolidated financial statements. The change impacted previously reported retained earnings and associated line items within the statement of financial position. The net income impact of the change in accounting policy relating to the prior period presented is immaterial and as such is not separately disclosed below.

	December 31, 2022		
(US$ millions)	**Previously Reported**	**Change in Policy**	**Restated Balance**
Intangible assets	267.2	12.6	279.8
Income tax payable	26.4	3.3	29.7
Retained earnings	468.1	9.3	477.4
Retained earnings, as at January 1, 2022	216.0	9.3	225.3

5. Revenue

The Company earns revenue from the following primary sources: Toys, Entertainment and Digital Games.

	Year Ended Dec 31,	
(US$ millions)	**2023**	**2022**
Toy revenue	1,540.9	1,737.6
Entertainment revenue	190.1	118.8
Digital Games revenue	173.9	163.9
Revenue	**1,904.9**	**2,020.3**

6. Other expense, net

		Year Ended Dec 31,	
(US$ millions)	**Notes**	**2023**	**2022**
Impairment on non-current assets	**15, 16, 17**	35.8	3.0
Acquisition related deferred incentive compensation	**28**	7.6	10.3
Legal settlement (recovery)		0.6	(2.1)
Loss on minority interest and other investments	**14**	—	0.5
Net realized gain on investment	**29**	(0.1)	(0.1)
Net unrealized gain on investment	**29**	(0.1)	—
Acquisition related deferred consideration	**21**	(6.8)	2.6
Other		(3.3)	(3.3)
Other expense, net		**33.7**	**10.9**

Acquisition related deferred incentive compensation includes amounts that are contingent on the continued employment of key principals as well as the achievement of certain performance metrics, over their respective requisite service periods (see Note 28).

7. Interest expense and Interest income

	Year Ended Dec 31,	
(US$ millions)	**2023**	**2022**
Bank fees and financing charges	9.5	7.7
Interest on lease liabilities and accretion expense	5.1	5.5
Amortization of Facility fee costs	0.5	0.4
Interest expense	**15.1**	**13.6**
Interest income[1]	**(27.4)**	**(10.7)**

[1] Interest income includes interest earned on cash and cash equivalents held by the Company.

8. Expenses

Expenses include selling, general and administrative expenses and depreciation and amortization.

Selling, general and administrative expenses

	Year Ended Dec 31,	
(US$ millions)	**2023**	**2022**
Administrative	365.1	353.8
Marketing	181.4	185.1
Selling	132.1	144.2
Distribution	64.2	67.9
Product development	32.9	31.1
Selling, general and administrative	**775.7**	**782.1**

Administrative expenses include the following:

	Year Ended Dec 31,	
(US$ millions)	**2023**	**2022**
Employee compensation and benefits[1]	256.6	250.6
Technology, property, travel and office costs	46.8	44.8
Professional services, recruiting and training	41.8	43.8
Other	19.9	14.6
Administrative expenses	**365.1**	**353.8**

[1]During the year ended December 31, 2023, the Company recognized restructuring expenses of $18.1 million, primarily related to the reduction in the Company's global workforce and closure of its manufacturing facility in Calais, France. Please refer to Note 18 for the corresponding liability related to the unpaid portion of the restructuring expense.

Employee compensation and benefits

	Year Ended Dec 31,	
(US$ millions)	**2023**	**2022**
Salaries, wages and bonuses	2.2	3.0
Employee benefits	0.6	0.9
Employee compensation and benefits expenses in cost of sales	**2.8**	**3.9**
Salaries, wages and bonuses	182.0	194.8
Employee benefits	36.4	33.4
Share-based compensation	20.1	17.6
Restructuring expense	18.1	4.8
Employee compensation and benefits in administrative expenses	**256.6**	**250.6**
Employee compensation and benefits	**259.4**	**254.5**

8. Expenses *(continued)*

Depreciation and amortization

(US$ millions)	Year Ended Dec 31, 2023	2022
Property, plant and equipment		
Moulds, dies and tools, included in cost of sales	19.9	20.5
Building and leasehold improvements	4.7	5.6
Equipment	2.4	1.7
Computer hardware	1.0	0.8
Equipment, included in cost of sales	1.9	0.1
	29.9	**28.7**
Intangible assets		
Entertainment content development, included in cost of sales	77.7	14.4
Digital games and app development, included in cost of sales	5.1	4.3
Trademarks, licenses, IP & customer lists - definite life	3.1	5.1
Computer software	2.6	3.5
	88.5	**27.3**
Right-of-use assets	**11.6**	**12.2**
Depreciation and amortization	**130.1**	**68.2**

(US$ millions)	Year Ended Dec 31, 2023	2022
Included in cost of sales	104.7	39.2
Included in expenses	25.4	29.0
Depreciation and amortization	**130.1**	**68.2**

9. Foreign exchange

(US$ millions)	Year Ended Dec 31, 2023	2022
Unrealized foreign exchange loss (gain), net	26.1	(40.3)
Realized foreign exchange gain, net	(11.4)	(21.1)
Foreign exchange loss (gain), net	**14.7**	**(61.4)**

Unrealized foreign exchange gains and losses are generated by the translation of monetary assets and liabilities denominated in a currency other than the functional currency and also includes gains and losses related to the Company's hedging programs. Realized foreign exchange gains and losses are recognized when monetary assets and liabilities denominated in a currency other than the functional currency of the applicable entity are settled and also includes gains and losses related to the Company's hedging programs. The Company periodically enters into derivative financial instruments such as foreign exchange forward contracts to manage foreign currency risk on cash flows denominated in currencies other than the US dollar (see Note 29).

10. Income tax

The income tax expense recognized in the Consolidated statements of earnings and comprehensive income comprises of the following:

	Year Ended Dec 31,	
(US$ millions)	**2023**	**2022**
Current income tax expense	61.6	69.8
Deferred income tax (recovery) expense	(11.8)	9.3
Income tax expense	**49.8**	**79.1**

The income tax expense is calculated as follows:

	Year Ended Dec 31,			
(US$ millions)	**2023**		**2022**	
Income before income tax expense	201.2		340.4	
Income tax expense at Canadian statutory tax rate of 26.5% (2022 - 26.5%)	53.3	26.5 %	90.2	26.5 %
Effect of:				
Different tax rates of subsidiaries operating in other jurisdictions	(7.8)	(3.9)%	(9.8)	(2.9)%
Unused tax losses and tax attributes not recognized as deferred tax assets	0.7	0.3 %	1.1	0.3 %
Expense not deductible in determining taxable income	1.8	0.9 %	0.8	0.2 %
Recognition of previously unrecognized tax losses and other deferred tax assets	(0.2)	(0.1)%	—	— %
Other	2.0	1.1 %	(3.2)	(0.9)%
Income tax expense	**49.8**	**24.8 %**	**79.1**	**23.2 %**

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

Current tax assets and liabilities

As at December 31, 2023, the Company had income tax payable of $6.6 million (2022 - $29.7 million).

Deferred income tax balances

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

(US$ millions)	**2023**	**2022**
Deferred income tax assets	110.8	94.7
Deferred income tax liabilities	(59.1)	(55.7)
Deferred income tax assets, net of deferred income tax liabilities	**51.7**	**39.0**

The sources of deferred income tax balances are as follows:

(US$ millions)	**2021**	**Recognized in net income**	**2022**
Property, plant and equipment	3.3	(2.3)	1.0
Intangible assets	24.2	(6.4)	17.8
Provisions	15.6	3.2	18.8
Allowance for doubtful accounts	0.1	—	0.1
Benefits of tax loss carryforwards	4.4	(3.0)	1.4
Other temporary differences	0.7	(0.8)	(0.1)
Deferred income tax assets, net of deferred income tax liabilities	**48.3**	**(9.3)**	**39.0**

10. Income tax *(continued)*

(US$ millions)	2022	Recognized in net income	Foreign currency translation	2023
Property, plant and equipment	1.0	5.5	—	6.5
Intangible assets	17.8	(3.5)	0.4	14.7
Provisions	18.8	5.4	0.5	24.7
Allowance for doubtful accounts	0.1	0.3	—	0.4
Benefits of tax loss carryforwards	1.4	(0.5)	—	0.9
Other temporary differences	(0.1)	4.6	—	4.5
Deferred income tax assets, net of income tax liabilities	**39.0**	**11.8**	**0.9**	**51.7**

Unused tax losses

As at December 31, 2023, the Company had unused tax losses of $9.1 million (2022 - $8.7 million). Unused tax losses of $0.2 million will expire between 2024 and 2033, $4.3 million will expire beyond 2033 and $4.6 million may be carried forward indefinitely. There were no unrecognized deductible temporary differences for the year ended December 31, 2023 (2022 - $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, 2023 are $310.0 million (2022 - $338.2 million).

11. Cash and cash equivalents

(US$ millions)	Dec 31, 2023	Dec 31, 2022
Cash	705.7	544.3
Cash equivalents	—	100.0
Cash and cash equivalents	**705.7**	**644.3**

As at December 31, 2023, the Company held $nil (December 31, 2022 - $100.0 million) in short term investments with a maturity date of 90 days or less.

Subsequent to December 31, 2023, the Company utilized $434.0 million of cash for the acquisition of Melissa & Doug LLC. Please refer to Note 31 for more details.

12. Trade and other receivables, net

Trade receivables

(US$ millions)	Dec 31, 2023	Dec 31, 2022
Trade receivables	660.1	514.7
Provisions for sales allowances	(241.7)	(202.2)
Allowance for doubtful accounts	(4.0)	(1.5)
Trade receivables, net	**414.4**	**311.0**

Trade receivables disclosed above include any amounts that are past due as at the end of the reporting period.

Trade receivables past due but not impaired

(US$ millions)	Dec 31, 2023	Dec 31, 2022
61-90 days	6.4	8.0
91-120 days	0.7	3.7
> 120 days	9.0	11.1
Total trade receivables past due but not impaired	**16.1**	**22.8**

12. Trade and other receivables, net *(continued)*

Movement in the allowance for doubtful accounts

(US$ millions)	Dec 31, 2023	Dec 31, 2022
Balance, beginning of year	1.5	0.7
Net impairment recognized	3.7	0.8
Amounts written off during the year as uncollectible	(1.1)	(0.1)
Foreign currency translation	(0.1)	0.1
Balance, end of year	**4.0**	**1.5**

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.

Other receivables

(US$ millions)	Dec 31, 2023	Dec 31, 2022
Investment tax credits receivables	48.9	37.3
Sales tax receivables	4.1	3.9
Other	7.0	8.3
Other receivables	**60.0**	**49.5**

13. Inventories, net

(US$ millions)	Dec 31, 2023	Dec 31, 2022
Raw materials	2.7	7.7
Finished goods	95.3	97.4
Inventories, net	**98.0**	**105.1**

Inventories as at December 31, 2023 are net of $9.0 million for the provision of inventories to net realizable value (December 31, 2022 - $8.8 million).

The cost of inventories recognized as an expense in cost of sales during the year ended December 31, 2023 was $705.2 million (2022 - $819.2 million).

During the year ended December 31, 2023, included within cost of sales in the Consolidated statements of earnings and comprehensive income was a cost of $7.4 million (2022 - $5.8 million) related to finished goods inventories written down to net realizable value.

14. Prepaid expenses and other assets

(US$ millions)	Notes	Dec 31, 2023	Dec 31, 2022
Prepaid expenses		35.2	13.9
Advances on royalties		1.6	6.7
Unrealized foreign exchange gain on financial instruments		4.1	1.7
Prepaid expenses and other assets		**40.9**	**22.3**

(US$ millions)	Notes	Dec 31, 2023	Dec 31, 2022
Minority interest and other investments		11.3	8.8
Investment in a limited partnership	29	3.7	3.9
Advances on royalties		5.0	2.9
Investment tax credits - non-current portion		4.6	3.6
Other		1.9	1.3
Other assets, non-current		**26.5**	**20.5**

Investment in a limited partnership

For the year ended December 31, 2023, the Company recognized a net unrealized gain in Other expense, net in the Consolidated statements of earnings and comprehensive income of $0.1 million (2022 - $nil). The Company recognized distribution income of $0.1 million in Other expense, for the year ended December 31, 2023 and 2022.

The Company has paid $2.8 million and is obligated to pay the remaining $0.2 million upon receiving capital calls over the remaining term of the limited partnership agreement. The investment in a limited partnership is held for medium to long-term strategic purposes (see Note 29).

Minority interest and other investments

Minority interest and other investments classified as FVTOCI is comprised of equity instruments that the Company has irrevocably elected to recognize in this category. These are strategic investments, and the Company considers this classification to be more relevant.

During the year ended December 31, 2023, the Company invested $2.5 million in existing minority interest and other investments classified as FVTPL.

In 2022, the Company acquired minority interests in privately-held entities for a total of $7.5 million. The investments are held for medium to long term strategic purposes. Four investments are classified as FVTPL and one classified as FVTOCI.

In the third quarter of 2022, the Company acquired the remaining ownership interest and control of a minority interest investment classified as FVTOCI. As part of the step acquisition to 100% ownership of the entity, the existing investment was deemed to be disposed and reacquired at fair value of $0.7 million (see Note 28).

The carrying value of the seven minority interest and other investments held as at December 31, 2023 (December 31, 2022 - five investments) were as follows:

		Carrying value at,	
(US$ millions)	Initial investment	Dec 31, 2023	Dec 31, 2022
Minority interest and other investments classified as FVTOCI	3.6	3.0	3.0
Minority interest and other investments classified as FVTPL	8.8	8.3	5.8
Minority interest and other investments	**12.4**	**11.3**	**8.8**

For the year ended December 31, 2023, the Company recognized $nil gains or losses (2022 - $0.5 million of losses within Other expenses, net and $0.1 million of gain within Other comprehensive loss) for the minority interest and other investments classified as FVTPL and FVTOCI, respectively in the Consolidated statements of earnings and comprehensive income.

15. Property, plant and equipment

(US$ millions)	Moulds, dies and tools	Equipment	Land, building and leasehold improvements	Computer hardware	Total
Cost					
Balance at December 31, 2021	172.6	28.1	39.6	12.4	252.7
Additions	23.0	3.6	2.7	1.1	30.4
Disposals	(7.0)	(0.4)	(0.8)	(0.5)	(8.7)
Impairment	(1.6)	—	—	—	(1.6)
Foreign currency translation	(10.9)	(1.1)	(1.8)	(0.4)	(14.2)
Balance at December 31, 2022	**176.1**	**30.2**	**39.7**	**12.6**	**258.6**
Additions	20.6	1.9	3.7	1.8	28.0
Disposals	(38.3)	(5.5)	(3.0)	(0.6)	(47.4)
Impairment	(0.9)	—	—	—	(0.9)
Assets recognized upon acquisition	0.4	—	—	—	0.4
Foreign currency translation	(2.2)	0.3	0.8	0.4	(0.7)
Balance at December 31, 2023	**155.7**	**26.9**	**41.2**	**14.2**	**238.0**
Accumulated depreciation and impairment					
Balance at December 31, 2021	(151.4)	(22.3)	(27.4)	(11.8)	(212.9)
Depreciation	(20.5)	(1.8)	(5.6)	(0.8)	(28.7)
Disposals	5.8	0.4	0.7	0.4	7.3
Impairment	(0.3)	—	—	—	(0.3)
Foreign currency translation	9.5	0.6	1.4	0.5	12.0
Balance at December 31, 2022	**(156.9)**	**(23.1)**	**(30.9)**	**(11.7)**	**(222.6)**
Depreciation	(19.9)	(4.3)	(4.7)	(1.0)	(29.9)
Disposals	37.1	4.6	2.7	0.7	45.1
Foreign currency translation	3.2	(0.4)	(0.6)	(0.2)	2.0
Balance at December 31, 2023	**(136.5)**	**(23.2)**	**(33.5)**	**(12.2)**	**(205.4)**
Net carrying amount					
Balance at December 31, 2022	**19.2**	**7.1**	**8.8**	**0.9**	**36.0**
Balance at December 31, 2023	**19.2**	**3.7**	**7.7**	**2.0**	**32.6**

At December 31, 2023, the Company assessed tangible assets for any indication of impairment and noted no indicators with the exception of those related to certain tooling assets. Impairment are recorded when the carrying amount of the asset exceeds its recoverable amount. For the year ended December 31, 2023, the Company recorded impairment of $0.9 million (2022 $1.9 million), related to tooling in Other expense, net within the Consolidated statements of earnings and comprehensive income.

16. Intangible assets

(US$ millions)	Note	Brands - indefinite	Trademarks, licenses, IP & customer lists - definite	Entertainment content development	Digital game and app development	Computer software	Total
Cost							
Balance at December 31, 2021		157.3	56.4	253.0	27.6	34.6	528.9
Additions		—	0.5	54.6	9.1	4.8	69.0
Impairment		—	—	(1.1)	—	—	(1.1)
Assets acquired through business combinations	**28**	4.4	—	—	—	—	4.4
Foreign currency translation		(2.0)	(0.8)	(15.7)	(1.9)	(2.5)	(22.9)
Balance at December 31, 2022		**159.7**	**56.1**	**290.8**	**34.8**	**36.9**	**578.3**
Additions[1]		3.3	—	54.0	19.1	3.0	79.4
Disposals		—	—	—	—	(0.1)	(0.1)
Impairment		—	—	(6.4)	(0.7)	(1.1)	(8.2)
Assets acquired through business combinations	**28**	12.5	3.7	—	—	—	16.2
Foreign currency translation		0.6	0.2	7.4	1.6	0.9	10.7
Balance at December 31, 2023		**176.1**	**60.0**	**345.8**	**54.8**	**39.6**	**676.3**
Accumulated amortization							
Balance at December 31, 2021	**4**	—	(32.1)	(213.0)	(14.8)	(29.2)	(289.1)
Amortization		—	(5.1)	(14.4)	(4.3)	(3.5)	(27.3)
Foreign currency translation		—	0.5	13.7	1.4	2.3	17.9
Balance at December 31, 2022	**4**	**—**	**(36.7)**	**(213.7)**	**(17.7)**	**(30.4)**	**(298.5)**
Amortization		—	(3.1)	(77.7)	(5.1)	(2.6)	(88.5)
Disposal		—	—	—	—	0.1	0.1
Foreign currency translation		—	(0.8)	(6.1)	(0.5)	(0.7)	(8.1)
Balance at December 31, 2023		**—**	**(40.6)**	**(297.5)**	**(23.3)**	**(33.6)**	**(395.0)**
Net carrying amount							
Balance at December 31, 2022	**4**	**159.7**	**19.4**	**77.1**	**17.1**	**6.5**	**279.8**
Balance at December 31, 2023		**176.1**	**19.4**	**48.3**	**31.5**	**6.0**	**281.3**

[1] On April 14, 2023, the Company recorded an addition of $3.3 million in indefinite life brands as a result of the assets acquired from a games & puzzles company.

Effective January 1, 2023, the Company adopted a voluntary change to its accounting policy for the determination of the unit of account used for measuring the entertainment content development assets resulting in a restatement of $12.6 million for the balance at December 31, 2021 (see Note 4).

The Company's Entertainment content development and Digital Games development assets are comprised primarily of internally generated intangible assets. As at December 31, 2023, the range of remaining useful life of these definite life intangible assets based on their net carrying amount was one to five years.

At December 31, 2023, the Company assessed intangible assets for any indication of impairment. Impairment is recorded when the carrying amount of the asset exceeds its recoverable amount. The Company recorded an impairment of $8.2 million (2022 - $1.1 million) for the year ended December 31, 2023, related to content development projects, app development projects and components of computer software in Other expense, net within the Consolidated statements of earnings and comprehensive income.

During the year ended December 31, 2023, the Company amortized Entertainment content development costs in the amount of $13.4 million for the delivered of *PAW Patrol: The Mighty Movie*.

16. Intangible assets (*continued*)

Intangible asset impairment - definite life assets

For the year ended December 31, 2023, the Company recorded impairment of $6.4 million (2022 - $1.1 million) related to entertainment content projects no longer in active development, $1.1 million (2022 - $nil) related to computer software and $0.7 (2022 - $nil million) related to Digital Games app development within Other expense, net in the Consolidated statements of earnings and comprehensive income.

Indefinite life brands

The carrying amount of indefinite life brands by CGU is as follows:

(US$ millions)	Dec 31, 2023	Dec 31, 2022
Games and Puzzles	43.5	35.6
Rubik's	40.7	37.4
Plush	33.9	33.9
SwimWays	28.5	28.0
Etch A Sketch	7.2	7.1
Wheels & Action	4.8	—
Meccano	2.3	2.4
Toys intangible assets	160.9	144.4
Digital Games intangible assets	15.3	15.3
Total	**176.2**	**159.7**

The Company has assessed these intangible assets to have indefinite useful lives as they will generate economic benefit with no foreseeable limit. Therefore, the Company does not amortize these intangible assets, but tests for impairment in accordance with the Company's policy. The recoverable amount of the CGUs for indefinite life brands have been determined on the same basis and assumptions as goodwill (see Note 17).

For the year ended December 31, 2023, the Company completed its annual impairment tests for indefinite life brands and did not recognized any impairment (2022 - $nil).

17. Goodwill

(US$ millions)	Notes	Dec 31, 2023	Dec 31, 2022
Balance, beginning of year		179.0	173.1
Additions during the year	28	12.4	7.2
Impairment recognized in the year		(26.7)	—
Foreign currency translation		1.2	(1.3)
Balance, end of year		**165.9**	**179.0**

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

(US$ millions)	Dec 31, 2023	Dec 31, 2022
Games and Puzzles	61.5	51.3
Rubik's	23.0	23.0
Digital Games	22.6	22.6
SwimWays	22.4	40.1
Plush	20.3	20.3
Toys	7.5	7.5
Wheels and Action	3.1	—
Other	5.5	6.2
Orbeez	—	8.0
Goodwill	**165.9**	**179.0**

17. Goodwill

Intangible asset impairment - goodwill and indefinite life brands

In assessing goodwill and indefinite life intangible assets for impairment at December 31, 2023 and 2022, the Company compared the aggregate recoverable amount of the assets included in CGUs to their respective carrying amounts.

The recoverable amount of a CGU is determined based on a value in use calculation which uses cash flow projections based on financial forecasts covering a five-year period and a terminal value. The terminal value is the value attributed to the CGU's cash flows beyond the five-year period. The key assumptions used in the value in use calculation are discount rates, projected revenues and margins.

The discount rate applied to each CGU to determine the value in use is a pre-tax discount rate that reflects current market assessments of the time value of money and considers the risk-free rate, market equity risk premium, size premium and the risks specific to each CGU's cash flow projections. The pre-tax discount rates used by the Company for the purpose of its value in use calculations ranged from 11.3% to 19.6% (2022 -14.8% to 23.0%).

Revenue growth rates are based on management's best estimates considering historical and expected future operating and plans, economic considerations and the general outlook for the industry and markets in which the CGU operates. Cash flow projections during the forecast period are determined using expected gross margins and raw materials price inflation throughout the forecast period. The projections are prepared separately for each of the Company's CGUs and are based on the most recent financial budgets approved by management. The terminal value is projected using a 1.0% (2022 - 1.0%) per annum growth rate in perpetuity which is the projected long-term average growth rate.

The Company has conducted a sensitivity analysis on the key assumptions used to determine the recoverable amount for each of the CGUs. Management believes that any reasonable 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 related CGUs.

For the year ended December 31, 2023, there was $26.7 million (2022 - $nil million) of goodwill impairment recognized for three CGUs representing the Company's product lines. Goodwill impairment charges of $17.7 million for the SwimWays CGU, reflecting the adverse impact of macroeconomic challenges and timing of certain growth strategies on its future cash flow; $8.0 million for the Orbeez CGU, due to management's strategic decision to change its business operations resulting in a change in its identification as a CGU; and $1.0 million for the Meccano CGU, reflecting management's decision to close its manufacturing facility and the adverse impact on its future cash flow were recognized within Other expense, net in the Consolidated statements of earnings and comprehensive income (Please refer to Note 6).

18. Trade payables and accrued liabilities

(US$ millions)	Dec 31, 2023	Dec 31, 2022
Trade payables	189.2	153.0
Accrued liabilities	196.2	186.4
Trade payables and accrued liabilities	**385.4**	**339.4**

Accrued liabilities are comprised of payroll related liabilities, accrued royalties, commodity tax, dividends payable, and other. As at December 31, 2023, $4.6 million of dividends payable is included in accrued liabilities (December 31, 2022 - $4.6 million) (see Note 22).

As at December 31, 2023, a restructuring liability of $3.5 million, expected to be paid in 2024 (December 31, 2022 - $0.4 million), related to the reduction in the Company's global workforce and closure of its manufacturing facility in Calais, France, is included in accrued liabilities with a corresponding expense recorded in Selling, general and administrative expenses in the Consolidated statements of earnings and comprehensive income (Please refer to Note 8).

19. Deferred revenue

Deferred revenue is comprised of advances on contracts relating to Entertainment revenue and subscriptions relating to Digital Games revenue. These amounts represent consideration received in advance of the Company fulfilling its performance obligations. As at December 31, 2023, the Company had deferred revenue of $11.0 million (December 31, 2022 - $11.5 million).

For the year ended December 31, 2023, the Company recognized revenue of $11.9 million (2022 - $8.3 million) relating to amounts previously deferred.

20. Loans and borrowings

Unsecured Debt

Bank facilities

The Company has an unsecured five-year revolving credit facility (the "Facility") with a borrowing capacity of $510.0 million which matures on September 28, 2026, and contains certain financial covenants. The Facility also has an option which permits the Company to increase the total capital available by an additional $200.0 million. Total financing costs of $1.8 million, which include Facility amendment fees and related legal fees, are recognized in Other assets and are being amortized over the term of the amended and restated agreement.

On November 20, 2023, the Company entered into a one-year non-revolving credit facility (the "Acquisition Facility") with a borrowing capacity of $225.0 million which matures on November 19, 2024, and contains certain financial covenants. The Acquisition Facility will be used to assist in the funding of the acquisition of Melissa & Doug LLC. Total financing costs of $0.8 million, which include Facility arranger fees, agency fees and related legal fees, are recognized in Other assets and are being amortized over the term of the Acquisition Facility. Please refer to Note 31.

As at December 31, 2023, there were $1.5 million (December 31, 2022 - $1.4 million) in letters of credit outstanding under the Facility. As at December 31, 2023, there was $nil drawn (December 31, 2022 - $nil) under the Facility. As at December 31, 2023, Unamortized Facility fee costs in the amount of $1.7 million (December 31, 2022 - $1.2 million) recognized in Prepaid expenses and other assets in the Consolidated statements of financial position.

This Facility is subject to the maintenance of certain financial covenants. The Company was in compliance with all financial covenants as at December 31, 2023 and December 31, 2022.

Bank overdraft facility

The Company has an uncommitted overdraft facility agreement (the "European Facility") for $15.9 million (equivalent to €15.0 million). The European Facility will be used, if needed, to fund working capital requirements in Europe. As at December 31, 2023, the outstanding balance was $nil (December 31, 2022 - $nil).

Secured Debt

Bank facilities

The Company has an uncommitted revolving credit facility to finance television and film production (the "Production Facility"). The limit of the credit facility is $7.4 million (equivalent to CA$10.0 million). As at December 31, 2023, the outstanding balance of the Production Facility was $nil (December 31, 2022 - $nil).

21. Provisions

(US$ millions)	Dec 31, 2023	Dec 31, 2022
Deferred Consideration(i)	26.7	26.7
Defectives(ii)	14.5	13.6
Supplier liabilities(iii)	5.2	5.5
Provisions	**46.4**	**45.8**
Current	32.1	30.7
Non-current	14.3	15.1
Provisions	**46.4**	**45.8**

(US$ millions)	Deferred consideration(i)	Defectives(ii)	Supplier liabilities(iii)	Total
December 31, 2021	**23.3**	**9.9**	**5.9**	**39.1**
Provisions recognized	12.5	11.4	2.0	**25.9**
Accretion recognized	1.3	—	—	**1.3**
Payments	(12.6)	(7.6)	(2.4)	**(22.6)**
Revaluation of provisions	2.2	(0.1)	—	**2.1**
December 31, 2022	**26.7**	**13.6**	**5.5**	**45.8**
Provisions recognized	14.2	9.7	1.5	**25.4**
Accretion recognized	1.2	—	—	**1.2**
Payments	(8.7)	(9.0)	(1.7)	**(19.4)**
Revaluation of provisions	(6.8)	0.2	—	**(6.6)**
December 31, 2023	**26.7**	**14.5**	**5.2**	**46.4**

(i) Certain business combinations include agreement terms associated with royalty payables or deferred incentive compensation and are based on the achievement of certain financial performance criteria and/or continued employment. The accretion of the royalties is recorded in Interest expense in the Consolidated statements of earnings and comprehensive income. Accrued deferred incentive compensation is recorded in Other expense, net in the Consolidated statements of earnings and comprehensive income. Subsequent reviews of financial performance may result in the recording of additional considerations or reductions of the existing provision and are recorded in Other expense, net in the Consolidated statements of earnings and comprehensive income.

(ii) Defectives occur 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 of the product and reduces the revenue figure in the Consolidated statements of earnings and comprehensive income.

(iii) Supplier liabilities represent the estimated amounts to be paid to suppliers for lower than expected volumes purchased, resulting in the supplier having excess raw material and/or finished goods inventory. While such payments are not legally required, the Company may 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/or finished goods inventory. The provision for supplier obligations is recorded in cost of sales in the Consolidated statements of earnings 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 probable 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.

22. Share capital

(a) Authorized as at December 31, 2023 and December 31, 2022

- Unlimited number of multiple voting shares with no par value;
- Unlimited number of subordinate voting shares with no par value; and
- Unlimited number of preferred shares issuable in series with no par value.

Multiple voting shares and subordinate voting shares entitle the holder to receive dividends, and to receive the proceeds of liquidation, dissolution or winding up the Company in proportion to the number of shares held. These rights are subject to the prior rights of the holders of any shares ranking prior to the multiple voting shares and the subordinate voting shares.

The holders of the multiple voting shares are entitled to 10 votes for each share held and the holders of the subordinate voting shares are entitled to 1 vote for each share held.

Multiple voting shares are convertible at any time into an equivalent number of subordinate voting shares. Subordinate voting shares do not have any redemption or conversion rights.

Preferred shares of each series will be entitled to preference over the multiple voting shares and subordinate voting shares with respect to the payment of dividends and to receive the proceeds of liquidation, dissolution or winding up of the Company.

	Year Ended Dec 31, 2023		Year Ended Dec 31, 2022	
	Shares (millions)	**Amount (US$ millions)**	**Shares (millions)**	**Amount (US$ millions)**
Multiple voting shares:				
Outstanding, beginning of year	**68.7**	**350.5**	**70.6**	**360.2**
Conversion to subordinate voting shares	—	—	(1.9)	(9.7)
Outstanding, end of year	**68.7**	**350.5**	**68.7**	**350.5**
Subordinate voting shares:				
Outstanding, beginning of year	34.2	404.2	31.8	376.7
Issuance of subordinate voting shares	1.2	33.4	0.5	17.8
Conversion from multiple voting shares	—	—	1.9	9.7
Subordinate voting shares purchased and cancelled	(0.4)	(4.7)	—	—
Outstanding, end of year	**35.0**	**432.9**	**34.2**	**404.2**
Shares issued and outstanding, end of year	**103.7**	**783.4**	**102.9**	**754.7**

On January 5, 2023, the Company launched, and the Toronto Stock Exchange ("TSX") accepted the notice to launch a Normal Course Issuer Bid (the "NCIB"). Under the NCIB, the Company repurchases its subordinate voting shares on the open market at its discretion and subject to compliance with applicable securities laws and the rules of the TSX. The NCIB period commenced on January 9, 2023, and will end on the earlier of January 8, 2024, and the completion of purchases under the NCIB, of up to 2,845,904 subordinate voting shares, which represented approximately 10% of the "public float" (within the meaning of the rules of the TSX) upon launch of the NCIB.

On March 10, 2023, the Company entered into an automatic share purchase plan ("ASPP") to effect the purchase of subordinate voting shares under the NCIB for a period up to April 14, 2023. In 2023, the Company repurchased and cancelled 397,700 subordinate voting shares at a cost of $10.5 million.

On April 14, 2023, upon the expiry of the ASPP commitment period, the Company derecognized the remaining obligation for the outstanding repurchase commitment in trade payables and accrued liabilities.

22. Share capital *(continued)*

The following table summarizes the Company’s activities under the NCIB for the year ended December 31, 2023:

(US$ millions)	Year Ended Dec 31 2023
Subordinate voting shares repurchased under the NCIB for cancellation (number of shares)	397,700
Cash consideration paid	10.5
Reduction in share capital	4.7
Premium paid on repurchased and cancelled shares recorded in retained earnings	5.8

The following table provides a summary of dividends declared and paid.

Declaration Date	Record Date	Payment Date	Rate per Share (CA$)	Dividends declared and accrued (in US$ millions)
February 28, 2024	March 29, 2024	April 12, 2024	0.06	4.6
November 1, 2023	December 29, 2023	January 12, 2024	0.06	4.6
August 2, 2023	September 29, 2023	October 13, 2023	0.06	4.6
May 3, 2023	June 30, 2023	July 14, 2023	0.06	4.7
March 8, 2023	March 31, 2023	April 14, 2023	0.06	4.6
November 2, 2022	December 30, 2022	January 13, 2023	0.06	4.6
July 27, 2022	September 29, 2022	October 14, 2022	0.06	4.6

During the year ended December 31, 2023, dividends of $18.4 million (2022 - $4.6 million) were paid.

During the year ended December 31, 2023, the Company implemented a Dividend Reinvestment Plan (the "DRIP"). The DRIP provides the Company’s eligible shareholders with the opportunity to have all or a portion of the cash dividends declared on their subordinate voting shares or multiple voting shares automatically reinvested into additional subordinate voting shares of the Company on an ongoing basis.

(b) Share-based plans

The total expense recognized for employee services received during the year ended for December 31, 2023 equity-settled transactions is shown in the following table:

(US$ millions)	Year Ended Dec 31, 2023	 2022
Equity-settled RSUs and PSUs	20.1	17.5
Share purchase options	—	0.1
Share based compensation expense	**20.1**	**17.6**

Share based compensation expense is recorded in administrative expenses in the Consolidated statements of earnings and comprehensive income with a corresponding amount recorded in contributed surplus.

Long-Term Incentive Plan

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 Stock Units ("RSUs") and Performance Share Units ("PSUs"), stock appreciation rights, restricted stock and any other equity based awards. As at December 31, 2023, the aggregate number of subordinate voting shares that may be issued pursuant to grants under the LTIP may not exceed 9,669,599 (December 31, 2022 - 9,669,599). As at December 31, 2023, 2,952,265 (December 31, 2022 - 3,656,929) subordinate voting shares remained reserved for issuance under the LTIP.

The Company settled vested LTIP grants during the year ended December 31, 2023 through the issuance of shares. The settlements resulted in a transfer of $33.4 million (2022 - $17.6 million) from contributed surplus to share capital.

22. Share capital *(continued)*

Restricted Stock Units and Performance Share Units

RSUs and PSUs are granted to Eligible Persons by the Company's Board. The Board determines the Grant Value and Valuation Date for each Grant. RSUs and PSUs vest from the date of grant in accordance with the vesting schedule determined by the Board and set out in the applicable Grant Agreement for each Eligible Person.

Below is a summary of the activity related to RSUs outstanding as at December 31, 2023 and December 31, 2022.

(number of units)	Dec 31, 2023	Dec 31, 2022
Outstanding, beginning of year	1,082,423	942,931
Granted	676,978	412,676
Exercised	(562,775)	(214,456)
Forfeited	(50,599)	(58,728)
Outstanding, end of year	**1,146,027**	**1,082,423**

Below is a summary of the activity related to PSUs outstanding as at December 31, 2023 and December 31, 2022.

(number of units)	Dec 31, 2023	Dec 31, 2022
Outstanding, beginning of year	1,006,332	1,091,862
Granted	404,009	276,410
Exercised	(665,519)	(318,179)
Forfeited	(22,198)	(43,761)
Outstanding, end of year	**722,624**	**1,006,332**

Deferred Share Units ("DSUs")

DSUs are an incentive program for Board members of the Company, whereby Board members may elect to receive remuneration in the form of DSUs, cash or combination thereof. The DSUs vest immediately upon grant but cannot be exercised until the Company's Board of Director departs the Company.

Below is a summary of the activity related to the DSUs outstanding as at December 31, 2023 and December 31, 2022.

(number of units)	Dec 31, 2023	Dec 31, 2022
Outstanding, beginning of year	187,864	157,293
Granted	72,506	55,479
Exercised	(3,690)	(24,908)
Outstanding, end of year	**256,680**	**187,864**

The fair value of the DSUs is determined to be the share price on the grant date. Share based compensation expense of $1.9 million (2022 - $1.7 million) was recorded for the year ended December 31, 2023.

A mark to market loss of $0.1 million on DSUs outstanding (2022 - gain of $1.7 million) was recorded for the year ended December 31, 2023.

The share based compensation and mark to market loss or gain related to DSUs are reflected in administrative expenses in the Consolidated statements of earnings and comprehensive income. A corresponding amount was recorded in accrued liabilities.

The total share based compensation expense of $20.1 million (2022 - $17.6 million) includes the equity-settled RSU and PSU share based compensation of $20.0 million (2022 - $19.3 million) and the mark to market loss on DSUs of $0.1 million (2022 - gain of $1.7 million).

22. Share capital *(continued)*

Share Purchase Options ("Options")

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

The Company did not issue any Options in 2023 and 2022. As at December 31, 2023, 476,224 (December 31, 2022 - 483,426) Options were outstanding with a weighted average exercise price of CA$34.78 (December 31, 2022 - CA$34.97).

	Dec 31, 2023		Dec 31, 2022	
	Number of share options	**Weighted average exercise price (CAD)**	**Number of share options**	**Weighted average exercise price (CAD)**
Outstanding, beginning of year	483,426	34.97	497,733	35.22
Exercised	—	—	(4,157)	37.96
Forfeited and/or expired	(7,202)	47.52	(10,150)	46.02
Outstanding, end of year	**476,224**	**34.78**	**483,426**	**35.22**
Exercisable options	**476,224**	**34.78**	**425,749**	**33.96**

	Dec 31, 2023		Dec 31, 2022	
Exercise price	**Number of Share Options Outstanding**	**Weighted average remaining contractual life (years)**	**Number of Share Options Outstanding**	**Weighted average remaining contractual life (years)**
$22.94	179,069	2.3	179,069	3.3
$37.64	125,516	3.2	125,516	4.2
$37.96	86,185	5.1	87,570	6.1
$49.80	—	0	5,817	0.3
$52.20	85,454	4.2	85,454	5.2
Total	**476,224**	**3.4**	**483,426**	**4.3**

23. Earnings per share

	Year Ended Dec 31,	
(US$ millions, except per share amounts)	**2023**	**2022**
Net Income	151.4	261.3
Weighted average number of shares (in millions)	103.5	102.9
Dilutive effect of equity[1]	2.2	3.5
Diluted weighted average number of shares (in millions)	105.7	106.4
Basic earnings per share	**1.46**	**2.54**
Diluted earnings per share	**1.43**	**2.45**

[1] The dilutive effect of equity includes equity instruments which comprise of employee stock options.

24. Net changes in non-cash working capital

(US$ millions)	Year Ended Dec 31, 2023	2022
(Increase) decrease in assets:		
Trade receivables, net	(111.9)	61.4
Other receivables	(13.0)	0.6
Inventories, net	8.0	37.4
Prepaid expenses and other assets	(18.8)	(11.3)
	(135.7)	**88.1**
Increase (decrease) in liabilities:		
Trade payables and accrued liabilities	36.3	(157.3)
Deferred revenue	(0.5)	0.6
Provisions	(5.5)	1.0
Other	0.3	—
	30.6	**(155.7)**
Net changes in non-cash working capital	**(105.1)**	**(67.7)**

25. Related party transactions

In the normal course of operations, the Company engaged the services of a law firm whose managing partner is also a member of the Company's Board of Directors, which have been made on terms equivalent to those that prevail in arm's length transactions.

For the year ended December 31, 2023, related party transactions were included in administrative expenses in the Consolidated statements of earnings and comprehensive income of the Company in the amount of $2.0 million (2022 - $1.3 million). As at December 31, 2023, amounts payable to the director's law firm were $0.4 million (December 31, 2022 - $0.4 million).

During the three months ended June 30, 2023, the Company paid incentive compensation related liabilities of $3.7 million on behalf of three members of the Company's Board of Directors. These amounts were repaid by all three directors to the Company in the second quarter of 2023.

Compensation of key management personnel

The compensation of directors and other key management personnel for the years ended December 31, 2023 and December 31, 2022 were as follows:

(US$ millions)	Year Ended Dec 31, 2023	2022
Salaries, wages and bonuses	5.8	5.7
Share-based compensation	8.6	3.3
Employee benefits	0.3	0.3
Total compensation of key management personnel	**14.7**	**9.3**

26. Leases

Amounts recognized in the Consolidated statements of financial position

Leased office buildings represented approximately 90% of the right-of-use assets with the remainder comprised of leases of distribution centres, information technology ("IT") equipment, and vehicles.

The Company has categorized classes of assets for leases of office buildings and distribution centres as "Building" and IT equipment and vehicles are as "Equipment". The weighted average lease term for both classes is 11 years (2022 - 11 years). The carrying value of right-of-use assets and depreciation by class of underlying assets are as follows:

(US$ millions)	Building	Equipment	Right-of-use assets
January 1, 2022	63.9	1.3	65.2
Additions	12.0	0.3	12.3
Modifications	0.5	0.1	0.6
Depreciation	(11.5)	(0.7)	(12.2)
Foreign currency translation	(2.8)	(0.2)	(3.0)
December 31, 2022	**62.1**	**0.8**	**62.9**
Additions	0.6	0.5	1.1
Disposals	(3.0)	(0.3)	(3.3)
Modifications	3.5	0.1	3.6
Depreciation	(11.1)	(0.5)	(11.6)
Foreign currency translation	0.9	—	0.9
December 31, 2023	**53.0**	**0.6**	**53.6**

(US$ millions)	Lease liabilities
January 1, 2022	73.0
Additions	12.3
Modifications	0.6
Interest expense	4.2
Lease payments	(15.8)
Foreign currency translation	(3.1)
December 31, 2022	**71.2**

(US$ millions)	Lease liabilities
Additions	1.0
Disposals	(3.6)
Modifications	3.5
Interest expense	3.9
Lease payments	(14.9)
Foreign currency translation	1.0
December 31, 2023	**62.1**

(US$ millions)	Dec 31, 2023	Dec 31, 2022
Lease liabilities, current	11.4	16.3
Lease liabilities, non-current	50.7	54.9
Total lease liabilities	**62.1**	**71.2**

Extension and termination options are included in a number of building and equipment leases across the Company. These terms are used to maximize operational flexibility in terms of managing contracts. Extension and termination options are exercisable only by the Company and not by the respective lessor.

26. Leases *(continued)*

Amounts recognized in the Consolidated statements of earnings and comprehensive income

(US$ millions)	2023	2022
Depreciation expense on right-of-use assets	11.6	12.2
Interest expense on lease liabilities	3.9	4.2
Loss on disposal of right-of-use assets	0.4	—
Expense relating to leases of short term and low value assets	1.6	1.9
Expense relating to variable lease payments not included in measurement of lease liability	8.0	4.6
Total	**25.5**	**22.9**

27. Commitments for expenditures

Licensing and similar agreements in effect at December 31, 2023 that contain provisions for future minimum payments, include the following:

As at December 31, 2023	Less than 1 year to greater than 5 years			
(US$ millions)	< 1 Year	1-5 Years	> 5 Years	Total
Lease liabilities - undiscounted	13.2	37.0	31.4	81.6
Guaranteed payments due to licensors	11.3	42.9	—	54.2
Purchase obligations	7.3	15.3	—	22.6
Other	0.1	0.1	—	0.2
Total commitments	**31.9**	**95.3**	**31.4**	**158.6**

28. Business acquisitions

Acquisition of certain assets from 4D Brands International Inc

On January 17, 2023, the Company acquired certain assets from 4D Brands International Inc. and 4D Cityscape Worldwide Limited, (collectively, the "Vendors") creators of puzzle games. Management performed an analysis under IFRS 3, Business Combinations ("IFRS 3") and has determined that the assets and processes acquired comprised a business and accounted for the transaction as a business combination using the acquisition method of accounting. This acquisition complements the Company's existing games and puzzles offering and has been reported in the Toys segment within the Activities, Games & Puzzles and Plush product category and included in the Games and Puzzles cash generating unit ("CGU") beginning from the date of acquisition.

The Company incurred $0.2 million in transaction related costs which were included in administrative expenses in the Consolidated statements of earnings and comprehensive income.

The tables below summarize the allocation of the total of purchase consideration of $18.9 million:

Assets acquired at the date of acquisition

(US$ millions)	Fair value as at January 17, 2023
Assets acquired	
Intangible assets	8.5
Inventories	0.7
Prepaid expenses and other assets	0.4
Fair value of identifiable net assets acquired	**9.6**

Goodwill arising on acquisition

Cash consideration	14.6
Purchase price adjustment	0.2
Fair value of contingent consideration	4.1
Total purchase consideration	18.9
Fair value of identifiable net assets acquired	9.6
Goodwill arising from transaction	**9.3**

Net cash outflow on acquisition

Cash consideration	14.6
Less: Advance paid in 2022	0.5
Net cash outflow on acquisition	**14.1**

Goodwill arose on the acquisition as the consideration paid effectively included amounts for the benefit of expected 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, $9.3 million of goodwill is expected to be deductible for income tax purposes and is being amortized for tax purposes over 15 years.

The total purchase consideration includes $4.1 million in deferred payments for future royalties recorded in provisions in the Consolidated statements of financial position. The future royalties are payable to the vendor upon the achievement of key performance indicators over a five-year period. The potential undiscounted amount of all future payments that the Company could be required to make under this contingent consideration arrangement is between $nil and $7.4 million.

Impact of acquisition on the results of the Company

Included in the Company's financial results for the year ended December 31, 2023 is $7.7 million in revenue attributable to the acquisition.

For the year ended December 31, 2023, the Company recognized $1.8 million of gain relating to contingent considerations in Other expense, net in the Consolidated statements of earnings and comprehensive income.

28. Business acquisitions *(continued)*

Acquisition of certain assets from Innovation First International, Inc.

On February 2, 2023, the Company acquired certain assets from Innovation First, Inc., Innovation First International Inc., Innovation First Labs, Inc., Innovation First Logistics., Inc. Management performed an analysis under IFRS 3, and has determined that the assets and processes acquired comprised a business and therefore, accounted for the transaction as a business combination using the acquisition method of accounting. This acquisition is an opportunity for Spin Master to enter the niche market of robotic toys and grow the *HEXBUG* brand. The acquired business has been reported in the Toys segment within the Wheels & Action product category and included in the Wheels & Action cash generating unit ("CGU") beginning from the date of acquisition.

The Company incurred $0.2 million in transaction related costs which were included in administrative expenses in the Consolidated statements of earnings and comprehensive income.

The tables below summarize the allocation of the total of purchase consideration of $14.6 million:

Assets acquired at the date of acquisition

(US$ millions)	Fair value as at February 2, 2023
Assets acquired	
Inventories	2.9
Property, plant, and equipment	0.4
Intangible assets	7.7
Prepaid and other assets	0.5
Fair value of identifiable net assets acquired	**11.5**

Goodwill arising on acquisition

Cash consideration	12.9
Purchase price adjustment	0.3
Fair value of contingent consideration	1.4
Total purchase consideration	14.6
Fair value of identifiable net assets acquired	11.5
Goodwill arising from transaction	**3.1**

Net cash outflow on acquisition

Cash consideration	12.9
Less: Advance paid in 2022	0.5
Net cash outflow on acquisition	**12.4**

Goodwill arose on the acquisition as the consideration paid effectively included amounts for the benefit of expected 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, $3.1 million of goodwill is expected to be deductible for income tax purposes and is being amortized for tax purposes over 15 years.

The total purchase consideration includes $1.4 million in deferred payments for future royalties. The contingent consideration is recorded in provisions in the Consolidated statements of financial position. The future royalties are payable to the vendor upon the achievement of key performance indicators over a seven-year period. The potential undiscounted amount of all future payments that the Company could be required to make under this contingent consideration arrangement is between $nil and $3.7 million.

Impact of acquisition on the results of the Company

Included in the Company's financial results for the year ended December 31, 2023 is $15.5 million in revenue attributable to the acquisition.

For the year ended December 31, 2023, the Company recognized no gain or loss relating to contingent considerations in Other expense, net in the Consolidated statements of earnings and comprehensive income.

28. Business acquisitions *(continued)*

Summary of prior year acquisitions

Acquisition of certain assets from SolidRoots, LLC

On August 2, 2022, the Company acquired certain assets from SolidRoots, LLC (“SolidRoots”), a creator of family board games. Management performed an analysis under IFRS 3 and determined that the assets and processes acquired comprised a business and therefore, accounted for the transaction as a business combination using the acquisition method of accounting. This acquisition complements the Company's existing board games offering and is reported in the Toys segment within the Activities, Games & Puzzles and Plush product category and included in the Games and Puzzles CGU beginning from the date of acquisition.

The purchase consideration of $10.7 million was comprised of $8.5 million of cash consideration and $2.2 million of contingent consideration related to the estimated fair value of future royalties. The purchase agreement also included total deferred incentive compensation of $1.0 million, which is contingent on the continued employment of key principals as well as certain performance metrics, over a five-year period. These payments are considered a remuneration expense and are accrued over the related service period.

Purchase consideration of $10.7 million has been allocated as follows: $4.4 million to intangible assets (related to the brand), $2.0 million to inventories and $0.1 million to prepaid expenses and other assets, with the remainder of $4.2 million allocated to goodwill.

Acquisition of the remaining shares of Nørdlight Games AB

On August 24, 2021, the Company acquired 18.53% of the shares in Nørdlight Games AB (“Nørdlight”), a company that creates and develops digital games, based in Sweden. On August 8, 2022, the Company acquired the remaining 81.47% of the shares of Nørdlight, resulting in ownership and control of 100% of the voting shares in Nørdlight. This investment was classified in 2021 as an equity instrument measured at FVTOCI. Management performed an analysis under IFRS 3 and determined that the assets and processes acquired comprised a business and therefore, accounted for the transaction as a business combination using the acquisition method of accounting. The acquisition has been reported under the Digital Games segment and CGU beginning from the date of acquisition.

The Company paid cash consideration of $2.5 million. The total purchase consideration has been allocated to the identifiable assets of $0.5 million, and liabilities of $0.2 million, with the remainder $2.9 million allocated to goodwill.

The purchase agreement also includes contingent consideration of $4.9 million which is payable on achieving certain performance metrics and has been allocated a fair value of $nil in the total purchase consideration.

Assets acquired and liabilities recognized at the date of acquisition

	SolidRoots, LLC	Nørdlight Games AB
(US$ millions)	**Fair value as at August 2, 2022**	**Fair value as at August 8, 2022**
Assets acquired		
Cash	—	0.4
Other receivables	—	0.1
Intangible assets	4.4	—
Inventories	2.0	—
Prepaid expenses and other assets	0.1	—
	6.5	**0.5**
Liabilities assumed		
Trade payables and accrued liabilities	—	0.2
Fair value of identifiable net assets acquired	**6.5**	**0.3**

28. Business acquisitions *(continued)*

Goodwill arising on acquisition

	SolidRoots, LLC	Nørdlight Games AB
Cash consideration	8.5	2.5
Fair value of contingent consideration	2.2	—
Fair value of previously held equity interest	—	0.7
Total purchase consideration	10.7	3.2
Fair value of identifiable net assets acquired	6.5	0.3
Goodwill arising from transaction	**4.2**	**2.9**

Net cash outflow on acquisition

	SolidRoots, LLC	Nørdlight Games AB
Cash consideration	8.5	2.5
Less: Cash balance acquired	—	0.4
Net cash outflow on acquisition	**8.5**	**2.1**

29. Financial instruments and risk management

Capital management

Management includes the following items in its definition of capital:

(US$ millions)	Dec 31, 2023	Dec 31, 2022
Share capital	783.4	754.7
Retained earnings[1]	604.5	477.4
Contributed surplus	27.4	40.7
Capital	**1,415.3**	**1,272.8**

[1] December 31, 2022 restated for the change in accounting policy (see Note 4).

The Company makes adjustments to its capital structure based on the funds available to the Company in supporting the operations of the business and to ensure that the subsidiaries of the Company will be able to continue on a going concern basis.

The Company manages its capital structure, and may make adjustments 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 strategy for reasonability on an ongoing basis and believes that this approach is reasonable. The Company declared a quarterly dividend beginning with the third quarter of 2022 and the Company launched a NCIB in the first quarter of 2023, as described in Note 22.

The Facility and Acquisition Facility require the Company to comply with certain financial covenants. As at December 31, 2023, the Company was in compliance with such 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 or the variability of results from various financial risks that include foreign currency risk, interest rate risk, credit risk and liquidity risk.

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

Market risk

Foreign currency risk

Due to the structure 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 periodically enters into derivative financial instruments such as foreign exchange forward contracts to manage its foreign currency risk on cash flows denominated in currencies other than the US dollar.

As at December 31, 2023, the Company is committed under outstanding foreign exchange contracts representing a total net sell commitment of $74.7 million (December 31, 2022 - net sell commitment of $20.3 million). These foreign exchange contracts have maturity dates varying from March 2024 to March 2025. For the year ended December 31, 2023, net realized losses on the Company's matured foreign exchange contracts were $8.7 million (2022 - realized gains of $3.1 million) and are included in the Consolidated statements of earnings and comprehensive income.

As at December 31, 2023 (in millions)		Notional value: foreign currency (Sell)/Buy	Notional value: US$	Unrealized gain (loss): US$
Foreign exchange contracts				
Buy US$	GBP	(14.5)	(17.6)	(0.8)
Buy US$	EUR	(46.5)	(50.9)	(0.7)
Buy US$	MXN	(311.5)	(15.7)	(2.0)
Buy US$	AUD	(5.5)	(3.7)	(0.1)
Sell US$	CAD	212.9	157.1	4.0
Sell US$	JPY	320.7	2.2	0.1
Sell US$	HKD	25.7	3.3	—
Total			**74.7**	**0.5**

As at December 31, 2022 (in millions)		Notional value: foreign currency (Sell)/Buy	Notional value: US$	Unrealized (loss) gain: US$
Foreign exchange contracts				
Buy US$	EUR	(60.5)	66.2	0.9
Buy US$	GBP	(17.5)	22.0	0.9
Buy US$	MXN	(655.0)	31.1	(1.9)
Sell US$	CAD	186.6	(142.6)	(4.4)
Buy US$	AUD	(4.5)	3.0	(0.1)
Total			**(20.3)**	**(4.6)**

Foreign currency risk - sensitivity analysis

The Company is mainly exposed to the Canadian dollar, the Great Britain pound sterling, the Mexican peso, the Euro, Swedish krona and Australian dollar. The following table details the Company's sensitivity to a 5.0% change in currency units against the US$. The sensitivity analysis includes all outstanding foreign currency denominated current monetary assets and liabilities and adjusts their translation as at the end of the reporting period for a 5.0% change in foreign currency rates. A positive number below indicates an increase in a foreign exchange gain where the currency unit changes 5.0% against US$.

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

	Currency unit strengthens by 5%		Currency unit weakens by 5%	
(US$ millions)	**Dec 31, 2023**	**Dec 31, 2022**	**Dec 31, 2023**	**Dec 31, 2022**
Canadian dollar	(6.6)	(6.4)	5.9	5.8
Great Britain pound sterling	0.8	0.5	(0.7)	(0.4)
Mexican peso	1.7	2.0	(1.6)	(1.8)
Euro	2.6	1.0	(2.3)	(0.9)
Swedish krona	(0.5)	(0.5)	0.4	0.4
Australian dollar	0.5	0.5	(0.4)	(0.5)

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 may be exposed to interest rate risk should it borrow under its credit facilities at a variable rate.

Interest rate risk - sensitivity analysis

The Company is exposed to interest rate risk mainly relating to interest income on its cash and cash equivalents balances and interest expense on loans and borrowings.

For the year ended December 31, 2023, with all other variables held constant, a 50-basis point decrease in interest rates would have resulted in a decrease to interest income of $3.2 million for the year (2022 - a decrease to interest income of $2.8 million). A 50-basis point increase in interest rates would have resulted in an increase to interest income of $3.9 million for the year (2022 - an increase to interest income of $2.8 million). These amounts are determined by considering the impact of the interest rates on the Company's loans and borrowings and cash and cash equivalents balances as at December 31, 2023.

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 fulfil their financial obligations.

This risk is mitigated through financial arrangements such as cash in advance of shipment, letters of credit or bank or parental guarantees. In addition, the Company purchases Accounts Receivables insurance for our global customer base, who are not covered by other financial arrangements. This process, in conjunction with an established credit limit and payment term, mitigates the Company's risk of loss. The financial arrangements, insurance policies and customer credit limits are reviewed annually.

As at December 31, 2023, approximately 44.9% (2022 - 48.6%) of the Company's trade receivables are due from three major retail customers which represent approximately 51.7% of Toy gross product sales for the year ended December 31, 2023 (2022 - 52.2%).

The Company mitigates credit risk on its cash balance by ensuring 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.

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

The Company's contractual maturities are as follows:

As at December 31, 2023 (US$ millions)	< 1 year	1-5 years	Total
Derivative financial liabilities			
Foreign exchange forward contracts	156.0	7.4	163.4
Non-derivative financial liabilities			
Trade payables and accrued liabilities	385.4	—	385.4
	541.4	**7.4**	**548.8**

Financing facilities

(US$ millions)	Dec 31, 2023	Dec 31, 2022
Bank loan facilities		
Amount undrawn	733.5	533.5
Bank loan facilities	**733.5**	**533.5**

Fair value measurements

The following table presents the fair value of financial assets and financial liabilities. The carrying values of the Company’s financial instruments approximate their fair values with the exception of foreign exchange forward contracts, Investment in a limited partnership and minority interest and other investments which are recorded at fair value.

(US$ millions)	Dec 31, 2023	Dec 31, 2022
Financial assets		
Cash and cash equivalents	705.7	644.3
Trade receivables, net	414.4	311.0
Other receivables	60.0	49.5
Other assets:		
Minority interest and other investments	11.3	8.8
Investment in a limited partnership	3.7	3.9
Investment tax credits - non-current portion	4.6	3.6
Unrealized foreign exchange gain	4.1	1.7
Financial assets	**1,203.8**	**1,022.8**
Financial liabilities		
Trade payables and accrued liabilities	385.4	339.4
Financial liabilities	**385.4**	**339.4**

With the exception of foreign exchange forward contracts, Investment in a limited partnership and minority interest and other investments described below, all other financial instruments are categorized within Level 1 of the fair value hierarchy.

The fair value of foreign exchange forward contracts at December 31, 2023 resulted in an unrealized gain of $4.1 million, which is recorded in Other assets (December 31, 2022 - $1.7 million) and an unrealized loss of $2.3 million recorded in accrued liabilities (December 31, 2022 - $6.3 million). These fair values are categorized within Level 2 of the fair value hierarchy. The fair values of over-the-counter derivative financial instruments are based on broker or observable market rates. Those quotes are tested for reasonableness by discounting expected future cash flows using market interest and exchange rates for a similar instrument at the measurement date. Fair values reflect the credit risk of the instrument for the Company and counterparty when appropriate. 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. Realized and unrealized gains and losses on derivative financial instruments may be offset by realized and unrealized losses and gains on the underlying exposures being hedged and are recorded in earnings as they occur.

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

The fair value of the investment in a limited partnership as at December 31, 2023 is recorded in Other assets at $3.7 million (December 31, 2022 - $3.9 million). For the year ended December 31, 2023 and 2022, the Company recognized $0.1 million (2022 - $nil) in net unrealized gain and $0.1 million (2022 - $0.1 million) in net realized gain in Other expense, net. During the year ended December 31, 2023, the Company received $0.3 million (2022 - $nil) of distribution income in net realized gain related to the investment.

This fair value is categorized within Level 3 of the fair value hierarchy. The fair value of the investment in a limited partnership is estimated using various valuations techniques through the partnership based on the type of investment held by the fund. The quantitative unobservable inputs used in the fair value measurement are not developed by the Company and include assumptions regarding long-term revenue growth rates and discount rates, among others. The investment in a limited partnership is held for medium to long-term strategic purposes.

From inception, the Company has paid $2.9 million and is obligated to pay the remaining $0.1 million upon receiving capital calls over the remaining term of the limited partnership agreement. The investment in a limited partnership is held for medium to long-term strategic purposes.

The fair value of the minority interest and other investments recorded in other assets are as follows:

(US$ millions)	Dec 31, 2023	Dec 31, 2022
Minority interest and other investments classified as FVTOCI	3.0	3.0
Minority interest and other investments classified as FVTPL	8.3	5.8
Minority interest and other investments	11.3	8.8

For the year ended December 31, 2023, there were no gains or losses (2022 - $0.5 million loss) was recognized for the minority interest and other investments classified as FVTPL in the Consolidated statements of earnings and comprehensive income within Other expense, net.

For the year ended December 31, 2023, there were no gains or losses (2022 - $0.1 million gain) recognized for minority interest and other investments classified as FVTOCI in the Consolidated statements of earnings and comprehensive income within Other comprehensive loss

These investments are categorized within Level 3 of the fair value hierarchy. The fair value of these investments is estimated using various valuation techniques. The quantitative unobservable inputs used in the fair value measurement are not developed by the Company and include assumptions regarding long-term revenue growth rates and discount rates, among others.

30. Segment information

Spin Master is a global children's entertainment company with a portfolio that includes children’s products, brands, and entertainment content spanning toys, games, licensed products, film and television programming and digital games.

The Company has three reportable operating segments, which are as follows:

(i) Toys
(ii) Entertainment
(iii) Digital Games

The Toys segment engages in the creation, design, manufacturing, licensing, and marketing of toys, games, and products around the world. The Entertainment segment engages in the creation and production of multi-platform content, stories and characters in original shows, short-form series and films. The Digital Games segment engages in the creation of digital games which include subscription services. The Company also presents Corporate & Other which includes certain corporate costs, foreign exchange and merger and acquisition-related costs, as well as fair value gains and losses and distribution income on minority interest and other investments.

The Chief Operating Decision Maker ("CODM") measures total segment performance based on Adjusted EBITDA, as reported internally to management. The accounting policies of the reportable segments are the same as the Company’s accounting policies described in Note 2.

30. Segment information *(continued)*

The Company's results from operations by reportable operating segment for the year ended December 31, 2023 and December 31, 2022 are as follows:

(US$ millions)	Year Ended Dec 31, 2023				
	Toys	Entertainment	Digital Games	Corporate & Other	Total
Revenue	**1,540.9**	**190.1**	**173.9**	**—**	**1,904.9**
Operating Income (Loss)	**101.0**	**78.0**	**49.1**	**(39.2)**	**188.9**
Adjustments:					
Restructuring and other related costs	16.3	0.3	1.5	—	18.1
Foreign exchange loss	—	—	—	14.7	14.7
Share based compensation	14.1	1.4	2.9	1.7	20.1
Impairment of goodwill	26.7	—	—	—	26.7
Impairment of property, plant and equipment	0.9	—	—	—	0.9
Impairment of intangible assets	5.4	1.0	0.7	1.1	8.2
Legal settlement recovery	—	—	—	(0.6)	(0.6)
Acquisition related deferred incentive compensation	2.7	—	4.9	—	7.6
Net unrealized gain on investment	—	—	—	(0.1)	(0.1)
Net realized gain on investment	—	—	—	(0.1)	(0.1)
Acquisition related deferred consideration	(5.6)	—	(1.0)	(0.2)	(6.8)
Transaction costs	—	—	—	11.1	11.1
Depreciation and amortization	50.9	70.8	8.2	0.2	130.1
Adjusted EBITDA	**212.4**	**151.5**	**66.3**	**(11.4)**	**418.8**

(US$ millions)	Year Ended Dec 31, 2023				
	Toys	Entertainment	Digital Games	Corporate & Other	Total
Capital expenditures	34.6	52.1	20.7	—	**107.4**

30. Segment information *(continued)*

(US$ millions)	Year Ended Dec 31, 2022				
	Toys	Entertainment	Digital Games	Corporate & Other	Total
Revenue	**1,737.6**	**118.8**	**163.9**	**—**	**2,020.3**
Operating Income	**170.1**	**76.7**	**46.5**	**50.0**	**343.3**
Adjustments:					
Restructuring and other related costs	4.6	0.1	0.2	—	4.9
Foreign exchange gain	—	—	—	(61.4)	(61.4)
Share based compensation	12.4	1.2	2.3	1.7	17.6
Impairment of property, plant and equipment	1.9	—	—	—	1.9
Impairment of intangible assets	—	1.1	—	—	1.1
Legal settlement recovery	—	—	—	(0.5)	(0.5)
Acquisition related deferred incentive compensation	5.4	—	4.9	—	10.3
Net realized gain on investment	—	—	—	(0.1)	(0.1)
Acquisition related deferred consideration	3.5	—	—	(0.9)	2.6
Fair value loss on Venture investments	—	—	—	0.5	0.5
Transaction costs	—	—	—	1.0	1.0
Depreciation and amortization	46.7	14.8	6.6	0.1	68.2
Adjusted EBITDA	**244.6**	**93.9**	**60.5**	**(9.6)**	**389.4**

(US$ millions)	Year Ended Dec 31, 2022				
	Toys	Entertainment	Digital Games	Corporate & Other	Total
Capital expenditures	32.4	54.9	12.1	—	**99.4**

30. Segment information *(continued)*

Revenue reported by segment above represents revenue generated from external customers. There was no inter-segment revenue in any year.

The following table provides a reconciliation of the Company's consolidated Adjusted EBITDA to Income before income tax expense for the year ended December 31, 2023 and December 31, 2022:

	Year Ended Dec 31	
(US$ millions)	**2023**	**2022**
Revenue from reportable segments	**1,904.9**	**2,020.3**
Adjusted EBITDA	**418.8**	**389.4**
Adjusting Items:		
Depreciation and amortization	(130.1)	(68.2)
Restructuring and other related costs	(18.1)	(4.9)
Foreign exchange (loss) gain	(14.7)	61.4
Share based compensation	(20.1)	(17.6)
Impairment of goodwill	(26.7)	—
Impairment of property, plant and equipment	(0.9)	(1.9)
Impairment of intangible assets	(8.2)	(1.1)
Legal settlement recovery	0.6	0.5
Acquisition related deferred incentive compensation	(7.6)	(10.3)
Net unrealized gain on investment	0.1	—
Net realized gain on investment	0.1	0.1
Loss on minority interest and other investments	—	(0.5)
Acquisition related contingent consideration	6.8	(2.6)
Transaction costs	(11.1)	(1.0)
Operating Income	**188.9**	**343.3**
Add (Deduct):		
Interest income	27.4	10.7
Interest expense	(15.1)	(13.6)
Income before income tax expense	**201.2**	**340.4**

30. Segment information *(continued)*

Revenue from major product categories

Spin Master's Toys segment is organized into four major product categories as follows:

(i) Preschool and Dolls & Interactive
(ii) Activities, Games & Puzzles and Plush
(iii) Wheels & Action
(iv) Outdoor

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

	Year Ended Dec 31,	
(US$ millions)	**2023**	**2022**
Preschool and Dolls & Interactive	817.7	867.0
Activities, Games & Puzzles and Plush	487.5	561.7
Wheels & Action	409.3	450.8
Outdoor	72.7	99.3
Toy gross product sales[1]	**1,787.2**	**1,978.8**
Sales allowances	(246.3)	(241.2)
Toy revenue	**1,540.9**	**1,737.6**
Entertainment revenue	190.1	118.8
Digital Games revenue	173.9	163.9
Revenue	**1,904.9**	**2,020.3**

[1]Toy gross product sales represent sales of the Company's products to customers, excluding sales allowances.

Geographical information

Revenue by geographical area is based on the location of the customers and non-current assets are based on geographic location of the entity which holds the assets. The North American geographic area is comprised of the United States and Canada. The European geographic area is comprised of the United Kingdom, France, Italy, the Netherlands, Germany, Austria, Switzerland, Belgium, Luxembourg, Slovakia, Hungary, Romania, Czech Republic, Poland, Turkey, Greece, Portugal and Spain. The Rest of World is comprised of Hong Kong, China, Vietnam, India, Australia, New Zealand, Japan and Mexico, and all other areas of the world serviced by the Company's third party distribution network. Entertainment and Digital Games revenue are tracked on a global basis and are presented as such in the table below.

The Company's revenues are derived from the following geographical areas:

	Year Ended Dec 31,	
(US$ millions)	**2023**	**2022**
North America	1,012.1	1,189.8
Europe	505.9	525.0
Rest of World	269.2	264.0
Toy gross product sales	**1,787.2**	**1,978.8**
Sales allowances	(246.3)	(241.2)
Toy revenue	**1,540.9**	**1,737.6**
Entertainment revenue	190.1	118.8
Digital Games revenue	173.9	163.9
Revenue	**1,904.9**	**2,020.3**

Toy gross product sales for North America include amounts attributable to the United States of $0.9 million (2022 - $1,093.3 million) and Canada of $0.1 million (2022 - $96.5 million) for the year ended December 31, 2023.

30. Segment information *(continued)*

Non-current assets by major geographic region are detailed as follows:

(US$ millions)	Dec 31, 2023	Dec 31, 2022
Non-current assets		
North America	422.8	404.1
Europe	85.6	79.0
Rest of World	26.7	18.7
Non-current assets	**535.1**	**501.8**
Other	135.6	158.5
Total non-current assets	**670.7**	**660.3**

Other includes non-current assets not directly attributable to a specific geographic area.

Non-current assets for North America include assets attributable to Canada of $157.5 million as at December 31, 2023 (December 31, 2022 - $164.5 million).

Major customers

Sales to the Company's three largest customers accounted for 51.7% (2022 - 52.2%) of Toy gross product sales for the year ended December 31, 2023. The Toys segment sells products to each of the Company's three largest customers. Other than the top three customers, which have remained the same as compared to the comparative period, no other single customer contributed 10% or more to Toy gross product sales for the year ended December 31, 2023 and 2022.

(US$ millions)	Year Ended Dec 31, 2023	2022
Toy gross product sales		
Customer 1	356.9	422.0
Customer 2	307.1	333.3
Customer 3	260.6	277.5
Total	**924.6**	**1,032.8**

31. Subsequent events

On January 2, 2024, the Company, through its subsidiaries, completed the acquisition of all of the issued and outstanding capital stock in MND Holdings I Corp ("Melissa & Doug"). Melissa & Doug is a leading brand in early childhood play with offerings of open-ended, creative, and developmental toys. The acquisition will be reported in the Toys segment beginning from the date of acquisition.

The preliminary estimate of purchase consideration of $959.0 million, net of $32.7 million in estimated cash acquired is comprised of $950.0 million of base consideration adjusted for an estimated $9.0 million for net working capital and liabilities assumed. Spin Master funded the $959.0 million purchase price with $434.0 million cash and $525.0 million of debt. The debt was sourced through a partial drawdown of $300.0 million from the Company's Facility and $225.0 million from the Acquisition Facility.

Given the timing of the transaction and measurement uncertainty with final purchase agreement consideration adjustments, the purchase price allocation is ongoing and will be disclosed in the Company's first quarter 2024 condensed consolidated interim financial statements.

There were $10.1 million in transaction related costs included in administrative expenses in the Consolidated statement of earnings and comprehensive income for the year ended December 31, 2023.

Corporate Directory

Board of Directors

Ronnen Harary
Chair & Co-Founder

Anton Rabie
Director & Co-Founder

Ed Clark C.M.
Deputy Chair

Charles Winograd
Lead Director

Michael Blank
Director

Jeffrey I. Cohen
Director

Reggie Fils-Aimé
Director

Kevin Glass
Director

Dina R. Howell
Director

Christina Miller
Director

Max Rangel
Director, Global President &
Chief Executive Officer

Christi Strauss
Director

Ben Varadi
Director, Executive Vice President &
Chief Creative Officer

Leadership

Max Rangel
Director, Global President &
Chief Executive Officer

Mark Segal
Executive Vice President &
Chief Financial Officer

Doug Wadleigh
President, Toys

Jennifer Dodge
President, Entertainment

Fredrik Loving
President, Digital Games

Tara Deakin
Executive Vice President &
Chief People Officer

Christopher Harrs
Executive Vice President & General
Counsel, Corporate Secretary

Jeremy Tucker
Executive Vice President &
Global Chief Marketing Officer

Ben Varadi
Director, Executive Vice President &
Chief Creative Officer

David Voss
Executive Vice President, Toy Design &
Development

Jason Wilson
Executive Vice President &
Chief Information Officer

Head Office

225 King Street West, Suite 200
Toronto, ON M5V 3M2

Toronto Stock Exchange Listing

Trading symbol: TOY
Securities listed: Subordinate
Voting Shares

Auditor

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

Registrar & Transfer Agent

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

Annual Meeting of Shareholders

May 8, 2024

Investor Contact Information

Email:
investor.relations@spinmaster.com
Spin Master's financial reports, regulatory filings and news releases are available at **sedarplus.com** and on our website at **spinmaster.com/en-US/corporate/investor-relations**.

Spin Master Corp.

225 King Street West, Suite 200, Toronto, ON M5V 3M2
Tel. (416) 364-6002 Fax (416) 364-5097
spinmaster.com