



Press Release – For Immediate Distribution

**MEGA BRANDS ANNOUNCES VALUE ENHANCEMENT PLAN
AND REPORTS THIRD QUARTER 2007 FINANCIAL RESULTS**

MONTREAL, November 9, 2007 – MEGA Brands Inc. (TSX: MB) announced today its third quarter 2007 financial results and a Value Enhancement Plan to drive improved financial performance.

“The overall health of our business is good, with leading brands, strong category positions and growth opportunities worldwide,” stated Marc Bertrand, President and Chief Executive Officer. “Through the successful implementation of this Plan, our financial performance will measure up to the potential of our company.”

The Plan targets a broad range of activities, including the following:

Products and Customers

The Corporation plans to optimize its product portfolio by focusing R&D and marketing resources on consumer driven product development.

Innovation will continue to be a key driver of performance, supported by annual investments of 3-4% of sales. The combination of innovation, the make-up of the product portfolio and price increases will help offset cost pressures that are affecting all players in its industry.

In addition, the Corporation will increase the efforts to develop profitable growth programs for its customers with great products and differentiation.

Inventory and Demand Management

The Corporation plans to improve its business processes to achieve the highest levels of customer satisfaction while significantly improving inventory turns.

Efficiencies

The Corporation is moving ahead with plans for more synergies and savings, in addition to the \$7-10 million now being captured on an annualized basis as a result of the integration of MEGA Brands America last year.

- The Woodridge, New Jersey plant will be closed in December 2007.
- The Woodridge and Board Dudes (California) distribution centres will be consolidated in Seattle.
- The Corporation’s operations and supplier base in China will be strengthened.

These and other actions are expected to generate material cost savings and manufacturing efficiencies.



Financial results for the three-month and nine-month periods ended September 30, 2007

Financial Highlights				
	Three-month periods ended September 30,		Nine-month periods ended September 30,	
<i>(US \$ millions, except earnings per share)</i> <i>(unaudited)</i>	2007	2006	2007	2006
Net sales	184.1	201.8	395.7	382.5
<i>Product line segmentation</i>				
Toys	111.6	126.5	223.6	210.5
Stationery & Activities	72.5	75.3	172.1	172.0
<i>Geographic segmentation</i>				
North America	117.7	141.9	271.1	280.9
International	66.4	59.9	124.6	101.6
Net earnings (loss)	(11.0)	18.0	(31.0)	22.6
Earnings (loss) per share				
Basic	(0.31)	0.56	(0.92)	0.70
Diluted ⁽¹⁾	(0.31)	0.53	(0.92)	0.66
 ⁽¹⁾ The dilutive effect of outstanding options under the treasury stock method for the three month and nine month periods ended September 30, 2007 is nil as it is anti-dilutive.				

Net sales in the third quarter of 2007 decreased 8.8% to \$184.1 million compared to \$201.8 million in the corresponding period last year. The reduction in sales was primarily due to production delays in Asia that resulted in at least \$15 million of orders not shipped, as well as lower shipments of MAGNETIX products.

Net sales of our Toys product lines in the third quarter of 2007 decreased 11.8% to \$111.6 million compared to \$126.5 million in the third quarter of 2006. Our shipments of MAGNETIX products decreased by approximately \$16 million during the third quarter compared to the same period of last year. Given the Corporation's announcement of a second MAGNETIX product recall at the beginning of this year and recalls of magnet based products announced by other toy manufacturers in recent months, retailers have taken a very cautious approach in building inventory levels of MAGNETIX products. Furthermore, our 2006 third quarter results were characterized by higher levels of MAGNETIX sales due to a catch up in deliveries of the redesigned products. Finally, production delays in Asia resulted in at least \$10 million of unfulfilled orders, coming primarily in our boys 5-plus category. Construction toys sales were flat compared to last year with a strong performance of our Preschool products offset by lower shipments of boys 5-plus products.

Net sales of Stationery and Activities product lines in the third quarter of 2007 decreased by 3.7% to \$72.5 million compared to \$75.3 million in the corresponding period last year. Higher sales of Activities products were offset by lower Stationery sales, as this year's back to school season did not meet our expectations. Furthermore, approximately \$5 million of customer orders were not shipped during the quarter due to production delays in Asia. These orders were mainly related to new product initiatives in our activities product lines.



On a geographical basis, net sales in North America decreased 17.1% to \$117.7 million compared to \$141.9 million in the third quarter of 2006. The reduction in North America was caused primarily by lower shipments of MAGNETIX products which were approximately \$17 million lower than last year for the same period as well as production delays in Asia which resulted in approximately \$6 million of orders that were delivered in the first few weeks of the fourth quarter of the current year. International net sales in the third quarter of 2007 were up 10.9% to \$66.4 million compared to \$59.9 million in the corresponding period of last year. Growth in the International segment was driven by construction toy sales in the preschool category as well as sales of MAGNETIX, Stationery and Activities products. This growth was offset by at least \$9 million in orders not shipped as a result of production delays in Asia. Approximately \$2.8 million of the sales increase is attributable to changes in exchange rates. International net sales accounted for 36.1% of consolidated net sales in the third quarter of 2007 compared to 29.7% for the corresponding period for the prior year.

For the nine-month period ended September 30, 2007, net sales increased 3.5% to \$395.7 million compared to \$382.5 million in the same period last year. Sales of Toys were up 6.2% to \$223.6 million compared to \$210.6 million in the first nine months of 2006 based on strong sales in the preschool category, in addition to solid growth in the boys 5-plus and games and puzzles categories. Sales of MAGNETIX products for the nine-month period ended September 30, 2007 were lower than the prior year. Sales of Stationery and Activities products for the first nine months of 2007 were flat at \$172.1 million compared to \$172.0 million for the corresponding period of the prior year. North American sales reached \$271.1 million for the first nine months of 2007 compared to \$280.9 million in the corresponding 2006 period, while International sales increased to \$124.6 million or 31.5% of total net sales during the nine month period ended September 30, 2007, compared to \$101.7 million or 26.6% of total net sales in the corresponding period of the prior year.

Cost of sales increased to \$148.3 million in the third quarter of 2007 compared to \$111.2 million in the corresponding period of 2006, an increase of \$37.1 million. Despite lower net sales, cost of sales increased by approximately \$19 million as a result of the sale of excess inventory below cost and by approximately \$20 million as a result of the recording of a non-cash inventory revaluation adjustment.

For the nine-month period ended September 30, 2007, cost of sales increased to \$303.2 million compared to \$215.6 million for the same period in 2006. Included in the 2007 cost of sales is \$30.5 million of MAGNETIX product recall and other charges, approximately \$28 million of resulting from the sale of excess inventory below cost and approximately \$20 million related to a non-cash inventory revaluation adjustment recorded during the third quarter.

Gross profit in the third quarter of 2007 decreased to \$35.8 million compared to \$90.5 million in the third quarter of 2006. Gross margin declined to 19.5% compared to 44.8% in the third quarter of last year.

Gross profit for the quarter was impacted by the following factors:

- The sale of approximately \$19 million of excess inventory which resulted in a negative gross profit of approximately \$12 million. This is primarily related to the integration plan put in place following the acquisition of MEGA Brands America. In anticipation of plant closures in the United States, the Corporation had built higher levels of inventories in 2006 to avoid service issues with its key customers. In December 2007, the Corporation will close its manufacturing and distribution facility in New Jersey and Management has decided not to incur significant additional operating costs associated with keeping and transferring excess inventory to its distribution facilities located on the west coast of the United States.
- The recording of a non-cash inventory revaluation adjustment of approximately \$20 million. This expense was primarily set-up as a result of Management's decision to minimize any future financial impact related to the completion of its MEGA Brands America integration plan, and the full integration of Board Dudes' operations scheduled in 2008. It was also influenced by a conservative approach in regards to potential impacts following Management's decision to transition its MAGNETIX product



offering into an entirely new generation of magnetic play called MAGNEXT™. Preliminary responses to viewings of this new product at toy shows have been very positive. MAGNEXT is expected to reach retailers by mid-2008.

- Lower gross profit generated by the MAGNETIX product line of \$12 million due to lower unit sales and prices. Other product lines generated the same average gross margins compared to the prior year.
- Production delays in Asia which resulted in at least \$15 million of orders not shipped during the quarter. The gross profit impact of these unfulfilled orders amounted to approximately \$7 million.
- Lower manufacturing efficiencies resulting primarily from the inventory reduction plan initiated by the Corporation and the downsizing of the New Jersey facility which is scheduled to be fully closed by December 2007. The impact of these items on gross profit amounted to approximately \$4 million.

Excluding the impact of sales of excess inventory and the recording of a non-cash inventory revaluation adjustment described above, the gross margin was 38.1% for the quarter ended September 30, 2007.

For the nine-month period ended September 30, 2007, gross profit was \$92.5 million compared to \$167.0 million for the same period in 2006. Excluding the MAGNETIX product recall and other charges of \$30.5 million, the sale of excess inventory and the recording of a non-cash inventory revaluation adjustment, the gross margin was 41.3% compared to 43.7% in the same period of the prior year.

Marketing and advertising expenses were reduced to \$4.8 million in the third quarter of 2007 compared to \$8.2 million in the third quarter of 2006. The decrease reflects the timing of new product releases in 2007, with more spending occurring earlier during the year related to products associated with theatrical releases. For the nine months ended September 30, 2007, marketing and advertising expenses were slightly lower than the prior year at \$15.6 million compared to \$16.2 million for the corresponding period of the prior year.

Research and development expenses increased to \$5.4 million in the third quarter of 2007 compared to \$5.1 million in the corresponding period last year. This increase is mainly related to expenses to support new product initiatives. For the nine months ended September 30, 2007, research and development expenses increased to \$17.1 million compared to \$12.5 million for the corresponding period of the prior year. The increase reflects our strong investment in new product initiatives across all product categories.

Other selling, distribution and administrative expenses amounted to \$34.6 million in the third quarter of 2007 compared to \$36.6 million in the third quarter of 2006. The improvement is mainly the result of lower product distribution costs and lower administrative expenses. The current quarter includes two non-recurring expenses, \$2.1 million related to the sub-lease of excess warehouse space in Montreal at unfavourable terms and \$0.5 million related to the set-up of a second-lien credit facility. This facility was subsequently eliminated as a result of an issue of common shares from treasury made by the Corporation in July 2007. For the nine months ended September 30, 2007, other selling, distribution and administrative expenses increased to \$90.9 million compared to \$84.8 million for the corresponding period of the prior year.

As a result of the above, the loss from operations amounted to \$5.1 million for the third quarter of 2007 compared to earnings from operations of \$26.4 million in the corresponding 2006 period. In North America, the earnings from operations for the third quarter of 2007 were \$3.3 million compared to \$16.4 million last year. In International, the loss from operations amounted to \$8.4 million compared to earnings from operations of \$10.0 million in the third quarter of 2006. As a result of the tax structure implemented in conjunction with the Mega Brands America acquisition in July 2005, the majority of the inventory related charges described in the cost of sales section above incurred this quarter are allocated to our International operations.

For the nine-month period ended September 30, 2007, the loss from operations was \$31.7 million compared to an operating profit of \$40.7 million in the corresponding period of 2006. This amount includes the



MAGNETIX product recall and other charges and litigation expenses of \$36.2 million, once the recovery of \$3.6 million in product liability settlement from our insurers is netted. It also includes the inventory related charges described in the cost of sales section above totalling approximately \$35 million. The loss from operations in North America amounted to \$29.9 million compared to earnings from operations of \$23.1 million in the prior year while the loss from operations in International markets amounted to \$1.8 million compared to earnings from operation of \$17.6 million in the same period of the prior year.

Interest and other expenses in the third quarter of 2007 were \$7.0 million compared to \$6.1 million in the same 2006 period, reflecting mainly an increase in average long-term debt and, to a lesser extent, higher interest rates. For the nine months ended September 30, 2007, interest and other expenses amounted to \$19.8 million compared to \$16.4 million in the prior year, also reflecting the increase in average long-term debt and, to a lesser extent, higher interest rates.

Income taxes for the third quarter ended September 30, 2007 amounted to a recovery of \$1.0 million, compared to an expense of \$2.3 million in the corresponding period of the prior year. For the nine months ended September 30, 2007, the income tax recovery was \$20.6 million compared to an income tax expense of \$1.7 million in the prior year. The tax rate used to establish the income tax expense for the quarterly results is the applicable estimated effective rate of each entity of the Corporation. The effective tax rate reflects the Corporation's structure for tax purposes as well as the financing structure put in place following the acquisition of MEGA Brands America.

The net loss amounted to \$11.0 million or \$0.31 diluted loss per share in the third quarter of 2007 compared to net earnings of \$18.0 million or \$0.53 diluted earnings per share for the corresponding period last year. The impact of the MAGNETIX product recall and other charges, litigation expenses, the sale of excess inventory and the recording of a non-cash inventory revaluation adjustment amounted to \$0.80 diluted earnings per share for the third quarter of 2007 compared to \$0.28 diluted earnings per share for the corresponding period of the prior year.

For the nine months ended September 30, 2007, the net loss amounted to \$31.0 million, or \$0.92 per diluted share compared to earnings of \$22.6 million, or \$0.66 per diluted share for the corresponding period of the prior year. The impact of the MAGNETIX product recall and other charges, litigation expenses, the sale of excess inventory and the recording of a non-cash inventory revaluation adjustment amounted to \$1.49 diluted earnings per share for the third quarter of 2007 compared to \$0.32 diluted earnings per share for the corresponding period of the prior year.

Non-GAAP Financial Measures

The terms "impact of the MAGNETIX product recall and other charges, litigation expenses, the sale of excess inventory and the recording of a non-cash inventory revaluation adjustment" and "excluding the impact of the MAGNETIX product recall and other charges, litigation expenses, the sale of excess inventory and the recording of a non-cash inventory revaluation adjustment" do not have any standardized meaning under GAAP and are therefore unlikely to be comparable to similar measures presented by other companies. We present this information as a measure of operating performance of our ongoing business without the effects of unusual items. We exclude such items because they affect the comparability of our financial results between periods and could potentially distort the analysis of trends in business performance.

MD&A Filing

MEGA Brands will file its third quarter 2007 Management's Discussion and Analysis, as well as its unaudited consolidated financial statements and notes for the third quarter ended September 30, 2007 via SEDAR on November 9, 2007. The MD&A, financial statements and notes will be available on the Corporation's Web site as of 7:00 a.m. on November 9, 2007.

Conference Call



An analyst conference call will be held at 9:00 a.m. on November 9, 2007 to discuss the third quarter results. Participants may listen to the call by dialling **1 (800) 732-9307**. For those unable to participate, a replay will be available until November 16, 2007. The replay phone number is **(416) 640-1917**, access code **21247969#**. A webcast is also available at www.megabrand.com under the investor relations section.

Forward-looking Statements

All statements in this press release that do not directly and exclusively relate to historical facts constitute "forward-looking statements". These statements represent the Corporation's intentions, plans, expectations and beliefs. In certain instances, these statements require us to make assumptions and there is significant risk that these assumptions may not be correct. Furthermore, these statements are subject to risks, uncertainties and other factors, many of which are beyond the Corporation's control. These factors include and are not restricted to: toy recalls, realization of synergies, litigation and its inherent uncertainty, including the recovery of the full product liability settlement amount and risks associated with product recalls, international operations, insurance coverage, difficulty in predicting consumer preferences and development and acceptance of new products, rate of growth or profitability, dependence on a few large customers, fluctuations in the price of plastic resins and other raw materials as well as currency rates, seasonality of toy and stationery industries, risks related to licensed products, retail environment, construction toy litigation and financing and interest rate matters. The words "believe", "estimate", "expect", "intend", "anticipate", "foresee", "plan", and similar expressions and variations thereof, identify certain of such forward-looking statements, which speak only as of the date on which they are made. The Corporation disclaims any intention or obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, other than as required by applicable legislation. Readers are cautioned not to place undue reliance on these forward-looking statements. More information about the risks that could cause our actual results to significantly differ from our current expectations can be found in the "Risks and Uncertainties" section of our 2006 and third quarter 2007 MD&A.

About MEGA Brands

MEGA Brands is a trusted family of leading global brands in construction toys, games & puzzles, arts & crafts and stationery. We offer engaging creative experiences for children and families through innovative, well-designed, affordable and high-quality products that deliver on our Creativity to the Rescue promise. For more information, please visit <http://www.megabrand.com>.

The MEGA logo, Creativity to the Rescue, MEGA BLOKS, ROSE ART, MAGNETIX, BOARD DUDES and MAGNEXT are trademarks of MEGA Brands Inc. or its affiliates.

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Consolidated statements of earnings

(in thousands of US dollars, except per share data)

(Unaudited)

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2007	2006	2007	2006
	\$	\$	\$	\$
Net sales	184,105	201,778	395,697	382,542
Cost of sales	148,279	111,231	303,230	215,550
Gross profit	35,826	90,547	92,467	166,992
Marketing and advertising expenses	4,794	8,178	15,565	16,246
Research and development expenses	5,379	5,079	17,064	12,476
Other selling, distribution and administrative expenses	34,604	36,604	90,902	84,788
Voluntary product recall and replacement	-	183	4,700	1,617
Litigation expenses	2,300	669	4,613	1,091
Product liability settlement (reimbursement) and related expenses	(2,600)	13,859	(3,600)	14,027
Gain on foreign currency translation	(3,582)	(404)	(5,040)	(3,988)
Earnings (loss) from operations	(5,069)	26,379	(31,737)	40,735
Interest expenses				
Interest on long-term debt	6,727	6,126	19,276	16,107
Amortization of deferred financing costs	260	179	552	487
Other interest	21	(171)	(33)	(194)
	7,008	6,134	19,795	16,400
Earnings (loss) before income taxes	(12,077)	20,245	(51,532)	24,335
Income taxes				
Current	3,244	11,108	1,476	3,909
Future	(4,293)	(8,822)	(22,032)	(2,161)
	(1,049)	2,286	(20,556)	1,748
Net earnings (loss)	(11,028)	17,959	(30,976)	22,587
Earnings (loss) per share				
Basic	(0.31)	0.56	(0.92)	0.70
Diluted ⁽¹⁾	(0.31)	0.53	(0.92)	0.66

⁽¹⁾ The dilutive effect of outstanding options under the treasury stock method for the three-month and the nine-month periods ended September 30, 2007 is nil as it is anti-dilutive.

Consolidated statements of retained earnings (deficit)

(in thousands of US dollars)

(Unaudited)

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2007	2006	2007	2006
	\$	\$	\$	\$
Balance, beginning of period	(7,312)	(8,084)	12,636	(12,712)
Net earnings (loss)	(11,028)	17,959	(30,976)	22,587
Balance, end of period	(18,340)	9,875	(18,340)	9,875

Consolidated statements of comprehensive income and Accumulated other comprehensive income

(in thousands of US dollars)

(Unaudited)

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2007	2006	2007	2006
	\$	\$	\$	\$
Net earnings (loss) for the period	(11,028)	17,959	(30,976)	22,587
Other comprehensive income, net of income taxes				
Loss on derivatives designated as cash flow hedges	(2,583)	-	(1,184)	-
Comprehensive income (loss) for the period	(13,611)	17,959	(32,160)	22,587
Accumulated other comprehensive income				
Balance, beginning of period	3,150	-	-	-
Impact of adopting the new accounting policy regarding financial instruments, net of income taxes	-	-	1,751	-
Other comprehensive loss, net of income taxes	(2,583)	-	(1,184)	-
Balance, end of period	567	-	567	-

Consolidated balance sheets

(in thousands of US dollars)

	September 30, 2007 (Unaudited)	December 31, 2006 (Audited)	September 30, 2006 (Unaudited)
	\$	\$	\$
Assets			
Current assets			
Cash and cash equivalents	8,928	13,658	9,696
Accounts receivable	163,946	161,612	209,412
Inventories	119,971	140,630	137,742
Income taxes	8,965	9,317	8,753
Future income taxes	14,911	8,354	29,799
Prepaid expenses	15,702	12,025	9,148
	332,423	345,596	404,550
Property, plant and equipment	48,316	43,213	42,872
Intangible assets	78,967	79,517	71,986
Goodwill	301,988	300,829	318,962
Derivative financial instruments	916	-	-
Future income taxes	49,258	28,006	-
Deferred charges	-	3,281	3,979
	811,868	800,442	842,349
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	105,991	153,437	180,656
Additional consideration accrued on business combination	57,825	57,825	55,712
Derivative financial instruments	988	-	-
Current portion of long-term debt	8,495	9,609	9,539
	173,299	220,871	245,907
Long-term debt	313,064	302,345	324,819
Future income taxes	34,121	27,782	27,354
	520,484	550,998	598,080
Shareholders' equity			
Capital stock	308,598	236,088	233,294
Contributed surplus	559	720	1,100
Retained earnings (deficit)	(18,340)	12,636	9,875
Accumulated other comprehensive income net of income taxes	567	-	-
	291,384	249,444	244,269
	811,868	800,442	842,349

Consolidated statements of cash flows

(in thousands of US dollars)

(Unaudited)

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2007	2006	2007	2006
	\$	\$	\$	\$
Cash flows from operating activities				
Net earnings (loss)	(11,028)	17,959	(30,976)	22,587
Items not affecting cash and cash equivalents				
Amortization of property, plant and equipment	3,568	3,109	9,977	9,224
Amortization of intangible assets	182	26	550	188
Amortization of deferred charges	-	315	-	846
Stock-based compensation plans	157	778	57	1,436
Future income taxes	(4,293)	(8,822)	(22,032)	(2,161)
Gain on disposal of property, plant and equipment	(20)	-	(260)	-
Gain on foreign currency	(678)	(193)	(295)	(2,631)
	(12,112)	13,172	(42,979)	29,489
Changes in non-cash operating working capital items	970	(39,397)	(31,245)	(42,278)
	(11,142)	(26,225)	(74,224)	(12,789)
Cash flows from financing activities				
Repayment of long-term debt	(2,414)	(22,641)	(7,133)	(26,594)
Change in revolving credit facility	(48,400)	54,000	20,600	60,000
Amortization of deferred financing costs	260	-	552	-
Issuance of capital stock	70,519	537	71,293	1,522
	19,965	31,896	85,312	34,928
Cash flows from investing activities				
Acquisition of property, plant and equipment	(3,681)	(4,211)	(15,457)	(12,644)
Proceeds from disposal of property, plant and equipment	-	-	798	54
Business combinations	(817)	(1,920)	(1,159)	(19,420)
	(4,498)	(6,131)	(15,818)	(32,010)
Decrease in cash and cash equivalents	4,325	(460)	(4,730)	(9,871)
Cash and cash equivalents, beginning of period	4,603	10,156	13,658	19,567
Cash and cash equivalents, end of period	8,928	9,696	8,928	9,696
Supplementary disclosure of cash flow information				
Interest paid	6,570	5,542	19,101	15,920
Income taxes paid (recovered)	1,300	2,633	(794)	16,507