



Press Release – For Immediate Distribution

**MEGA BRANDS ANNOUNCES RETURN TO PROFITABILITY
BEFORE NON-CASH GOODWILL IMPAIRMENT PROVISION**

MONTREAL, November 13, 2008 – MEGA Brands Inc. (TSX: MB) announced today its financial results for the third quarter and nine months ended September 30, 2008. (All figures are expressed in US dollars.)

Excluding a \$150 million non-cash goodwill impairment provision, the Corporation reported earnings from operations of \$22.2 million compared to a loss from operations of \$5.1 million in the third quarter of 2007. Including the goodwill impairment provision, net loss from operations was \$127.8 million while net loss was \$122.1 million or \$3.34 per share in the third quarter of 2008.

Net sales declined to \$160.9 million compared to \$184.1 million in the third quarter of 2007. Sales were lower in both of the Corporation's reporting segments, reflecting mainly softer sales in certain product categories and weakening consumer demand.

"We are pleased to report a profit for the quarter, before impairment of goodwill and other assets, despite continuing cost pressures and a challenging retail environment. The implementation of our Value Enhancement Plan is beginning to yield early positive results and we are continuing the realignment of our global operations to improve margins while maintaining our focus on product innovation," stated Marc Bertrand, President and CEO.

"The goodwill impairment provision does not require any cash payments and is related to the Rose Art acquisition," noted Bertrand. "Accounting rules require us to take this provision because of the global economic slowdown and the decline in our stock price."

Following the end of the quarter, the Corporation decided to significantly downsize operations in the former Rose Art manufacturing facility in Shenzhen, China and outsource production to qualified third-party suppliers who already manufacture over 50% of its products by sales revenue. The transfer of production will be completed by the end of 2008. The Shenzhen plant, specialized in the manufacture of magnetic toys, was underutilized and this decision is expected to result in margin improvements commencing in 2009. Under its Value Enhancement Plan, the Corporation will be taking further steps to improve the efficiency of its global supply chain and competitive position.

The Corporation entered the fourth quarter with cash and cash equivalents of \$39.7 million and working capital of \$201.4 million.

Third Quarter 2008 Results

Net sales in the third quarter of 2008 decreased 12.6% to \$160.9 million compared to \$184.1 million in the corresponding period last year. This decrease reflects softer than expected sales in certain product categories and weakening consumer demand as well as additional identified product recall charges compared to the 2007 third quarter.

Net sales of our Toys product lines declined to \$101.7 million compared to \$111.6 million in the third quarter of 2007. This decrease is due to lower shipments in the Boys 5-plus category and reflects \$6.9 million of product recall charges related to MAGNETIX.

Net sales of Stationery and Activities product lines declined to \$59.2 million compared to \$72.5 million in the third quarter of 2007. This decrease reflects a challenging back-to-school season for all suppliers as major retailers were determined to end the season with low inventories.

On a geographical basis, net sales in North America decreased to \$100.3 million compared to \$117.7 million in the third quarter of 2007. International net sales declined to \$60.5 million compared to \$66.4 million in the third quarter of 2007. This decrease is mainly due to lower shipments in Mexico resulting from weaker demand, credit concerns with certain retailers and the impact of foreign exchange rates. International net sales accounted for 37.6% of total net sales in the third quarter of 2008 compared to 36.1% in the corresponding 2007 period.



Cost of sales declined to \$102.0 million compared to \$148.3 million in the third quarter of 2007, which included approximately \$39 million of specific costs related to the sale of excess inventory below cost and the recording of a non-cash inventory revaluation adjustment. When these specific costs are excluded, the decrease in costs of sales in the 2008 third quarter is consistent with the decline in net sales. Cost of sales for the third quarter 2008 includes \$0.6 million of integration charges.

Gross profit was \$58.9 million compared to \$35.8 million in the third quarter of 2007. Gross margin was 36.6% compared to 19.5% in the third quarter of 2007. Excluding the impact of the sale of excess inventory below cost and the recording of a non-cash inventory revaluation adjustment totaling \$39 million, the adjusted gross margin in the third quarter of 2007 was 38.1%. The decline in gross margin in the 2008 third quarter on a comparable basis is due mainly to higher input costs, including significant increases in resin costs, product mix, manufacturing inefficiencies in our Chinese plant, as well as continued cost pressures in China related to labor rates, foreign exchange and product testing.

Marketing and advertising expenses were \$4.6 million compared to \$4.8 million in the third quarter of 2007, consistent with the decline in net sales. For the nine months ended September 30, 2008, marketing and advertising expenses were \$13.9 million compared to \$15.6 million in the corresponding period last year.

Research and development expenses decreased to \$4.8 million compared to \$5.4 million in the third quarter of 2007. This decrease reflects mainly a reduction in third-party services, the completion of upfront R&D work for the new MAGNEXT product line and cost savings resulting from SKU rationalization.

Other selling, distribution and administrative expenses decreased to \$30.8 million compared to \$34.6 million in the third quarter of 2007. This decrease reflects mainly a reduction in administrative expenses as well as lower warehousing costs following the consolidation of operations in North America during the first quarter of 2008.

As a result of the recent deterioration in the global economic environment and the decline in the Corporation's stock price, accounting rules require an interim goodwill impairment test and assessment of the recoverability of other assets, notably long-lived assets and intangibles. Based on a preliminary assessment, and in view of recent decisions regarding its global supply chain, the Corporation recognized a provision of \$150 million against the carrying value of these assets in the third quarter 2008 financial statements, allocated to goodwill. This impairment charge does not require any cash payments.

Excluding goodwill and other assets impairment of \$150 million, earnings from operations were \$22.2 million compared to a loss from operations of \$5.1 million in the third quarter of 2007. The 2008 figure includes insurance proceeds of \$9.4 million related to a product liability settlement recorded in 2006. In North America, earnings from operations were \$28.2 million compared to earnings from operations of \$3.3 million in the third quarter of 2007. For the International segment, loss from operations was \$5.9 million compared to a loss from operations of \$8.4 million in the third quarter of 2007. Reported loss from operations in the 2008 third quarter was \$127.8 million.

Total interest expense was \$12.6 million compared to \$7.0 million in the third quarter of 2007. Interest on long-term debt and other interest increased to \$9.7 million compared to \$6.7 million in the third quarter of 2007, reflecting higher indebtedness and debt servicing costs. During the third quarter of 2008, the Corporation recorded an unrealized loss of \$1.7 million on derivative financial instruments related to the interest rate swap on part of its Term B credit facility.

Income taxes recovery was \$18.2 million compared to a recovery of \$1.0 million in the third quarter of 2007. 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 group. 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 future income tax assets are presented net of valuation allowance of \$86.2 million (including \$57.3 million related to the impairment of goodwill and other assets) as at September 30, 2008, and \$27.8 million, as at December 31, 2007.

Net loss was \$122.1 million or \$3.34 loss per share compared to net loss of \$11.0 million or \$0.31 loss per share in the third quarter of 2007.



The impairment of goodwill and other assets, a non-cash charge, represents a net loss of \$3.57 per share.

MD&A Filing

MEGA Brands will file the Management's Discussion and Analysis as well as the unaudited consolidated financial statements and notes for the third quarter ended September 30, 2008 via SEDAR on November 13, 2008. The MD&A, financial statements and notes will be available on the Corporation's Web site as of 7:00 a.m. on November 13, 2008.

Conference Call

An analyst conference call will be held at 9:00 a.m. on November 13, 2008 to discuss the results. Participants may listen to the call by dialing **1 (800) 731-6941**. For those unable to participate, a replay will be available until November 20, 2008. The replay phone number is **1 (416) 640-1917**, access code **21286197#**.

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. 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 2007 annual MD&A and Q3 2008 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.megabrands.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 loss

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

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2008	2007	2008	2007
	\$	\$	\$	\$
Net sales	160,860	184,105	346,637	395,697
Cost of sales	101,992	148,279	225,211	303,230
Gross profit	58,868	35,826	121,426	92,467
Marketing and advertising expenses	4,648	4,794	13,893	15,565
Research and development expenses	4,750	5,379	13,156	17,064
Other selling, distribution and administrative expenses	30,751	34,604	84,317	90,902
Voluntary product recall and replacement	-	-	-	4,700
Litigation expenses	3,623	2,300	7,076	4,613
Product liability settlement and related expenses	(9,350)	(2,600)	(9,350)	(3,600)
Impairment of goodwill and other assets	150,000	-	150,000	-
Loss (gain) on foreign currency translation	2,204	(3,582)	3,223	(5,040)
Loss from operations	(127,758)	(5,069)	(140,889)	(31,737)
Interest expense				
Interest on long-term debt	9,416	6,727	20,845	19,276
Change in fair value of interest rate swap	1,657	-	(3,921)	-
Amortization of deferred financing costs	1,201	260	3,015	552
Other interest	307	21	325	(33)
	12,581	7,008	20,264	19,795
Loss before income taxes	(140,339)	(12,077)	(161,153)	(51,532)
Income taxes				
Current	(313)	3,244	1,001	1,476
Future	(17,886)	(4,293)	(26,794)	(22,032)
	(18,199)	(1,049)	(25,793)	(20,556)
Net loss	(122,140)	(11,028)	(135,360)	(30,976)
Loss per share				
Basic	(3.34)	(0.31)	(3.70)	(0.92)
Diluted ⁽¹⁾	(3.34)	(0.31)	(3.70)	(0.92)

¹⁾ The dilutive effects of the convertible debentures and the outstanding options under the treasury stock method for the three-month and nine month periods ended September 30, 2008 and 2007 are nil as they are anti-dilutive.



Consolidated statements of deficit

(in thousands of US dollars)

(Unaudited)

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2008	2007	2008	2007
	\$	\$	\$	\$
Balance, beginning of period	(97,720)	(7,312)	(84,500)	12,636
Net loss	(122,140)	(11,028)	(135,360)	(30,976)
Balance, end of period	(219,860)	(18,340)	(219,860)	(18,340)

Consolidated statements of comprehensive loss and Accumulated other comprehensive income (loss)

(in thousands of US dollars)

(Unaudited)

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2008	2007	2008	2007
	\$	\$	\$	\$
Net loss for the period	(122,140)	(11,028)	(135,360)	(30,976)
Other comprehensive loss, net of income taxes				
Gain (loss) on derivatives designated as cash flow hedges	356	(2,583)	(3,196)	(1,184)
Comprehensive loss for the period	(121,784)	(13,611)	(138,556)	(32,160)
Accumulated other comprehensive income (loss)				
Balance, beginning of period	(5,817)	3,150	(2,265)	-
Impact of adopting the new accounting policy regarding financial instruments, net of income taxes	-	-	-	1,751
Other comprehensive income (loss), net of income taxes	356	(2,583)	(3,196)	(1,184)
Balance, end of period	(5,461)	567	(5,461)	567



Consolidated balance sheets

(in thousands of US dollars)

	September 30, 2008 (Unaudited)	December 31, 2007 (Audited)	September 30, 2007 (Unaudited)
	\$	\$	\$
Assets			
Current assets			
Cash and cash equivalents	39,664	8,505	8,928
Accounts receivable	173,289	125,784	163,946
Inventories	108,135	91,681	119,971
Income taxes	8,869	8,219	8,965
Future income taxes	4,843	4,286	14,911
Derivative financial instruments	1,599	306	-
Prepaid expenses	21,072	19,650	15,702
	357,471	258,431	332,423
Property, plant and equipment	40,860	42,620	48,316
Intangible assets	74,108	74,606	78,967
Goodwill, net	149,539	298,938	301,988
Derivative financial instruments	552	-	916
Future income taxes	48,708	35,119	49,258
Deferred charges	-	-	-
	671,238	709,714	811,868
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	97,507	136,592	105,991
Additional consideration accrued on business combination	54,775	54,775	57,825
Derivative financial instruments	-	-	988
Current portion of long-term debt	2,885	8,303	8,495
	155,167	199,670	173,299
Long-term debt	392,269	252,441	313,064
Derivative financial instruments	4,901	3,659	-
Future income taxes	16,401	31,550	34,121
	568,738	487,320	520,484
Shareholders' equity			
Capital stock	308,677	308,601	308,598
Contributed surplus	558	558	559
Equity component of convertible debentures	18,586	-	-
Deficit	(219,860)	(84,500)	(18,340)
Accumulated other comprehensive income (loss) net of income taxes	(5,461)	(2,265)	567
	102,500	222,394	291,384
	671,238	709,714	811,868



Consolidated statements of cash flows

(in thousands of US dollars)

(Unaudited)

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2008	2007	2008	2007
	\$	\$	\$	\$
Cash flows from operating activities				
Net loss	(122,140)	(11,028)	(135,360)	(30,976)
Items not affecting cash and cash equivalents				
Amortization of property, plant and equipment	3,754	3,568	11,214	9,977
Amortization of intangible assets	166	182	498	550
Stock-based compensation plans	(113)	157	(745)	57
Future income taxes	(17,886)	(4,293)	(26,794)	(22,032)
Impairment of goodwill and other assets	150,000	-	150,000	-
Gain on disposal of property, plant and equipment	-	(20)	-	(260)
Loss (gain) on foreign currency	(148)	(678)	742	(295)
	13,633	(12,112)	(445)	(42,979)
Changes in non-cash operating working capital items	(63,199)	970	(106,443)	(31,245)
	(49,566)	(11,142)	(106,888)	(74,224)
Cash flows from financing activities				
Repayment of long-term debt	(2,344)	(2,414)	(7,009)	(7,133)
Change in revolving credit facility	19,000	(48,400)	94,000	20,600
Issuance of convertible debentures	69,934	-	69,934	-
Amortization of deferred financing costs	1,200	260	3,015	552
Amortization of comprehensive loss on swap derivative	576	-	1,151	-
Unrealized gain on derivative financial instruments related to interest rate swap	1,082	-	(5,071)	-
Issue costs on equity component of convertible debentures	(1,051)	-	(1,051)	-
Addition to deferred financing costs	(4,898)	-	(7,564)	-
Issuance of capital stock	-	70,519	76	71,293
	83,499	19,965	147,481	85,312
Cash flows from investing activities				
Acquisition of property, plant and equipment	(1,396)	(3,681)	(8,833)	(15,457)
Proceeds from disposal of property, plant and equipment	-	-	-	798
Business combinations	(601)	(817)	(601)	(1,159)
	(1,997)	(4,498)	(9,434)	(15,818)
Increase (decrease) in cash and cash equivalents	31,936	4,325	31,159	(4,730)
Cash and cash equivalents, beginning of period	7,728	4,603	8,505	13,658
Cash and cash equivalents, end of period	39,664	8,928	39,664	8,928
Supplementary disclosure of cash flow information				
Interest paid	8,096	6,570	16,327	19,101
Income taxes paid (recovered)	(135)	1,300	2,418	(794)
Non cash item				
Property, plant and equipment acquired by means of capital leases	-	-	622	-