Spin Master Corp.

Condensed consolidated interim financial statements (unaudited)

For the three and six months ended June 30, 2021 and June 30, 2020

Spin Master Corp.

Condensed consolidated interim statements of financial position

(Unaudited, in US$ millions)	Notes	Jun 30, 2021	Dec 31, 2020
Assets			
Current assets			
Cash		310.7	320.6
Trade receivables	**9**	189.3	265.2
Other receivables	**9**	79.1	73.4
Inventories	**10**	135.7	102.0
Advances on royalties		13.2	17.2
Prepaid expenses		9.1	7.9
Other assets	**11**	—	3.0
		737.1	**789.3**
Non-current assets			
Intangible assets	**13**	238.9	192.0
Goodwill	**14**	177.3	138.0
Right-of-use assets	**22**	68.9	67.0
Property, plant and equipment	**12**	50.8	53.4
Deferred income tax assets		98.7	98.7
Advances on royalties		0.7	0.7
Other assets	**11**	4.2	3.0
		639.5	**552.8**
Total assets		**1,376.6**	**1,342.1**
Liabilities			
Current liabilities			
Trade payables and accrued liabilities	**15**	295.6	314.4
Contract liabilities	**16**	20.0	25.3
Provisions and contingent liabilities	**18**	25.9	29.2
Income tax payable		11.5	21.1
Lease liabilities	**22**	15.4	15.4
		368.4	**405.4**
Non-current liabilities			
Provisions and contingent liabilities	**18**	6.7	5.2
Deferred income tax liabilities		39.5	29.6
Lease liabilities	**22**	60.8	59.0
		107.0	**93.8**
Total liabilities		**475.4**	**499.2**
Shareholders' equity			
Share capital	**19**	732.1	724.8
Retained earnings		54.1	17.4
Contributed surplus		36.5	36.6
Accumulated other comprehensive income		78.5	64.1
Total shareholders' equity		**901.2**	**842.9**
Total liabilities and shareholders' equity		**1,376.6**	**1,342.1**

Approved by the Board of Directors on August 4, 2021.

The accompanying notes on pages 5 to 28 are an integral part of these condensed consolidated interim financial statements.

Spin Master Corp.

Condensed consolidated interim statements of earnings and comprehensive income

(Unaudited, in US$ millions, except earnings per share)	Notes	Three Months Ended Jun 30 2021	Three Months Ended Jun 30 2020	Six Months Ended Jun 30 2021	Six Months Ended Jun 30 2020
Revenue	3	390.8	281.1	707.4	508.4
Cost of sales		180.9	162.9	340.1	299.4
Gross profit		**209.9**	**118.2**	**367.3**	**209.0**
Expenses					
Selling, marketing, distribution and product development	6	71.6	59.6	141.5	140.5
Administrative expenses	6	77.5	55.2	146.5	120.9
Depreciation and amortization expenses	6	8.7	9.0	17.6	18.2
Other expenses (income)	4	0.3	0.4	(0.5)	(1.0)
Net foreign exchange loss	7	4.9	3.5	8.6	12.0
Finance costs	5	2.3	3.3	4.8	6.1
Income (loss) before income tax expense (recovery)		**44.6**	**(12.8)**	**48.8**	**(87.7)**
Income tax expense (recovery)	8	11.1	2.1	12.1	(46.1)
Net income (loss)		**33.5**	**(14.9)**	**36.7**	**(41.6)**
Earnings per share					
Basic	20	0.33	(0.15)	0.36	(0.41)
Diluted	20	0.32	(0.15)	0.35	(0.41)

(Unaudited, in US$ millions)	Notes	Three Months Ended Jun 30 2021	Three Months Ended Jun 30 2020	Six Months Ended Jun 30 2021	Six Months Ended Jun 30 2020
Net income (loss)		33.5	(14.9)	36.7	(41.6)
Items that may be subsequently reclassified to net income (loss)					
Foreign currency translation gain (loss) on foreign operations		10.3	18.0	14.4	(11.8)
Other comprehensive income (loss)		**10.3**	**18.0**	**14.4**	**(11.8)**
Total comprehensive income (loss)		**43.8**	**3.1**	**51.1**	**(53.4)**

The accompanying notes on pages 5 to 28 are an integral part of these condensed consolidated interim financial statements.

Spin Master Corp.

Condensed consolidated interim statements of changes in shareholders' equity

(Unaudited, in US$ millions)	Note	Share capital	(Accumulated deficit) retained earnings	Contributed surplus	Accumulated other comprehensive income	Total
January 1, 2020		**714.5**	**(28.1)**	**35.8**	**38.2**	**760.4**
Net loss		—	(41.6)	—	—	**(41.6)**
Other comprehensive loss		—	—	—	(11.8)	**(11.8)**
Cancellation of common shares	**19**	(1.1)	—	—	—	**(1.1)**
Share-based compensation	**19**	—	—	6.4	—	**6.4**
Shares released from equity participation	**19**	3.9	—	(3.9)	—	**—**
Shares issued upon settlement of long-term incentive plan	**19**	2.1	—	(2.1)	—	**—**
June 30, 2020		**719.4**	**(69.7)**	**36.2**	**26.4**	**712.3**
January 1, 2021		**724.8**	**17.4**	**36.6**	**64.1**	**842.9**
Net income		—	36.7	—	—	**36.7**
Other comprehensive income		—	—	—	14.4	**14.4**
Share-based compensation	**19**	—	—	7.2	—	**7.2**
Shares issued upon settlement of long-term incentive plan	**19**	7.3	—	(7.3)	—	**—**
June 30, 2021		**732.1**	**54.1**	**36.5**	**78.5**	**901.2**

The accompanying notes on pages 5 to 28 are an integral part of these condensed consolidated interim financial statements.

Spin Master Corp.

Condensed consolidated interim statements of cash flows

For the six months ended June 30 (Unaudited, in US$ millions)	Notes	2021	2020
Operating activities			
Net income (loss)		36.7	(41.6)
Adjustments to reconcile net income to cash provided by operating activities			
Income tax expense (recovery)	**8**	12.1	(46.1)
Interest (expense) income	**5**	(0.6)	1.4
Depreciation and amortization expense	**6**	47.2	49.0
Loss on disposal of property, plant and equipment	**12**	0.1	—
Accretion expense	**5**	2.8	2.8
Amortization of financing costs	**5**	0.2	0.2
Net unrealized gain on investment	**11**	(1.2)	—
Impairment of intangible assets	**13**	1.4	—
Unrealized foreign exchange loss	**7**	10.1	3.9
Share-based compensation expense	**19**	7.2	6.4
Net change in non-cash working capital	**21**	6.1	93.2
Net change in provisions and contingent liabilities		3.2	(0.2)
Income taxes paid		(22.5)	(19.1)
Income taxes received		—	6.6
Interest received (paid)		0.4	(1.1)
Cash provided by operating activities		**103.2**	**55.4**
Investing activities			
Investment in property, plant and equipment	**12**	(14.5)	(13.9)
Investment in intangible assets	**13**	(26.2)	(29.1)
Business acquisitions, net of cash acquired	**24**	(70.2)	—
Investment in trademark license agreement	**13**	—	(2.4)
Cash used in investing activities		**(110.9)**	**(45.4)**
Financing activities			
Proceeds from loans and borrowings	**17**	—	350.0
Repayment of loans and borrowings	**17**	—	(50.0)
Payment of lease liabilities	**22**	(9.2)	(7.6)
Cancellation of common shares	**19**	—	(1.1)
Cash (used in) provided by financing activities		**(9.2)**	**291.3**
Effect of foreign currency exchange rate changes on cash		**7.0**	**(5.8)**
Net (decrease) increase in cash during the period		**(9.9)**	**295.5**
Cash, beginning of period		320.6	115.3
Cash, end of period		**310.7**	**410.8**

The accompanying notes on pages 5 to 28 are an integral part of these condensed consolidated interim financial statements.

1. Description of business

Spin Master Corp., was incorporated on June 9, 2004, under the laws of the Province of Ontario, Canada and is a global children's entertainment company creating exceptional play experiences through a diverse portfolio of innovative toys, entertainment franchises and digital games. Spin Master Corp. creates, designs, manufactures, licenses and markets a diversified portfolio of toys, games and products, creates and produces multiplatform content, stories and characters in both original shows along with short-form series and creates digital games and apps. Its 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: North America, Europe and Rest of World (see Note 26).

2. Summary of significant accounting policies

(A) Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34, *Interim Financial Reporting* ("IAS 34") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). Accordingly, certain information and footnote disclosure normally included in annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the IASB, have been omitted or condensed. The preparation of financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The same accounting policies, presentation and methods of computation have been followed in these condensed consolidated interim financial statements as were applied in the preparation of the Company's consolidated financial statements for the year ended December 31, 2020.

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 condensed consolidated interim financial statements and accompanying notes were approved and authorized for issuance by the Board of Directors of the Company on August 4, 2021.

(B) Basis of preparation

These condensed consolidated interim financial statements include the accounts of Spin Master Corp. and its subsidiaries and should be read in conjunction with the Company's audited consolidated financial statements, including the notes thereto, for the year ended December 31, 2020.

In March 2020, the World Health Organization declared the outbreak of COVID-19 as a global pandemic. The crisis related to the COVID-19 pandemic is unprecedented and in 2021, it continues to have an impact on the Company's employees, customers and suppliers.

The Company closely monitors the changing global environment to enable immediate actions to be taken to ensure customer order fulfillment is achieved across the various markets.

Due to continued government-imposed restrictions and the closure of certain retail locations, the pandemic has resulted in reductions in retail consumer traffic in various countries globally, including some of Spin Master's largest markets. As a result, retail consumer traffic continues to be impacted in markets with government-imposed restrictions. Online and e-commerce channels continue to remain active in most countries.

As at June 30, 2021, the Company had unutilized liquidity of $828.4 million, comprised of $310.7 million in cash and $517.7 million under its credit facilities. The Company believes it has sufficient liquidity to meet its operational requirements.

The Company has assessed significant accounting judgments and estimates in preparing the Company's condensed consolidated interim financial statements for the three and six months ended June 30, 2021. The significant accounting policies, judgments and estimates as disclosed in Note 3 of the Company's audited consolidated financial statements for the year ended December 31, 2020 have been applied consistently in the preparation of these condensed consolidated interim financial statements.

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

(C) Functional and presentation currency

These condensed consolidated interim financial statements are presented in US$, which is the Company's presentation currency; however, the functional currency of the Company is the Canadian dollar. The functional currency of the operating subsidiaries is typically the economic currency in the associated jurisdiction. At June 30, 2021 and 2020, the functional currencies of the Company's subsidiaries included the US$, 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.

3. Revenue

The Company earns revenue from the following primary sources:

a. Revenue from sale of goods;
b. Entertainment and Licensing revenue; and
c. Digital games revenue.

	Three Months Ended Jun 30		Six Months Ended Jun 30	
(US$ millions)	**2021**	**2020**	**2021**	**2020**
Revenue from sale of goods	326.4	252.6	582.0	458.0
Entertainment and Licensing revenue	27.5	18.3	54.4	33.3
Digital games revenue	36.9	10.2	71.0	17.1
Revenue	**390.8**	**281.1**	**707.4**	**508.4**

Seasonality related to revenue from sale of goods is greatest in the third and fourth quarters of a fiscal year and least in the first and second quarters.

4. Other (income) expense

		Three Months Ended Jun 30		Six Months Ended Jun 30	
(US$ millions)	**Notes**	**2021**	**2020**	**2021**	**2020**
Impairment of intangible assets	**13**	0.5	—	1.4	—
Investment distribution income	**11**	(0.4)	—	(0.4)	—
Net unrealized gain on investment	**11**	(0.3)	—	(1.2)	—
Acquisition related contingent consideration	**18**	—	—	(0.7)	—
Acquisition related deferred incentive compensation	**24**	1.5	—	1.5	—
Other		(1.0)	0.4	(1.1)	(1.0)
Other (income) expense		**0.3**	**0.4**	**(0.5)**	**(1.0)**

5. Finance costs

	Three Months Ended Jun 30		Six Months Ended Jun 30	
(US$ millions)	**2021**	**2020**	**2021**	**2020**
Bank fees	1.1	0.5	2.2	1.7
Accretion expense - lease liabilities	1.1	1.1	2.2	2.3
Accretion expense - other	0.2	0.2	0.6	0.5
Amortization of financing costs	0.1	0.1	0.2	0.2
Interest (income) expense	(0.3)	1.4	(0.4)	1.4
Other	0.1	—	—	—
Finance costs	**2.3**	**3.3**	**4.8**	**6.1**

6. Expenses

Expenses include: selling, marketing, distribution, product development expenses, administrative expenses and depreciation and amortization expenses.

Selling, marketing, distribution and product development expenses

	Three Months Ended Jun 30		Six Months Ended Jun 30	
(US$ millions)	**2021**	**2020**	**2021**	**2020**
Selling	24.4	20.4	45.1	37.7
Marketing	27.2	11.4	53.5	38.1
Distribution	13.7	18.8	30.5	47.3
Product development	6.3	9.0	12.4	17.4
Selling, marketing, distribution and product development expenses	**71.6**	**59.6**	**141.5**	**140.5**

Administrative expenses

	Three Months Ended Jun 30		Six Months Ended Jun 30	
(US$ millions)	**2021**	**2020**	**2021**	**2020**
Employee compensation and benefits	56.6	38.2	105.6	81.8
Professional services	8.2	5.5	16.9	12.3
Property and operations	4.5	3.5	8.2	9.8
Technology	3.3	3.1	6.6	6.3
Recruiting and training	2.1	1.3	3.5	3.8
Other	2.8	3.6	5.7	6.9
Administrative expenses	**77.5**	**55.2**	**146.5**	**120.9**

Employee compensation and benefits

	Three Months Ended Jun 30		Six Months Ended Jun 30	
(US$ millions)	**2021**	**2020**	**2021**	**2020**
Salaries, wages and bonuses	1.4	1.2	2.7	2.7
Employee benefits	0.3	0.2	0.6	0.5
Employee compensation and benefits expenses in cost of sales	**1.7**	**1.4**	**3.3**	**3.2**
Salaries, wages and bonuses	46.3	31.4	85.1	61.6
Share-based compensation	4.0	2.8	7.2	6.4
Restructuring expense (recovery)	—	(1.0)	0.7	3.4
Employee benefits	6.3	5.0	12.6	10.4
Employee compensation and benefits in administrative expenses	**56.6**	**38.2**	**105.6**	**81.8**
Employee compensation and benefits	**58.3**	**39.6**	**108.9**	**85.0**

6. Expenses *(continued)*

Depreciation and amortization expenses

	Three Months Ended Jun 30		Six Months Ended Jun 30	
(US$ millions)	**2021**	**2020**	**2021**	**2020**
Property, plant and equipment				
Moulds, dies and tools, included in cost of sales	5.5	6.1	11.5	11.7
Equipment, included in cost of sales	0.1	0.1	0.2	0.2
Equipment	0.8	1.0	1.7	2.0
Land and leasehold improvements	1.6	1.5	3.2	3.1
Computer hardware	0.4	0.4	0.8	0.8
	8.4	**9.1**	**17.4**	**17.8**
Intangible assets				
Content development, included in cost of sales	8.4	9.8	14.8	18.2
Trademarks, licenses, IP & customer lists - definite	1.5	1.8	3.4	3.7
App development, included in cost of sales	1.4	0.6	3.1	0.6
Computer software	0.9	1.2	1.8	2.2
	12.2	**13.4**	**23.1**	**24.7**
Right-of-use assets	**3.5**	**3.2**	**6.7**	**6.5**
Depreciation and amortization expenses	**24.1**	**25.7**	**47.2**	**49.0**

7. Foreign exchange

The Company incurred a foreign exchange loss (net of gain) for the three and six months ended June 30, 2021 of $4.9 million (2020 - $3.5 million) and $8.6 million (2020 - $12.0 million), respectively.

	Three Months Ended Jun 30		Six Months Ended Jun 30	
(US$ millions)	**2021**	**2020**	**2021**	**2020**
Unrealized foreign exchange loss	7.7	7.4	10.1	3.9
Realized foreign exchange (gain) loss	(2.8)	(3.9)	(1.5)	8.1
Net foreign exchange loss	**4.9**	**3.5**	**8.6**	**12.0**

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. The Company uses derivative financial instruments such as foreign exchange forward contracts to manage foreign currency risk (see Note 25).

8. Income tax

Income tax recognized in net income (loss):

	Three Months Ended Jun 30		Six Months Ended Jun 30	
(US$ millions)	**2021**	**2020**	**2021**	**2020**
Current income tax expense	10.7	6.1	11.6	23.8
Deferred income tax expense (recovery)	0.4	(4.0)	0.5	(69.9)
Income tax expense (recovery)	**11.1**	**2.1**	**12.1**	**(46.1)**

The income tax expense (recovery) for the six months ended June 30, 2021 is calculated as follows:

(US$ millions)	**2021**		**2020**	
Income (loss) before income tax expense (recovery)	48.8		(87.7)	
Income tax expense (recovery) at Canadian statutory tax rate of 26.5% (2020 - 26.5%)	12.9	26.5 %	(23.2)	26.5 %
Effect of:				
Different tax rates of subsidiaries operating in other jurisdictions	(1.2)	(2.5)%	7.6	(8.7)%
Income not taxable in determining taxable income	(0.2)	(0.4)%	4.4	(5.0)%
Recognition of previously unrecognized tax losses and other deferred tax assets	—	— %	1.0	(1.1)%
Unused tax losses and tax attributes not recognized as deferred tax assets	0.3	0.6 %	—	— %
Internal transfer of intangible property	—	— %	(33.3)	38.0 %
Other	0.3	0.6 %	(2.6)	2.9 %
Income tax expense (recovery)	**12.1**	**24.8 %**	**(46.1)**	**52.6 %**

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

9. Trade and other receivables

Trade receivables

(US$ millions)	**Jun 30, 2021**	**Dec 31, 2020**
Trade receivables	314.5	426.5
Provisions for sales allowances	(122.7)	(158.1)
Allowance for doubtful accounts	(2.5)	(3.2)
Trade receivables	**189.3**	**265.2**

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

Other receivables

(US$ millions)	**Jun 30, 2021**	**Dec 31, 2020**
Investment tax credits receivable	31.9	31.8
Entertainment production receivables	14.0	10.6
Royalty receivables	16.7	11.5
Sales tax receivables	7.2	7.6
Digital games receivables	4.4	4.3
Unrealized foreign exchange gain	1.8	3.7
Other	3.1	3.9
Other receivables	**79.1**	**73.4**

10. Inventories

(US$ millions)	Jun 30, 2021	Dec 31, 2020
Raw materials	11.9	7.8
Finished goods	123.8	94.2
Inventories	**135.7**	**102.0**

Inventories recorded as at June 30, 2021 are net of an inventory provision of $9.7 million that was recorded for the write-down of inventories to net realizable value (December 31, 2020 - $10.2 million).

The cost of inventories recognized as an expense in cost of sales for the three and six months ended June 30, 2021 was $152.1 million (2020 - $124.1 million) and $275.0 million (2020 - $221.9 million), respectively.

11. Other assets

(US$ millions)	Jun 30, 2021	Dec 31, 2020
Current	—	3.0
Non-current	4.2	3.0
Other assets	**4.2**	**6.0**

The current portion of the other assets at December 31, 2020 related to the Company's deposit for the acquisition of Rubik's Brand Limited (see Note 24).

The non-current portion of the other assets includes $4.2 million (2020 - $3.0 million) relating to the Company's investment in a limited partnership with a net unrealized gain for the three and six months ended June 30, 2021 recognized in other income in the condensed consolidated interim statement of earnings and comprehensive income of $0.3 million (2020 - nil) and $1.2 million (2020 - nil), respectively. The Company recognized distribution income for the three and six months ended June 30, 2021 in other income of $0.4 million (2020 - nil).

The Company has paid $2.3 million and is obligated to pay the remaining $0.7 million upon receiving capital calls over the remaining term of the limited partnership agreement. The investment is held for medium to long-term strategic purposes (see Note 25).

12. Property, plant and equipment

(US$ millions)	Note	Moulds, dies and tools	Equipment	Land and leasehold improvements	Computer hardware	Total
Cost						
December 31, 2019		128.9	29.7	39.1	14.2	**211.9**
Additions		18.9	1.4	0.3	0.4	**21.0**
Disposals		(2.8)	(0.1)	—	(0.1)	**(3.0)**
Impairments		—	(0.6)	—	—	**(0.6)**
Foreign currency translation		7.5	0.8	0.7	0.5	**9.5**
December 31, 2020		**152.5**	**31.2**	**40.1**	**15.0**	**238.8**
Additions		12.8	0.4	0.1	1.2	**14.5**
Disposals		(1.2)	(0.1)	—	(0.1)	**(1.4)**
Assets recognized upon acquisition	**24**	0.1	0.2	—	—	**0.3**
Foreign currency translation		1.1	0.1	0.6	—	**1.8**
June 30, 2021		**165.3**	**31.8**	**40.8**	**16.1**	**254.0**
Accumulated depreciation						
December 31, 2019		(104.3)	(16.4)	(14.8)	(9.6)	**(145.1)**
Depreciation		(23.6)	(4.2)	(6.3)	(1.6)	**(35.7)**
Disposals		2.8	0.2	—	0.1	**3.1**
Impairments		—	0.1	—	—	**0.1**
Foreign currency translation		(5.5)	(1.2)	(0.7)	(0.4)	**(7.8)**
December 31, 2020		**(130.6)**	**(21.5)**	**(21.8)**	**(11.5)**	**(185.4)**
Depreciation		(11.5)	(1.9)	(3.2)	(0.8)	**(17.4)**
Disposals		1.1	0.1	—	0.1	**1.3**
Foreign currency translation		(0.7)	(0.7)	(0.3)	—	**(1.7)**
June 30, 2021		**(141.7)**	**(24.0)**	**(25.3)**	**(12.2)**	**(203.2)**
Net carrying amount						
December 31, 2020		**21.9**	**9.7**	**18.3**	**3.5**	**53.4**
June 30, 2021		**23.6**	**7.8**	**15.5**	**3.9**	**50.8**

At June 30, 2021, the Company assessed tangible assets for any indication of impairment and noted no indicators. Impairment losses are recorded when the carrying amount of the asset exceeds its recoverable amount. The recoverable amount was based on the asset's value in use. For the three and six months ended June 30, 2021, the Company recorded no impairment losses (2020 - nil).

13. Intangible assets

(US$ millions)	Note	Brands - indefinite	Trademarks, licenses, intellectual properties & customer lists - definite	Content development	Computer software	Total
Cost						
December 31, 2019		115.7	51.7	164.5	25.9	**357.8**
Additions		—	1.2	50.6	5.9	**57.7**
Disposals		—	—	—	(0.2)	**(0.2)**
Impairments		—	—	(0.4)	—	**(0.4)**
Assets recognized upon acquisition		—	2.4	—	—	**2.4**
Foreign currency translation		1.8	(0.5)	9.5	1.1	**11.9**
December 31, 2020		**117.5**	**54.8**	**224.2**	**32.7**	**429.2**
Additions		—	—	25.6	0.6	**26.2**
Impairments		—	—	(1.4)	—	**(1.4)**
Assets recognized upon acquisition	**24**	39.7	0.8	6.7	—	**47.2**
Foreign currency translation		1.0	0.1	2.6	1.0	**4.7**
June 30, 2021		**158.2**	**55.7**	**257.7**	**34.3**	**505.9**
Accumulated amortization						
December 31, 2019		—	(18.5)	(136.7)	(20.2)	**(175.4)**
Amortization		—	(7.7)	(41.7)	(4.6)	**(54.0)**
Disposal		—	—	—	0.2	**0.2**
Foreign currency translation		—	—	(7.2)	(0.8)	**(8.0)**
December 31, 2020		**—**	**(26.2)**	**(185.6)**	**(25.4)**	**(237.2)**
Amortization		—	(3.4)	(17.9)	(1.8)	**(23.1)**
Foreign currency translation		—	—	(5.9)	(0.8)	**(6.7)**
June 30, 2021		**—**	**(29.6)**	**(209.4)**	**(28.0)**	**(267.0)**
Net carrying amount						
December 31, 2020		**117.5**	**28.6**	**38.6**	**7.3**	**192.0**
June 30, 2021		**158.2**	**26.1**	**48.3**	**6.3**	**238.9**

Intangible assets recognized upon acquisition include $37.4 million for indefinite life brand assets and $0.7 million for customer relationships relating to Rubik's, $2.3 million for indefinite life brand assets, $0.1 million for customer relationships and $6.7 million for content development relating to Originator Inc., as described in Note 24. The balances have been included in the Company's assessment for any indication of impairment.

The Company has capitalized content development costs for an entertainment production with a carrying amount of $22.7 million at June 30, 2021 (December 31, 2020 - $16.9 million). Amortization of these costs will be recognized once delivery of the content has been accepted.

At June 30, 2021, the Company assessed intangible assets for any indication of impairment. Impairment losses are recorded when the carrying amount of the asset exceeds its recoverable amount. The Company recorded an impairment loss for the three and six months ended June 30, 2021 of $0.5 million (2020 - nil) and $1.4 million (2020 - nil) related to certain content development projects, respectively.

14. Goodwill

(US$ millions)	Jun 30, 2021	Dec 31, 2020
Balance, beginning of period	138.0	138.8
Assets recognized upon acquisition during the period	37.7	—
Measurement period purchase price adjustments - Orbeez	—	(0.7)
Proceeds from sale during the period	—	(0.3)
Foreign currency translation	1.6	0.2
Balance, end of period	**177.3**	**138.0**

Additions during the six months ended June 30, 2021 include $22.6 million relating to the acquisition of Rubik's, $7.5 million relating to the acquisition of certain assets from a product invention and development company and $7.6 million relating to the acquisition of Originator Inc., as described in Note 24. These balances will be assessed for impairment within their respective CGUs.

At June 30, 2021, the Company assessed goodwill for any indication of impairment and noted no indicators. There have been no impairment losses recognized with respect to goodwill for the three and six months ended June 30, 2021 (2020 - nil).

15. Trade payables and accrued liabilities

(US$ millions)	Jun 30, 2021	Dec 31, 2020
Trade payables	172.8	161.4
Accrued liabilities	122.8	153.0
Trade payables and accrued liabilities	**295.6**	**314.4**

Accrued liabilities are comprised of payroll related liabilities, accrued royalties, commodity tax and other balances. As at June 30, 2021, a restructuring liability of $0.5 million relating to 2020 is included in accrued liabilities (December 31, 2020 - $1.1 million).

16. Contract liabilities

Contract liabilities are comprised of advances on contracts relating to entertainment and licensing revenue, which arise as a result of consideration received in advance of the Company fulfilling its obligations. As at June 30, 2021, the Company had deferred revenue of $20.0 million (December 31, 2020 - $25.3 million).

The Company recognized revenue during the three and six months ended June 30, 2021 of $1.5 million (2020 - $1.7 million) and $2.6 million (2020 - $4.0 million), respectively previously deferred in contract liabilities. There was no revenue recognized that related to performance obligations from a prior year.

17. Loans and borrowings

Secured Debt

Bank Facilities

(i) The Company has a secured revolving credit facility (the "Facility") in the amount of $510.0 million, which matures in July 2023. Advances under the Facility may be used for general corporate purposes including funding working capital requirements, permitted acquisitions and permitted distributions. The Facility also has an option which permits the Company to increase the total capital available by an additional $200.0 million.

17. Loans and borrowings *(continued)*

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

As at June 30, 2021, the Company had utilized $0.4 million (December 31, 2020 - $0.4 million) of the Facility: $0.4 million (December 31, 2020 - $0.4 million) drawn in letters of credit and nil (December 31, 2020 - nil) drawn in LIBOR Loans.

The obligation under the Facility is secured by a general security and pledge agreement in respect of all present and future personal property, assets and undertaking of the credit parties. This facility is subject to the maintenance of the following financial covenants:
- Total leverage ratio, defined as the ratio of (a) total debt at such time, to (b) EBITDA for the applicable twelve-month period, is calculated on a quarterly basis, of 3.00 to 1.00 or less, provided that, in the event the borrower used proceeds of a borrowing to complete a single permitted acquisition with aggregate consideration greater than $100.0 million during any two consecutive fiscal quarters falling within the twelve-month reporting period immediately following such permitted acquisition, the borrower must only maintain a total leverage ratio 3.50 to 1.00 or less; and
- Interest coverage ratio, calculated on a consolidated, rolling four quarter basis, of 3.00:1.00 or greater.

The Company was in compliance with all financial covenants as at June 30, 2021 and December 31, 2020.

(ii) The Company has a Revolving Credit Facility to finance television and film production. The limit of the credit facility (the "Production Facility") is $10.0 million CAD ($8.1 million US$). As at June 30, 2021, the balance of the Production Facility was nil (December 31, 2020 - nil).

Unsecured Debt

Bank Overdraft Facility

(iii) The Company has an uncommitted Overdraft Facility Agreement (the "European Facility") for €15.0 million ($17.8 million US$). The European Facility will be used to fund working capital requirements in Europe. As at June 30, 2021, the outstanding balance was nil (December 31, 2020 - nil).

18. Provisions and contingent liabilities

(US$ millions)	Jun 30, 2021	Dec 31, 2020
Defectives (i)	12.4	13.0
Supplier liabilities (ii)	4.4	5.6
Contingent consideration, acquisitions (iii)	15.8	15.8
Provisions and contingent liabilities	**32.6**	**34.4**
Current	25.9	29.2
Non-current	6.7	5.2
Provisions and contingent liabilities	**32.6**	**34.4**

18. Provisions and contingent liabilities *(continued)*

Provisions

(i) 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 or the product and reduces the net sales figure on the condensed consolidated interim statements of earnings and comprehensive income.

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

(iii) Certain business combinations include a royalty payable or deferred incentive compensation. The fair value of the total contingent consideration on June 30, 2021 was $15.8 million (December 31, 2020 - $15.8 million) and is based on the achievement of certain financial performance criteria and/or continued employment. The accretion of the royalty is recorded in finance costs in the condensed consolidated interim statements of earnings and comprehensive income. The accrual of deferred incentive compensation is recorded in other expense in the condensed consolidated interim 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.

19. Share capital

(a) Authorized as at June 30, 2021 and December 31, 2020

- Unlimited number of multiple voting shares;
- Unlimited number of subordinate voting shares; and
- Unlimited number of preferred shares issuable in series.

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.

19. Share capital *(continued)*

	Six Months Ended Jun 30 2021		Year Ended Dec 31 2020	
	Shares (millions)	**Amount (US$ millions)**	**Shares (millions)**	**Amount (US$ millions)**
Multiple voting shares:				
Balance, beginning of period	70.6	360.5	70.6	360.5
Balance, end of period	**70.6**	**360.5**	**70.6**	**360.5**
Subordinate voting shares:				
Balance, beginning of period	31.4	364.3	31.6	354.0
Issuance of subordinate voting shares	0.3	7.3	0.2	11.4
Cancellation of subordinate voting shares	—	—	(0.1)	(1.1)
Forfeiture of subordinate voting shares	—	—	(0.3)	—
Balance, end of period	**31.7**	**371.6**	**31.4**	**364.3**
Shares issued and outstanding, end of period	**102.3**	**732.1**	**102.0**	**724.8**

As at June 30, 2021, the Company does not hold any of its outstanding shares (2020 - nil).

(b) Share-based plans

Participation arrangements

The Company had equity participation arrangements ("Participation Arrangements") with six senior employees and four former employees pursuant to which all were entitled to receive a cash payment and shares on the Initial Offering of the Company. The terms of the Participation Arrangements differ between participants with vested participants being entitled to some or all of their shares between six months and six years following the Initial Offering.

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

As at June 30, 2021, 151,993 (December 31, 2020 - 151,993) subordinate voting shares were outstanding relating to the Participation Arrangements with a weighted average grant date fair value of $2.1 million (December 31, 2020 - $2.1 million) based on the weighted average of the contractual life remaining of 1 month. Subsequent to June 30, 2021, the remaining outstanding shares under the Participation Arrangements were released to the participants.

On February 18, 2020, the Company announced changes to senior leadership. As a result of these changes, 301,160 subordinate voting shares were forfeited and 133,550 subordinate voting shares with a fair value of $1.1 million were canceled.

Share based compensation expense of $0.1 million (2020 - $1.3 million) relating to Participation Arrangements is recorded in administrative expenses in the condensed consolidated interim statements of earnings and comprehensive income for the six months ended June 30, 2021.

19. Share capital *(continued)*

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 LTIP, the Board may at its discretion from time to time, grant share options, share units, in the form of RSUs and PSUs, Stock Appreciation Rights, restricted stock and any other equity based awards.

The Company settled vested LTIP grants during the six months ended June 30, 2021 through the issuance of shares. The settlements resulted in a transfer of $7.3 million (2020 - $2.1 million) from contributed surplus to share capital.

RSUs and PSUs

Below is a summary of the activity related to RSUs and PSUs outstanding as at June 30, 2021 and December 31, 2020.

(number of units)	Jun 30, 2021	Dec 31, 2020
Outstanding, beginning of period	1,745,045	713,908
Granted	652,048	1,418,898
Exercised	(275,833)	(260,854)
Forfeited	(43,160)	(126,907)
Outstanding, end of period	**2,078,100**	**1,745,045**

Included in the above table are 1,098,204 PSUs outstanding to certain key employees as at June 30, 2021 (December 31, 2020 - 918,929).

Share based compensation expense of $6.9 million (2020 - $4.6 million) relating to RSUs and PSUs is recorded in administrative expenses in the condensed consolidated interim statements of earnings and comprehensive income for the six months ended June 30, 2021 with corresponding entries recorded in contributed surplus.

Deferred Share Units ("DSUs")

Below is a summary of the activity related to DSUs outstanding as at June 30, 2021 and December 31, 2020.

(number of units)	Jun 30, 2021	Dec 31, 2020
Outstanding, beginning of period	121,771	78,311
Granted	15,994	43,460
Outstanding, end of period	**137,765**	**121,771**

Share based compensation expense of $0.5 million (2020 - $0.3 million) with a mark to market expense of $2.0 million (2020 - gain of $0.7 million) relating to DSUs is recorded in administrative expenses in the condensed consolidated interim statements of earnings and comprehensive income for the six months ended June 30, 2021. A corresponding amount was recorded in accrued liabilities.

Share Purchase Options (“Options”)

The Company has one share option plan for key employees, which forms part of their LTIP. Under 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 four years.

The Company did not issue any Options in 2021 and 2020. As at June 30, 2021, 545,322 (December 31, 2020 - 545,322) Options were outstanding with a weighted average exercise price of $34.42 CAD (December 31, 2020 - $34.42 CAD).

19. Share capital *(continued)*

Share based compensation expense of $0.2 million (2020 - $0.5 million) relating to Options is recorded in administrative expenses in the condensed consolidated interim statements of earnings and comprehensive income for the six months ended June 30, 2021.

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

	Six Months Ended Jun 30	
(US$ millions)	**2021**	**2020**
Equity-settled RSUs and PSUs	6.9	4.6
Equity-settled Participation Arrangement transactions	0.1	1.3
Share purchase options	0.2	0.5
Share based compensation expense	**7.2**	**6.4**

Share based compensation expense of $7.2 million (2020 - $6.4 million) is recorded in administrative expenses in the condensed consolidated interim statements of earnings and comprehensive income for the six months ended June 30, 2021. A corresponding amount was recorded in contributed surplus.

20. Earnings per share

	Three Months Ended Jun 30			
	2021		**2020**	
(Number of shares in millions)	**Weighted average number of shares**	**Per share amount (US$)**	**Weighted average number of shares**	**Per share amount (US$)**
Basic	102.3	0.33	102.0	(0.15)
Diluted	105.2	0.32	104.0	(0.15)

	Six Months Ended Jun 30			
	2021		**2020**	
(Number of shares in millions)	**Weighted average number of shares**	**Per share amount (US$)**	**Weighted average number of shares**	**Per share amount (US$)**
Basic	102.3	0.36	102.0	(0.41)
Diluted	105.2	0.35	104.0	(0.41)

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

21. Net changes in non-cash working capital

	Six Months Ended Jun 30	
(US$ millions)	**2021**	**2020**
Decrease (increase) in:		
Trade receivables	61.6	163.0
Other receivables	(9.3)	8.4
Inventories	(32.3)	34.7
Prepaid expenses	3.2	9.3
Other assets	0.2	—
Advances on royalties	(0.2)	2.8
	23.2	**218.2**
(Decrease) increase in:		
Trade payables and accrued liabilities	(2.3)	(121.8)
Contract liabilities	(5.4)	7.0
Provisions and contingent liabilities	(9.5)	0.6
Other	—	(10.8)
	(17.2)	**(125.0)**
Total net changes in non-cash working capital	**6.0**	**93.2**

22. Leases

Amounts recognized in the balance sheet

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 leases of office buildings and distribution centres as "Building" and IT equipment and vehicles as "Equipment". The weighted average lease term is 11 years. The carrying value of right-of-use assets and depreciation by class of underlying assets at June 30, 2021 are as follows:

(US$ millions)	Building	Equipment	Right-of-use Assets
January 1, 2020	75.4	2.9	78.3
Additions	0.7	0.4	1.1
Disposals	(0.1)	—	(0.1)
Depreciation and amortization	(12.0)	(1.3)	(13.3)
Foreign currency translation	1.0	—	1.0
December 31, 2020	**65.0**	**2.0**	**67.0**
Additions	—	0.2	0.2
Assets recognized upon acquisition (Note 24)	0.6	—	0.6
Modifications	7.3	0.1	7.4
Depreciation and amortization	(6.1)	(0.6)	(6.7)
Foreign currency translation	0.3	0.1	0.4
June 30, 2021	**67.1**	**1.8**	**68.9**

22. Leases *(continued)*

(US$ millions)	Lease Liabilities
January 1, 2020	82.7
Additions	1.1
Disposals	(0.1)
Accretion	4.6
Lease payments	(15.2)
Foreign currency translation	1.3
December 31, 2020	**74.4**
Additions	0.2
Liabilities recognized upon acquisition (Note 24)	0.7
Modifications	7.4
Accretion	2.2
Lease payments	(9.2)
Foreign currency translation	0.5
June 30, 2021	**76.2**

(US$ millions)	Jun 30, 2021	Dec 31, 2020
Lease Liabilities, current	15.4	15.4
Lease Liabilities, non-current	60.8	59.0
Total Lease Liabilities	**76.2**	**74.4**

23. Commitments for expenditures

As at June 30, 2021, the Company had minimum guarantees due to licensors of $40.5 million (December 31, 2020 - $37.7 million).

24. Business acquisitions

Acquisition of Originator Inc.

On June 14, 2021, the Company acquired 100% of the shares of Originator Inc., which qualifies as a business under IFRS 3, *Business Combinations*. Originator Inc. is a developer and publisher of education focused mobile apps for kids and families. The acquisition has been reported in the Toca Boca CGU beginning from the date of acquisition.

The preliminary estimate of purchase consideration was comprised of $15.0 million of cash consideration. The total purchase consideration has been allocated to identifiable intangible assets based on their estimated fair values of $9.1 million (related to brands, customer relationships and content development), tangible assets of $1.2 million and assumed liabilities of $2.9 million with the remainder allocated to goodwill. Given the timing of the transaction and measurement uncertainty with final purchase agreement consideration adjustments, the purchase price allocation is not yet final. The purchase price allocation will be finalized in the Company's third quarter 2021 condensed consolidated interim financial statements.

The purchase agreement includes total deferred consideration of $10.0 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 an incentive-related remuneration expense and are accrued over the five-year period. Deferred remuneration expense of $0.2 million is included in other (income) expense in the condensed consolidated interim statements of earnings and comprehensive income for the three and six months ended June 30, 2021, and in non-current provisions and contingent liabilities in the condensed consolidated interim statements of financial position.

The purchase agreement also includes deferred consideration of $4.0 million which is contingent on meeting certain performance metrics and has been allocated a fair value of nil in the total purchase consideration.

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 for the three and six months ended June 30, 2021.

24. Business acquisitions *(continued)*

Assets acquired and liabilities recognized at the date of acquisition

(US$ millions)	Fair value as at June 14, 2021
Assets acquired	
Cash	0.8
Trade receivables	0.4
Intangible assets	9.1
	10.3
Liabilities assumed	
Trade payables and accrued liabilities	0.4
Deferred income tax liabilities	2.5
	2.9
Fair value of identifiable net assets acquired	**7.4**

Goodwill arising on acquisition

Cash consideration	15.0
Fair value of identifiable net assets acquired	7.4
Goodwill arising from transaction	**7.6**

Net cash outflow on acquisition

Cash consideration	15.0
Less: cash balance acquired	0.8
Net cash outflow for the three months ended June 30, 2021	**14.2**

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. Goodwill recognized is not expected to be deductible for income tax purposes.

Acquisition of certain assets from a product invention and development company

On April 16, 2021, the Company acquired assets and assumed liabilities of a product invention and development company which constitutes a business under IFRS 3. Included in the acquisition is an assembled workforce. The acquisition has been reported in the Toy CGU beginning from the date of acquisition.

The total purchase consideration was comprised of $7.5 million of cash consideration and has been allocated as $0.7 million of tangible assets and $0.7 million of assumed liabilities with the remainder allocated to goodwill.

The purchase agreement includes deferred consideration of $14.5 million which is contingent on continued employment of key principals over a five-year period. These payments are considered an incentive-remuneration expense and are accrued over the five-year period. Deferred remuneration expense of $1.3 million is included in other (income) expense in the the condensed consolidated interim statements of earnings and comprehensive income for the three and six months ended June 30, 2021, and in non-current provisions and contingent liabilities in the condensed consolidated interim statements of financial position.

The Company had pre-existing licensing arrangements for the acquired intellectual property. No gain/loss from the settlement of the pre-existing relationship was generated from this transaction.

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 for the three and six months ended June 30, 2021.

24. Business acquisitions *(continued)*

Assets acquired and liabilities recognized at the date of acquisition

(US$ millions)	Fair value as at April 16, 2021
Assets acquired	
Property, plant and equipment	0.1
Right-of-use assets	0.6
	0.7
Liabilities assumed	
Lease liabilities	0.7
	0.7
Fair value of identifiable net assets acquired	**—**

Goodwill arising on acquisition

Cash consideration	7.5
Fair value of identifiable net assets acquired	—
Goodwill arising from transaction	**7.5**

Net cash outflow on acquisition

Cash consideration	7.5
Net cash outflow for the three months ended June 30, 2021	**7.5**

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, $7.5 million of goodwill is expected to be deductible for income tax purposes and is being amortized for tax purposes over 15 years.

Acquisition of Rubik's Brand Limited

On January 4, 2021, the Company completed the acquisition of Rubik's Brand Limited by acquiring 100% of the shares of its holding company, Rubiks Malta Holding Company Limited (“Rubik’s”). Rubik’s is a licensor and distributor of various editions of the Rubik’s product lines and qualifies as a business under IFRS 3. The Company secured the global intellectual property for the Rubik’s portfolio and the ability to sell, market and license for further penetration directly to wholesale customers or continue to sell indirectly through distributors into markets as well as expansion into new territories. The brand has been reported in the Activities, Games & Puzzles and Plush product category and included in the Rubik's CGU beginning from the date of acquisition.

The total purchase consideration of $55.2 million was comprised of $51.4 million of cash consideration plus $3.8 million related to the estimated fair value of future royalties. The total purchase consideration has been allocated to the identifiable intangible assets based on their estimated fair values of $38.1 million (related to brands and customer relationships), tangible assets of $6.5 million and assumed liabilities of $12.0 million with the remainder allocated to goodwill.

The Company incurred transaction related costs of $1.1 million. $0.9 million was recorded in administrative expenses in the consolidated statement of earnings and comprehensive income for the year ended December 31, 2020 and $0.2 million was recorded in administrative expenses in the condensed consolidated interim statements of earnings and comprehensive income for the six months ended June 30, 2021.

24. Business acquisitions *(continued)*

Assets acquired and liabilities recognized at the date of acquisition

(US$ millions)	Fair value as at January 4, 2021
Assets acquired	
Cash	1.1
Trade receivables	4.0
Inventories	0.7
Prepaid expenses	0.5
Property, plant and equipment	0.2
Intangible assets	38.1
	44.6
Liabilities assumed	
Trade payables and accrued liabilities	4.4
Deferred income tax liabilities	7.2
Income tax payable	0.4
	12.0
Fair value of identifiable net assets acquired	**32.6**

Goodwill arising on acquisition

Cash consideration	52.6
Purchase price adjustment (receivable at June 30, 2021)	(1.2)
Present value of future royalties	3.8
Total purchase consideration	55.2
Fair value of identifiable net assets acquired	32.6
Goodwill arising from transaction	**22.6**

Net cash outflow on acquisition

Cash consideration	52.6
Less: cash balance acquired	1.1
Total net cash outflow	**51.5**
Less: advance paid in 2020	3.0
Net cash outflow for the three months ended March 31, 2021	**48.5**

Trade receivables acquired of $4.1 million have a fair value of $4.0 million. This balance is expected to be collected at the time of acquisition.

Goodwill arose on the acquisition of Rubik’s as the consideration paid effectively included amounts for the benefit of expected synergies, revenue growth and future market development. These benefits are not recognized separately from goodwill as they do not meet the recognition criteria for identifiable intangible assets. Goodwill recognized is not expected to be deductible for income tax purposes.

The total purchase consideration includes $3.8 million in deferred payments for future royalties. The future royalties are payable to the vendor upon the achievement of key performance indicators over a six-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 $5.7 million.

Impact of acquisition on the results of the Company

Included in the Company's financial results for the three and six months ended June 30, 2021 is $3.8 million and $7.1 million respectively in revenue attributable to Rubik's.

25. Financial instruments and risk management

Fair value measurements

The carrying amounts of financial assets or liabilities of the Company that approximate their fair values as follows:

(US$ millions)	Jun 30, 2021	Dec 31, 2020
Financial assets		
Cash	310.7	320.6
Trade receivables	189.3	265.2
Other receivables	79.1	73.4
Other assets	4.2	6.0
Financial assets	**583.3**	**665.2**
Financial liabilities		
Trade payables and accrued liabilities	295.6	314.4
Provisions and contingent liabilities	32.6	34.4
Financial liabilities	**328.2**	**348.8**

The Company records foreign exchange forward contracts at fair value in the financial statements.

The fair value of foreign exchange forward contracts at June 30, 2021 represented an asset of $1.8 million recorded in other receivables and a liability of $1.4 million recorded in accrued liabilities (December 31, 2020 - an asset of $3.7 million and a liability of $7.2 million). Derivative fair values are categorized within Level 2 of the fair value hierarchy. 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.

The fair value of the investment in a limited partnership as at June 30, 2021 is recorded in other assets at $4.2 million (2020 - $3.0 million) with a net unrealized gain for the three and six months ended June 30, 2021 recognized in other income in the condensed consolidated interim statement of earnings and comprehensive income of $0.3 million (2020 - nil) and $1.2 million (2020 - nil), 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 valuations techniques through the partnership based the type of investment held by the fund. The quantitative unobservable inputs used in the fair value measurement are not developed by the Company.

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 uses derivative financial instruments such as foreign exchange forward contracts with various financial institutions to manage foreign currency risk.

As at June 30, 2021, the Company is committed under outstanding foreign exchange contracts representing a total net purchase commitment of approximately $74.0 million in US$ (December 31, 2020 - $11.3 million). These foreign exchange contracts have maturity dates varying from July 2021 to December 2022. For the six months ended June 30, 2021, realized losses on the Company's matured hedges were $1.2 million (2020 - realized gains of $1.2 million) and is included in the condensed consolidated in statement of earnings and comprehensive income.

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

As at June 30, 2021 (in millions)	**Notional value: foreign currency**	**Notional value: US$**	**Unrealized gain (loss): US$**
Foreign exchange contracts			
Buy US$	65.6 EUR	(78.5)	0.2
Buy US$	29.2 GBP	(39.4)	(0.9)
Buy US$	506.0 MXN	(24.1)	(0.5)
Sell US$	(86.4) CAD	68.0	1.6
Total		**(74.0)**	**0.4**

As at December 31, 2020 (in millions)	**Notional value: foreign currency**	**Notional value: US$**	**Unrealized (loss) gain: US$**
Foreign exchange contracts			
Buy US$	42.5 EUR	(49.4)	(2.9)
Buy US$	25.0 GBP	(31.9)	(2.3)
Buy US$	360.6 MXN	(15.9)	(2.0)
Sell US$	(114.2) CAD	85.9	3.7
Total		**(11.3)**	**(3.5)**

26. Segment information

Spin Master is a global children's entertainment company. Spin Master's portfolio includes children's products, brands and entertainment properties which are grouped into four major categories as follows:

(i) Preschool and girls
(ii) Activities, games & puzzles and plush
(iii) Boys
(iv) Outdoor

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

The North American segment is comprised of the United States and Canada. The European segment is comprised of the United Kingdom, France, Italy, the Netherlands, Germany, Austria, Switzerland, Belgium, Luxembourg, Slovakia, Hungary, Romania, Czech Republic, Poland, Turkey, Russia, Spain and Greece. The Rest of World segment is primarily comprised of Hong Kong, China, Vietnam, India, Australia, New Zealand, Japan and Mexico, as well as all other areas of the world serviced by the Company's distribution network.

26. Segment information *(continued)*

Segment revenue and results

The Company's gross product sales and results from operations by reportable segment are as follows:

	Three Months Ended Jun 30,		Six Months Ended Jun 30,	
(US$ millions)	**2021**	**2020**	**2021**	**2020**
Revenue by segment				
North America	252.4	204.0	423.0	348.6
Europe	61.5	49.7	150.6	123.2
Rest of World	45.1	28.5	80.1	52.7
Gross product sales	**359.0**	**282.2**	**653.7**	**524.5**
Sales allowances	(32.6)	(29.6)	(71.7)	(66.5)
Net sales	**326.4**	**252.6**	**582.0**	**458.0**
Other revenue	64.4	28.5	125.4	50.4
Revenue	**390.8**	**281.1**	**707.4**	**508.4**
Segment income (loss) before tax (recovery) expense				
North America	36.5	15.2	40.0	(27.7)
Europe	6.2	(9.6)	6.8	(23.1)
Rest of World	1.5	(16.8)	1.6	(31.2)
Total segment income before tax (recovery) expense	**44.2**	**(11.2)**	**48.4**	**(82.0)**
Corporate and other	0.4	(1.6)	0.4	(5.7)
Income before income tax (recovery) expense	**44.6**	**(12.8)**	**48.8**	**(87.7)**

Revenues for North America include revenues attributable to Canada of $43.8 million (2020 - $35.2 million) and $87.5 million (2020 - $59.1 million) for the three and six months ended June 30, 2021, respectively.

Revenue reported by segment above represents revenue generated from external customers. There were no inter-segment sales in the current year (2020 - nil). The Company does not include sales adjustments such as trade discounts and other allowances in reporting revenue by segment (referred to as "gross product sales").

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

Segment assets

(US$ millions)	**Jun 30, 2021**	**Dec 31, 2020**
North America	1,003.7	971.4
Europe	235.4	217.6
Rest of World	85.4	111.3
Total segment assets	**1,324.5**	**1,300.3**
Corporate and other	52.1	41.8
Total assets	**1,376.6**	**1,342.1**

26. Segment information *(continued)*

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

(US$ millions)	Jun 30, 2021	Dec 31, 2020
North America	419.9	426.4
Europe	82.6	33.2
Rest of World	22.5	19.9
Total segment non-current assets	**525.0**	**479.5**
Corporate and other	114.5	73.3
Total non-current assets	**639.5**	**552.8**

Non-current assets for North America include assets attributable to Canada of $140.8 million as at June 30, 2021 (December 31, 2020 - $139.3 million).

Segment liabilities

(US$ millions)	Jun 30, 2021	Dec 31, 2020
North America	397.7	410.7
Europe	70.4	84.9
Rest of World	39.3	39.4
Total segment liabilities	**507.4**	**535.0**
Corporate and other	(32.0)	(35.8)
Total liabilities	**475.4**	**499.2**

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

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

Capital expenditures by reportable segment

	Three Months Ended Jun 30,		Six Months Ended Jun 30,	
(US$ millions)	2021	2020	2021	2020
North America	22.0	22.6	32.8	39.6
Europe	0.2	1.8	2.8	3.3
Rest of World	3.0	2.0	5.1	2.5
Total capital expenditures	**25.2**	**26.4**	**40.7**	**45.4**

Depreciation and amortization by reportable segment

	Three Months Ended Jun 30,		Six Months Ended Jun 30,	
(US$ millions)	2021	2020	2021	2020
North America	20.1	21.2	38.1	39.6
Europe	2.2	2.1	5.2	4.8
Rest of World	1.1	1.0	2.4	2.2
Total segment depreciation and amortization	**23.4**	**24.3**	**45.7**	**46.6**
Corporate and other	0.7	1.4	1.5	2.4
Total depreciation and amortization	**24.1**	**25.7**	**47.2**	**49.0**

Impairment losses of $1.4 million were recognized in respect of intangible assets in North America for the six months ended June 30, 2021 (2020 - nil).

26. Segment information *(continued)*

Revenue from major product categories

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

	Three Months Ended Jun 30,		Six Months Ended Jun 30,	
(US$ millions)	**2021**	**2020**	**2021**	**2020**
Preschool and girls	149.6	93.5	246.8	166.6
Activities, games & puzzles and plush	98.0	99.8	185.5	179.9
Boys	77.7	54.1	145.7	114.8
Outdoor	33.7	34.8	75.7	63.2
Gross product sales	**359.0**	**282.2**	**653.7**	**524.5**
Sales allowances	(32.6)	(29.6)	(71.7)	(66.5)
Net sales	**326.4**	**252.6**	**582.0**	**458.0**
Entertainment and Licensing revenue	27.5	18.3	54.4	33.3
Digital games revenue	36.9	10.2	71.0	17.1
Revenue	**390.8**	**281.1**	**707.4**	**508.4**

Major customers

Sales to the Company's three largest customers accounted for 59.2% (2020 - 60.1%) and 53.2% (2020 - 52.2%) of gross product sales for the three and six months ended June 30, 2021, respectively. Other than the top three customers, which have remained the same year over year, no other single customer contributed 10% or more to gross product sales for the three and six months ended June 30, 2021 (2020 - nil).

	Three Months Ended Jun 30,		Six Months Ended Jun 30,	
(US$ millions)	**2021**	**2020**	**2021**	**2020**
Gross product sales				
Customer 1	108.0	88.9	159.1	136.1
Customer 2	56.7	49.6	107.6	87.9
Customer 3	47.9	31.2	81.3	49.9
Total	**212.6**	**169.7**	**348.0**	**273.9**

27. Prior year comparatives

Certain prior year comparatives have been reclassified to conform with current year presentation.