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**MEGA BRANDS INITIATES RECAPITALIZATION TRANSACTION**

**Montreal – January 14, 2010** – MEGA Brands Inc. (TSX: MB) (“**MEGA Brands**” or the “**Corporation**”) today announced a recapitalization transaction with the following key elements (all figures in U.S. dollars unless otherwise specified):

- **Immediate balance sheet improvement through debt reduction of approximately \$300 million from approximately \$430 million to \$131 million.**
- **Annual interest expenses to be reduced by over 65% from an estimated \$43 million in 2009 to approximately \$13 million going forward excluding asset-based credit facility utilization.**
- **Business as usual for employees, suppliers and customers, who will not be affected by the Recapitalization Transaction.**
- **Elimination of all financial covenants.**
- **Commitment of a \$50 million asset-based facility, with an availability block of \$5 million, from Wachovia Capital Finance Corporation (Central) and Wachovia Capital Finance Corporation (Canada).**
- **Improved cash flow and liquidity to fund operations and investment in innovation.**
- **Significant injection of new capital through a CDN\$100 million bought deal financing led by GMP Securities and a \$121 million private placement to Fairfax Financial Holdings Ltd., certain Trimark mutual funds, the Corporation’s Chairman, Victor Bertrand Sr., its Chief Executive Officer, Marc Bertrand and its Chief Innovation Officer, Vic Bertrand.**

The new capital structure resulting from the recapitalization transaction creates financial stability for MEGA Brands and its stakeholders. It also provides a stronger financial base for the execution of the Corporation’s operating strategy going forward with improved cash flow and liquidity from reduced interest expenses to fund operations and investment in innovation. Closing is expected to occur by the end of March 2010.

The Corporation’s suppliers, as well as its obligations to employees, are unaffected by the recapitalization transaction and will continue to be paid or satisfied in the ordinary course.

“This transaction is a significant positive development for MEGA Brands. Once implemented, MEGA Brands will be repositioned for the future with a solid balance sheet and the financial flexibility to focus on profitable growth globally,” said Marc Bertrand, President and CEO. “After a thorough review of numerous alternatives, we are convinced this is the best option for all stakeholders. This transaction demonstrates the commitment of our current major shareholders and investors through the injection of over \$121 million in new capital. Further, it is

business as usual for our customers, suppliers and employees who will remain unaffected by this transaction.”

Under the recapitalization transaction, the Corporation will repay in cash and with an equity component all of its outstanding senior secured indebtedness (the “**Secured Debt**”), which as at December 31, 2009 was approximately \$357.2 million, at a recovery of approximately 70% to holders of such Secured Debt (based on the amount of Secured Debt outstanding as at December 31, 2009). In addition, holders of the Corporation’s senior unsecured convertible debentures (the “**Convertible Debentures**”) totalling approximately \$71.7 million as at December 31, 2009 have agreed to cancel their debentures for secured debentures, common shares and warrants in the amount of \$15 million for a recovery of approximately 21% (based on Convertible Debentures outstanding as at December 31, 2009).

The Corporation’s board of directors determined that the recapitalization transaction is in the best interests of the Corporation given, among other reasons, that it will reduce net debt by approximately \$300 million and significantly improve the Corporation’s capital structure. This determination was made based on a range of factors, including the unanimous recommendation of a committee of independent directors and fairness opinions received from the Corporation’s financial advisor, N M Rothschild & Sons Canada Securities Limited.

The Corporation will issue approximately 284.7 million new common shares (“**Common Shares**”) at a price of CDN\$0.50 per share and 234.6 million warrants exercisable into Common Shares at a price of CDN\$0.50 per warrant. After giving effect to the recapitalization transaction, approximately 321 million Common Shares will be issued and outstanding and approximately 556 million Common Shares will be outstanding on a fully diluted basis. This compares to the current 36.6 million Common Shares issued and outstanding, and 60.1 million Common Shares outstanding on a fully diluted basis assuming the conversion of the Convertible Debentures. As a result, current shareholders will own approximately 11.4% of the Common Shares issued and outstanding at the closing of the recapitalization transaction, and approximately 6.6% on a fully diluted basis.

The Corporation intends to implement the recapitalization transaction pursuant to a plan of arrangement under the *Canada Business Corporations Act*. As of the date hereof, the recapitalization transaction has received the support of the holders of in excess of \$246.6 million of the Corporation’s Secured Debt (approximately 69%, 2.5% of which represents purchasers of Secured Debt in trades which have not yet settled) who have entered into a lock-up agreement, as well as the holders of 100% of the Convertible Debentures, pursuant to which they have agreed, subject to certain conditions, to vote in favour of, and otherwise support, the recapitalization transaction.

Subject to receiving the required approvals and to other conditions, it is anticipated that the closing of the recapitalization transaction will occur on or about March 31, 2010.

A summary of the key terms of the recapitalization transaction follows. Further information about the recapitalization transaction will be available on SEDAR ([www.sedar.com](http://www.sedar.com)) and the Corporation’s web page ([www.megabrands.com](http://www.megabrands.com)).

This press release is not an offering of securities for sale in the United States. The Subscription Receipts, Debentures, Warrants and Common Shares described in the summary of key terms of the recapitalization transaction attached to this press release have not been registered under the U.S. Securities Act of 1933, as amended, and may not be offered or sold in the United States absent registration or an exemption from the registration requirements of that Act.

### **Conference Call**

An analyst conference call will be held at 10.00 a.m. on January 14, 2010, followed by a question period for journalists. Participants may listen to the call by dialling 1 (888) 231-8191. For those unable to participate, a replay will be available until January 21, 2010. The replay phone number is 1 (800) 642-1687, access code 51282515.

### **About MEGA Brands Inc.**

MEGA Brands Inc. is a trusted family of leading global brands in construction toys, games & puzzles, arts & crafts and stationery. They offer engaging creative experiences for children and families through innovative, well-designed, affordable and high-quality products. Visit <http://www.megabrands.com> for more information.

The MEGA logo, Mega Bloks, Rose Art, MagNext and Board Dudes are trademarks of MEGA Brands Inc. or its affiliates.

### **Forward-Looking Statements**

All statements in this press release (including the summary of key terms of the Recapitalization Transaction attached to this press release) that do not directly and exclusively relate to historical facts constitute “forward-looking information” within the meaning of applicable Canadian securities laws, including statements regarding: the implementation of the Recapitalization Transaction and each element thereof, the approvals required to implement the Recapitalization Transaction, the impact of the Recapitalization Transaction on the Corporation, and the financial flexibility and cash flow required by the Corporation. These statements represent the Corporation’s intentions, plans, expectations and beliefs. Readers are cautioned not to place undue reliance on these forward-looking statements. Forward-looking information and statements are based on a number of assumptions and involve risks, uncertainties and other factors that could cause actual results to differ materially from those expressed or implied by them, including, but not limited to: the risk that the approvals required to be obtained and the conditions required to be met to complete the Recapitalization Transaction may not be obtained or met on or prior to March 31, 2010, on or prior to May 15, 2010, or at all; the risk that management’s assumptions regarding the impact of the Recapitalization Transaction on the Corporation’s financial position, including the normalization of the Corporation’s consolidated revenues and relationships with suppliers and the ability to manage costs, may not be accurate; the risk that the announcement of the Recapitalization Transaction may have a negative impact on the Corporation’s relationships with its suppliers and customers, the risk that availability under the Asset-Based Credit Facility may be less than expected, and other risks, assumptions and uncertainties described in the Corporation’s preliminary short form prospectus in respect of the Public Offering (as defined in the summary of key terms of the Recapitalization Transaction attached to this press release) to be filed shortly as well as in the documents incorporated by

reference therein including the Corporation's management's discussion and analysis for the year ended December 31, 2008 and for the interim period ended September 30, 2009, and the Corporation's annual information form, which are available at [www.sedar.com](http://www.sedar.com). The Corporation disclaims any intention or obligation to publicly update or revise any forward-looking information, whether as a result of new information, future events or otherwise, other than as required by applicable law.

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## Key Terms of the Recapitalization Transaction

Unless otherwise stated herein, dollar amounts are expressed in U.S. currency, the currency in which the Corporation publishes its financial results.

The offering and recapitalization transaction include the following elements:

- a CDN\$100 million bought deal financing (the “**Public Offering**”) involving the sale of 65,000 class A subscription receipts (the “**Class A Subscription Receipts**”) and 350,000 class B subscription receipts (the “**Class B Subscription Receipts**”, together with the Class A Subscription Receipts, the “**Subscription Receipts**”) to acquire underlying Debentures, Common Shares and Warrants, as described below;
- a \$121.3 million fully-committed private placement of private units (the “**Private Units**”), each comprised of: (A) one Debenture; (B) 2,000 Common Shares and (C) 2,000 Warrants, at a price of CDN\$2,000 per Private Unit (the “**Private Placement**”), as described below;
- pursuant to a plan of arrangement intended to be effected under the *Canada Business Corporations Act* (the “**CBCA**”), the satisfaction of the Corporation’s senior secured indebtedness (the “**Secured Debt**”), which as at December 31, 2009 totalled \$357.2 million, by payment of an aggregate of \$215.3 million in cash from the proceeds of the Public Offering and the Private Placement and by the issuance of \$35.9 million of Common Shares at a price of CDN\$0.50 per share (the “**Debt Cancellation**”), representing a recovery of approximately 70% to holders of such Secured Debt (based on Secured Debt outstanding as at December 31, 2009);
- the cancellation of the Corporation’s outstanding 8% senior unsecured convertible debentures (the “**Convertible Debentures**”) (approximately \$71.7 million as at December 31, 2009) for \$15.0 million of Private Units (the “**Convertible Cancellation**”), representing a recovery of approximately 21% to holders of Convertible Debentures (based on Convertible Debentures outstanding as at December 31, 2009);
- the entering into of a new \$50 million asset-based facility, with a \$5 million availability block, with Wachovia Capital Finance Corporation (Central) and Wachovia Capital Finance Corporation (Canada) (the “**Asset-Based Credit Facility**”, together with the Public Offering, the Private Placement, the Debt Cancellation, the Convertible Cancellation and the Asset-Based Credit Facility, the “**Recapitalization Transaction**”).

### The Public Offering

- The Corporation has entered into an agreement to sell 65,000 Class A Subscription Receipts and 350,000 Class B Subscription Receipts for aggregate gross proceeds of CDN\$100 million in a bought deal. The Corporation will, within the next few days, but in any event no later than January 18, 2010, file a preliminary short form prospectus relating to the offering of Subscription Receipts in each of the provinces and territories of Canada. The Public Offering is being underwritten by GMP Securities L.P.. The closing of the public offering of Subscription Receipts is expected to take place on or about January 28, 2010.

- The Class A Subscription Receipts are being offered at a price of CDN\$1,000 per Class A Subscription Receipt. Each Class A Subscription Receipt will, upon satisfaction of the conditions to closing of the Recapitalization Transaction, be automatically converted, without payment of additional consideration or further action, into one debt unit of the Corporation of the same value (a “**Debt Unit**”). Each Debt Unit is comprised of a 10% senior secured debenture in the principal amount of CDN\$1,000 (the “**Debentures**”) due five years from the day following closing of this Offering and 800 common share purchase warrants (the “**Warrants**”). Each Warrant will entitle the holder to purchase one common share in the capital of the Corporation (the “**Common Shares**”) upon the payment of the exercise price of CDN\$0.50 per Common Share.

- The Class B Subscription Receipts are being offered at a price of CDN\$100 per Class B Subscription Receipt. Each Class B Subscription Receipt will, upon satisfaction of conditions to closing of the Recapitalization Transaction, be automatically converted, without payment of additional consideration or further action, into one equity unit of the Corporation of the same value (an “**Equity Unit**” and together with the Debt Units, the “**Units**”). Each Equity Unit is comprised of 200 Common Shares and 120 Warrants. The Units will separate into their component securities immediately upon the closing of the Recapitalization Transaction.

- Closing of the Public Offering is subject to certain conditions. Although the Corporation has agreed to seek approval from the Toronto Stock Exchange (“**TSX**”) to list the Subscription Receipts and the Debentures, Warrants, and Common Shares of which the Units are composed and the Common Shares issuable on exercise of the Warrants, there can be no assurance that approval to list the Subscription Receipts, Debentures, Warrants or Common Shares will be obtained. GMP Securities will have an option, exercisable for a period of 30 days after the closing of the offering, to acquire up to an additional 10% of each class of Subscription Receipt at the respective offering price to cover over-allotments, if any, and for market stabilization purposes, for additional gross proceeds to the Corporation of CDN\$10 million.

#### Escrow of Subscription Receipt Proceeds

- The net proceeds of the Public Offering will be held in escrow pending the completion of the Recapitalization Transaction. If these conditions have not been satisfied by the May 15, 2010 (the “**Outside Date**”), then the Subscription Receipts shall be automatically cancelled, and the escrow agent shall remit to holders of Subscription Receipts, for an amount equal to the original purchase price, plus accrued interest and income, unless subscribers holding such Subscription Receipts pass an extraordinary resolution to extend the Outside Date. If the Outside Date is extended, the principal amount of the Debentures and the number of Common Shares and Warrants to which each holder of Subscription Receipts purchased as part of the Public Offering is entitled shall increase by 10%.

#### Private Placement

- MEGA Brands has received binding commitments from Fairfax Financial Holdings Limited (“**Fairfax**”), certain mutual funds (the “**Trimark Funds**”) represented by Invesco Trimark Ltd. (“**Trimark**”), which acts as manager or sub-advisor in respect of such funds, the Corporation’s Chairman, Victor Bertrand Sr., its Chief Executive Officer, Marc Bertrand, and its Chief Innovation Officer, Vic Bertrand, to purchase Private Units in the amounts of \$50 million, \$40

million, \$15 million, \$750,000 and \$500,000, respectively. The Corporation has also received commitments from two other institutional investors to acquire the remaining \$15 million of the Private Units. Each of the commitments by these purchasers (the “Investors”) is subject to certain conditions, including the satisfaction or waiver of the conditions to closing of the Recapitalization Transaction.

### Debentures

- The Debentures will mature five years from the day following the date of issue, subject to minimum principal repayment of 5% on the second anniversary of the issue date, an additional 5% on the third anniversary of the issue date and 10% on the fourth anniversary of the issue date.
- Interest on the Debentures will be 10% per annum, payable in cash semi-annually in arrears commencing on June 30, 2010.
- The Debentures will have a first ranking security interest in all of the assets of the Corporation and of its material subsidiaries not securing the Asset-Based Credit Facility as well as the Trust Account (as defined below) and a second ranking security interest in all of the assets of the Corporation and its material subsidiaries securing the Asset-Based Credit Facility.
- The Corporation will have the option to redeem the Debentures prior to maturity for 105% of the principal amount of the Debentures if it refinances the total principal outstanding on the Debentures on terms equivalent or more favourable to yields on debt issued by “BBB” rated issuers and may also redeem portions of the Debentures from time to time using funds from the Trust Account.
- Additionally, upon a change of control the Corporation will be required to make an offer to purchase all of the outstanding Debentures at a price equal to 112% to 101% (depending on when such change of control occurs) of the principal amount of the Debentures plus accrued and unpaid interest.
- The Debentures will not provide for any financial covenants but will include certain other typical covenants such as limitations on further indebtedness, security and dividends.
- In addition, Fairfax, as a representative of the holders of the Debentures, shall be entitled to nominate three members to the Corporation’s board of directors and, subject to certain conditions, the holders of Secured Debt shall be entitled to nominate one director.

### Warrants

- The Warrants will entitle the holder to purchase one Common Share at an exercise price of CDN\$0.50.
- The Warrants will be exercisable at any time, in whole or in part, until five years from the date of issuance.

- Any funds obtained by the Corporation from the exercise of Warrants will be placed in a bankruptcy remote trust account (the “**Trust Account**”) to be used for the repurchase or redemption of the Debentures.
- The Warrants shall include full anti-dilution provisions including a provision pertaining to an exercise price adjustment in the event of any equity issuance at a price lower than 95% of the volume weighted average trading price for the period of 10 trading days preceding the date of agreement on pricing using a weighted average adjustment taking into account the number of securities outstanding and the number proposed to be issued.

### Asset-Based Credit Facility

The Asset-Based Credit Facility will provide for maximum borrowings of up to \$45 million. It will have a term of 36 months and will be subject to the satisfaction of certain customary conditions. The amount available to be drawn under the Asset-Based Credit Facility will vary from time to time based on the level of the inventory and accounts receivable of the Corporation and certain of its U.S. and Canadian subsidiaries. The Asset-Based Credit Facility will be structured so as to allow the Corporation to raise up to \$30 million of incremental financing through international factoring or revolving facilities. The Asset-Based Credit Facility will be secured by the accounts receivable, the inventory and related assets of the Corporation and its material subsidiaries.

### The Plan of Arrangement

- The Corporation will apply to the Commercial Division of the Superior Court of Quebec in Montreal for an interim order under the CBCA in connection with the Recapitalization Transaction, including calling a meeting of the affected holders of Secured Debt, and if required by the Toronto Stock Exchange (the “**TSX**”), holders of Common Shares, and the mailing of an information circular to such holders.
- Pursuant to a plan of arrangement under the CBCA, the Corporation’s outstanding Secured Debt, in the amount of approximately \$357.2 million as at December 31, 2009 will be satisfied by a cash payment of \$215.28 million, using the proceeds of the Public Offering and Private Placement, and the issuance of \$35.88 million in Common Shares, representing a recovery of approximately 70% to the holders of such Secured Debt (based on Secured Debt outstanding as at December 31, 2009).
- Additionally, the Corporation’s outstanding Convertible Debentures (in the amount of \$71.7 million as at December 31, 2009) will be cancelled for Private Units having an aggregate purchase price of \$15.0 million, representing a recovery of approximately 21% of the holders of such Convertible Debentures (based on Convertible Debentures outstanding as at December 31, 2009).

### Voting Support Agreements

- Holders of Secured Debt in excess of \$246.6 million (approximately 69% of the total principal amount outstanding, 2.5% of which represents purchasers of Secured Debt in trades which have not yet settled) (the “**Committed Creditors**”), have agreed in a lock-up agreement (the “**Lock-**

**Up Agreement**”) to vote in favour of the Recapitalization Transaction, including to support the approval, consent, ratification and adoption of a plan of arrangement relating thereto under a statutory procedure (other than under the *Bankruptcy and Insolvency Act* (Canada)) giving effect to the Recapitalization Transaction as promptly as practicable.

- The commitment of the Committed Creditors may be terminated in certain circumstances, including upon the earliest of (i) such date, if any, that the parties determine that (a) the Recapitalization cannot be completed by May 15, 2010, other than as a result of a breach of the Lock-Up Agreement by any of the Committed Creditors, or (b) such date on which an event of default occurs under the Corporation’s credit agreement with respect to its senior credit facilities (the “**Credit Agreement**”) which the Committed Creditors have not agreed to waive in accordance with the Lock-Up Agreement, which is not otherwise waived by the requisite lenders and which results in the exercise or purported exercise of remedies as contemplated by the Credit Agreement, or (ii) May 15, 2010.

- 100% of the holders of the Convertible Debentures (being certain of the Investors) have also agreed in a support agreement to vote in favour of the Recapitalization Transaction.

#### Exclusivity

- The Corporation has entered into an exclusivity agreement with the Investors (the “**Exclusivity Agreement**”). Pursuant to the terms of the exclusivity agreement, the parties have agreed to negotiate exclusively with each other for a fixed period of time with a view to settling and executing, as soon as possible, the definitive agreements necessary to carry out the Recapitalization Transaction.

- Under the terms of the Exclusivity Agreement, the Corporation has agreed not to solicit competing acquisition or recapitalization proposals, subject to the ability to consider, and enter into an agreement in respect of, a competing proposal not solicited by it which the committee of independent directors and the Corporation’s board believes, in the exercise of its fiduciary duties, represents a superior proposal. The Investors would have the right to match any such superior proposal.

- The Corporation has agreed to pay a fee of \$5 million to certain of the Investors and a fee of \$2 million to the purchasers of Subscription Receipts under the Public Offering if (a) (i) the board of directors of the Corporation approves and the Corporation enters into an agreement in respect of, or (ii) the board of directors approves (in cases in respect of which the Corporation is not required to enter into an agreement), in each case an alternative transaction; or (b) if one or more holders of the Secured Debt breach the Support Agreement and (i) the Recapitalization Transaction is not completed by May 15, 2010 as a result of such breach; or (ii) if it is determined by the parties prior to May 15, 2010 that the Recapitalization Transaction cannot be completed by May 15, 2010 as a result of such breach.

- Except where the fee payable to the Investors and to the purchasers of the Subscription Receipts as described above is payable or has been paid, the Corporation has also agreed to pay a fee of \$2 million to certain Trimark Funds and the purchasers of Subscription Receipts under the Public Offering (excluding any Investors) if (a) the Recapitalization Transaction is not completed by May 15, 2010; or (b) if it is determined by the parties prior to May 15, 2010 that the

Recapitalization Transaction cannot be completed by May 15, 2010, in each case provided that if the inability to complete the Recapitalization Transaction is as a result of the breach by any of such investors of their obligations under their respective purchase agreements or commitments such breaching party shall not be entitled to receive its pro rata portion of this fee.

#### Closing of the Recapitalization

- Binding commitments have been executed by the Investors, representatives of the holders of Secured Debt and the Corporation. The closing of the Recapitalization Transaction is subject to the execution of more detailed documentation in relation to the Recapitalization Transaction and to customary conditions, including receipt of all necessary regulatory and other approvals and consents, the approval of the holders of the Secured Debt, shareholder and debtholder approval as necessary, Court approval, as well as a requirement that no material adverse effect (as defined in the binding commitments) shall have occurred since the date hereof in the opinion of Fairfax and Trimark.

- The Corporation expects that the Recapitalization Transaction will require the approval of two thirds of the votes cast by holders of the Secured Debt, the approval of two-thirds of the votes cast by the holders of the Convertible Debentures and, if required by the TSX and the Court, approval of a majority of the holders of Common Shares other than insiders of the Corporation (i.e., excluding Common Shares held by Fairfax, Trimark, Victor Bertrand Sr., Marc Bertrand and Vic Bertrand).

- The Corporation applied to the TSX for an exemption from the TSX shareholder approval requirement pursuant to Section 604(e) of the TSX Company Manual based on financial hardship. However, this exemption was denied by the TSX. The Corporation has appealed this decision.

- The Corporation is relying on the exemption from the requirement for a formal valuation and minority security holder approval, as necessary, contained in Multilateral Instrument 61-101 – *Protection of Minority Security Holders in Special Transactions* in connection with the related party transactions that form part of the Recapitalization Transaction.

- Subject to receiving the required approvals and to other conditions, it is anticipated that the closing of the Recapitalization Transaction will occur on or about March 31, 2010.

- If it is determined that it is unlikely that the Corporation will be able to effect the Recapitalization Transaction under the CBCA, the Corporation may be required to pursue the Recapitalization Transaction under an alternate statutory proceeding.

#### Board and Independent Committee Approvals

- A committee comprised of all of the independent directors of the Corporation, free from interest in the Recapitalization Transaction and unrelated to the parties involved in the Recapitalization Transaction (the “**Independent Committee**”), has reviewed and considered various potential alternatives available to the Corporation in 2009 in order to improve its

financial situation, with the assistance of Genuity Capital Markets as its independent financial adviser and Ogilvy Renault LLP as its independent legal counsel.

- Having received the advice of its legal and financial advisers, and having considered the opinions of N M Rothschild & Sons Canada Securities Limited referred to below, the Independent Committee has unanimously recommended, and the Board has unanimously approved (with Paul Rivett, Fairfax's appointed nominee to the board of directors, and Victor Bertrand Sr., Marc Bertrand and Vic Bertrand abstaining due to conflicts of interest), entering into the Recapitalization Transaction, and concluded that the Recapitalization Transaction is in the best interests of the Corporation, after taking into account the interests of the Corporation's stakeholders, and has determined to recommend that holders of Common Shares and of Secured Debt vote in favour of the Recapitalization Transaction. The Independent Committee and the Board of Directors have also concluded that (i) the Corporation is in serious financial difficulty; (ii) the Recapitalization Transaction is designed to improve the Corporation's financial condition; and (iii) the terms of the Recapitalization Transaction are reasonable for the Corporation in the circumstances.

- The Board and the Independent Committee received opinions of N M Rothschild & Sons Canada Securities Limited that, based upon and subject to the assumptions and limitations set forth therein: the Recapitalization Transaction is fair, from a financial point of view, to the Corporation and the holders of Common Shares, solely in their capacity as shareholders; the holders of Common Shares, solely in their capacity as shareholders, would be in a better financial position under the Recapitalization Transaction than if the Corporation were liquidated; and the holders of the Secured Debt and the holders of the Convertible Debentures, solely in their capacities as debtholders, would be in a better financial position under the Recapitalization Transaction than if the Corporation were liquidated.

- In determining to recommend voting in favour of the Recapitalization Transaction, the Independent Committee considered the lengthy search for alternative transactions that had been conducted by the Corporation over the past two years during which among other things, a number of parties, including strategic and financial investors, were contacted. In the view of the Independent Committee none of the potential transactions considered by the Corporation and the Independent Committee was more favourable to the Corporation, in light of all relevant factors, than the Recapitalization Transaction. As part of this process, the Independent Committee also took into account the risks and uncertainties associated with the Corporation's seasonal liquidity requirements and ability to attain budgeted EBITDA levels, including the ability to obtain sufficient liquidity to repay the \$96.0 million due and payable under its existing revolving credit facility on July 26, 2010 and to meet its financial covenants on a going forward basis.

#### Share and Debenture Ownership Following the Completion of the Recapitalization

- After giving effect to the Recapitalization Transaction, approximately 321 million Common Shares will be issued and outstanding and 556 million Common Shares will be outstanding on a fully diluted basis, representing, respectively, a 778% and 825% increase over the current 36.6 million Common Shares issued and outstanding and 60.1 million Common Shares outstanding on a fully diluted basis.

- Fairfax does not, as of the date hereof, hold any Common Shares, although it holds CDN\$64 million of Convertible Debentures which will form part of the Convertible Cancellation. Trimark owns 6,671,400 Common Shares, representing approximately 18.2% of the outstanding Common Shares. Victor Bertrand Sr. owns 4,415,711 Common Shares representing approximately 12.1% of the issued and outstanding Common Shares, as well as CDN\$7 million Convertible Debentures which will form part of the Convertible Cancellation. Marc Bertrand owns 66,712 Common Shares, representing approximately 0.2% of the outstanding Common Shares. Vic Bertrand owns 35,940 Common Shares, representing approximately 0.1% of the outstanding Common Shares. Following closing of the Recapitalization Transaction, Fairfax will own approximately 64.8 million Common Shares, Trimark will own approximately 48 million Common Shares, Victor Bertrand Sr. will own approximately 21.3 million Common Shares, Marc Bertrand will own approximately 0.8 million Common Shares and Vic Bertrand will own approximately 0.6 million Common Shares, representing approximately 20.2%, 14.9%, 6.6%, 0.3% and 0.2% of the outstanding Common Shares, respectively.

- Following closing of the Private Placement and the Convertible Cancellation, Fairfax will own \$31.4 million principal amount of Debentures, Trimark will own \$20.0 million principal amount of Debentures, Victor Bertrand Sr. will own \$8.2 million principal amount of Debentures, Marc Bertrand will own \$375,000 principal amount of Debentures and Vic Bertrand will own \$250,000 principal amount of Debentures, representing approximately 24.0%, 15.3%, 6.3%, 0.3% and 0.2% of the outstanding principal amount of Debentures, respectively.

- Following the closing, if insiders were to act together, including Fairfax, Trimark, Marc Bertrand, Victor Bertrand Sr. and Vic Bertrand, they may be in a position to either pass or block votes of holders of Common Shares, Debentures and Warrants.

#### Documentation

A copy of the binding agreements to which the Corporation is a party, the fairness opinions, and certain related documents will be filed with Canadian securities regulators and will be available on the SEDAR website at [www.sedar.com](http://www.sedar.com) as soon as practicable following their respective execution. The information circular in connection with the meeting of the holders of Secured Debt and, if required, holders of Common Shares is expected to be mailed in February 2010. Rothschild is acting as financial advisor to the Corporation in connection with the Recapitalization Transaction.