



Press Release – For Immediate Distribution

MEGA BRANDS REPORTS FIRST QUARTER 2007 FINANCIAL RESULTS

MONTREAL, May 18, 2007 – MEGA Brands Inc. (TSX: MB) announced its financial results today for the first quarter ended March 31, 2007. All figures are expressed in U.S. dollars.

Financial Highlights	Three-month periods ended March 31,	
	2007	2006
(U.S. \$ millions, except earnings per share)		
(unaudited)		
Net sales	90.1	78.6
<i>Product line segmentation</i>		
Toys	54.1	42.5
Stationery & Activities	36.0	36.1
<i>Geographic segmentation</i>		
North America	66.2	59.7
International	23.9	18.8
Net earnings (loss)	(23.9)	0.6
Earnings (loss) per share - basic and diluted ⁽¹⁾	(0.73)	0.02
Impact of MAGNETIX		
product recall and other charges – basic and diluted ⁽¹⁾	(0.69)	(0.01)

⁽¹⁾ Basic and diluted earnings (loss) per share calculation for the three-month period ended March 31, 2007 is the same since the dilutive effect of outstanding options under the treasury stock method is nil as it was anti-dilutive.

“The fundamentals of our business remain strong, with a 15% increase in consolidated net sales, solid 27% growth in international markets and positive early consumer reaction to our Dora and Diego products in preschool as well as our Spider-Man 3 and Pirates of the Caribbean 3 lines in boys five-plus,” stated Marc Bertrand, President and CEO of MEGA Brands. “We invested in marketing initiatives during the quarter in anticipation of numerous new product launches in the coming months to position MEGA Brands for growth over the balance of 2007 with a strong platform of exciting brands.”

MEGA Brands has decided to voluntarily remove from retail shelves any Magnetix products that do not have a pre-printed magnet ingestion warning on the package. This voluntary action is being taken in North America and in all international markets. Consequently, the Corporation has recorded charges totaling \$35.2 million (\$0.69 diluted earnings per share) in the first quarter ended March 31, 2007.

“The high cost associated with our decision stems from the fact that the action we are taking is global in scale and involves the removal from retail of millions of dollars of safe product, in favour of redesigned Magnetix



products,” noted Marc Bertrand. “With the execution of this pro-active measure, we are demonstrating our commitment to safety in the most decisive manner possible and our actions are supported by all major retailers.”

Voluntary Product Recall and Other Charges

The charges related to the expanded MAGNETIX product recall and other charges include:

- Estimated charges totaling \$30.5 million impacting gross margin which consist of returned goods, associated charges, freight, handling costs and inventory write-offs.
- Estimated voluntary product recall and replacement expenses of \$4.7 million consisting of merchandising and handling expenses to sort goods at retail and costs related to the replacement program for consumers pursuant to the expanded recall campaign for MAGNETIX products.

First Quarter 2007 Performance

Net sales in the first quarter of 2007 increased 14.7% to \$90.1 million compared to \$78.6 million in the corresponding period last year. Higher net sales are mainly related to strong demand from retailers for our Toys product lines.

Net sales of our Toys product lines in the first quarter of 2007 increased 27.4% to \$54.1 million compared to \$42.5 million in the first quarter of 2006. This increase was mainly driven by the launch of construction toys based on Dora the Explorer and Go Diego Go! character brands in the preschool category and on theme toys based on two major theatrical releases, Disney’s “Pirates of the Caribbean: At World’s End” and Marvel’s “Spider-Man 3” in the boys 5-plus category. Sales of MAGNETIX and Games & Puzzles declined slightly compared to the first quarter of last year.

Net sales of Stationery and Activities product lines in the first quarter of 2007 were stable at \$36.0 million compared to \$36.1 million in the corresponding period last year. Higher Stationery sales and an additional month of Board Dudes’ contribution were offset by lower sales in Activities.

Net sales in North America in the first quarter of 2007 increased 10.8% to \$66.2 million compared to \$59.7 million in the first quarter of 2006. International net sales in the first quarter of 2007 were up 26.9% to \$23.9 million compared to \$18.8 million in the corresponding period of last year. Growth in both geographic segments was driven by construction toy sales in the preschool and boys 5-plus categories. International net sales accounted for 26.5% of consolidated net sales in the first quarter of 2007 compared to 24.0% in the first quarter of 2006.

Cost of sales increased to \$80.8 million in the first quarter of 2007 compared to \$44.4 million in the corresponding period of 2006. For the purpose of financial statement presentation, expanded MAGNETIX product recall and other charges of \$30.5 million are included in cost of sales.

Gross profit in the first quarter of 2007 decreased to \$9.4 million compared to \$34.2 million in the first quarter of 2006. Excluding estimated expanded MAGNETIX product recall and other charges of \$30.5 million, gross profit was up 16.5% and gross margin improved to 44.2% compared to 43.5% in the first quarter of last year as a result of higher margins on boys 5-plus products. Plastic resin prices in the first quarter of 2007 were in line with the corresponding period last year and magnet costs were higher due to commodity prices.



Marketing and advertising expenses increased to \$6.3 million in the first quarter of 2007 compared to \$4.2 million in the first quarter of 2006. This increased investment in our brands reflects the timing of new product launches in 2007 compared to the first quarter of 2006.

Research and development expenses increased to \$5.3 million in the first quarter of 2007 compared to \$3.2 million in the corresponding period last year. This increase is mainly related to the launch of new construction toys based on "Pirates of the Caribbean: At World's End", "Spider-Man 3" and Dora and Diego in the first quarter of 2007.

Other selling, distribution and administrative expenses were \$28.1 million in the first quarter of 2007 compared to \$23.3 million in the first quarter of 2006. This increase mainly reflects higher distribution expenses resulting from sales growth in international markets.

As a result of the above, loss from operations was \$35.3 million for the first quarter of 2007 compared to earnings from operations of \$4.1 million in the corresponding 2006 period. In North America, the loss from operations for the first quarter of 2007 was \$36.1 million compared to earnings from operations of \$4.9 million last year. International earnings from operations were \$0.8 million compared to a loss from operations of \$0.8 million in the first quarter of 2006.

Interest expenses in the first quarter of 2007 were \$6.1 million compared to \$5.1 million in the same 2006 period, reflecting mainly an increase in average long-term debt and to a lesser extent higher interest rates.

Reflecting MAGNETIX product recall and other charges in both periods, income tax recovery was \$17.6 million compared to \$1.6 million in the first quarter of 2006. 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 net loss was \$23.9 million or \$0.73 diluted loss per share in the first quarter of 2007 compared to net earnings of \$0.6 million or \$0.02 diluted earnings per share for the corresponding period last year.

Excluding the impact of MAGNETIX product recall and other charges totaling \$22.5 million after tax or \$0.69 diluted earnings per share, the net loss in the first quarter of 2007 was \$1.4 million or \$0.04 diluted loss per share. This compares to net earnings of \$1.1 million or \$0.03 diluted earnings per share excluding the impact of MAGNETIX product recall and other charges in the corresponding period last year. Please refer to the "Non-GAAP Financial Measures" section of this press release.

Recent Developments

On April 19, 2007, the Corporation announced an expanded voluntary recall and replacement program for MAGNETIX products jointly with the U.S. Consumer Product Safety Commission ("CPSC"). Approximately 5,700 consumer calls were received between April 19 and May 14, 2007, bringing the total to approximately 20,000 since the initial recall and replacement program was announced on March 31, 2006. This action was taken in response to additional injuries to children reported to the CPSC following the initial March 31, 2006 recall announcement.

On April 24, 2007 the Corporation learned that a lawsuit had been filed in the U.S. District Court of Indiana by the family of a child who is alleged to have sustained injuries related to magnet ingestion. The lawsuit is being handled by our insurers. Including this latest case, a total of four product liability lawsuits are



outstanding against the Corporation for magnet related injuries. Insurers have confirmed coverage in all but one of these lawsuits. The Corporation is also aware of at least eleven other incidents in which children are alleged to have required surgery following the ingestion of multiple magnets. Of these incidents, at least four involved the ingestion of non-magnetized spheres and/or entire pieces. The Corporation is not able to assess with any certainty the outcome of the above lawsuits and claims or impact, if any. As such, no amounts have been reserved in our financial statements.

In 2006, the Corporation announced that it had settled four lawsuits and ten claims related to injuries to children resulting from the ingestion of magnets. The aggregate amount paid to settle the lawsuits and claims was \$13.5 million and was recorded as a product liability settlement expense in the 2006 consolidated statement of earnings. The Corporation expects to recover substantially the full amount from its insurers and through other recourses, although there can be no assurance that a favorable outcome will be achieved. Discussions with our insurers in this regard are underway and the Corporation received, in April 2007, a first payment of \$1 million from its primary insurer. This amount will be recorded in the consolidated statement of earnings for the three-month period ending June 30, 2007.

Non-GAAP Financial Measures

The terms “net earnings (loss) before MAGNETIX product recall and other charges” and “diluted earnings (loss) per share before MAGNETIX product recall and other charges” do not have any standardized meaning under Generally Accepted Accounting Principles and are therefore unlikely to be comparable to similar measures presented by other companies. We present them 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 is filing its first quarter 2006 Management’s Discussion and Analysis, as well as its unaudited consolidated financial statements and notes for the quarter ended March 31, 2007 via SEDAR on May 18, 2007. The MD&A, financial statements and notes will be available on the Corporation’s Web site as of 7:00 a.m. on May 18, 2007.

Conference Call

An analyst conference call will be held at 9:00 a.m. on May 18, 2007 to discuss the first quarter results. Participants may listen to the call by dialing **1 (800) 731-5774**. For those unable to participate, a replay will be available until May 26, 2007. The replay phone number is **1 (416) 640-1917**, access code **21228884#**. 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: 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 first 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.megabrands.com>.

The MEGA logo, Creativity to the Rescue, Mega Bloks, Rose Art, Magnetix and Board Dudes are trademarks of MEGA Brands Inc. or its affiliates.

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For more information:

Investor Relations

Andrée Pinard
(514) 333-3339 ext.745

Media

Alex Radmanovich
(514) 845-2949

MEGA Brands Inc.
Consolidated statements of earnings
(in thousands of U.S. dollars, except per share amounts)
(Unaudited)

	Three-month periods ended March 31,	
	2007	2006
Net sales	\$ 90,106	\$ 78,564
Cost of sales	80,755	44,365
Gross profit	9,351	34,199
Marketing and advertising expenses	6,307	4,224
Research and development expenses	5,257	3,229
Other selling, distribution and administrative expenses	28,052	23,279
Voluntary product recall and replacement	4,700	679
Litigation expenses	812	-
Gain on foreign currency translation	(431)	(1,289)
Earnings (loss) from operations	(35,346)	4,077
Interest and other expenses		
Interest on long-term debt	6,047	5,001
Amortization of deferred financing costs	170	191
Other interest	(94)	(79)
	6,123	5,113
Loss before income taxes	(41,469)	(1,036)
Income taxes		
Current	(1,426)	(4,050)
Future	(16,133)	2,436
	(17,559)	(1,614)
Net earnings (loss)	\$ (23,910)	\$ 578
Earnings (loss) per share		
Basic	\$ (0.73)	\$ 0.02
Diluted ⁽¹⁾	\$ (0.73)	\$ 0.02

⁽¹⁾ The dilutive effect of outstanding options under the treasury stock method for the three-month period ended March 31, 2007 is nil as it was anti-dilutive.

MEGA Brands Inc.

Consolidated statements of retained earnings (deficit)
(in thousands of U.S. dollars)
(Unaudited)

	Three-month periods ended March 31,	
	2007	2006
Balance, beginning of period	\$ 12,636	\$ (12,712)
Net earnings (loss)	(23,910)	578
Balance, end of period	\$ (11,274)	\$ (12,134)

MEGA Brands Inc.

**Consolidated statements of comprehensive income and
Accumulated other comprehensive income**
(in thousands of U.S. dollars)
(Unaudited)

	Three-month periods ended March 31,	
	2007	2006
Net loss for the period	\$ (23,910)	\$ -
Other comprehensive loss, net of income taxes		
Loss on derivatives designated as cash flow hedges	(516)	-
Comprehensive loss for the period	\$ (24,426)	\$ -
Accumulated other comprehensive income		
Balance, beginning of period	-	-
Impact of adopting the new accounting policy regarding financial instruments, net of income taxes	1,751	-
Other comprehensive income, net of income taxes	(516)	-
Balance, end of period	\$ 1,235	\$ -

MEGA Brands Inc.

Consolidated balance sheets
(in thousands of U.S. dollars)

	March 31, 2007 (Unaudited)	December 31, 2006 (Audited)	March 31, 2006 (Unaudited)
Assets			
Current assets			
Cash and cash equivalents	\$ 6,040	\$ 13,658	\$ 30,369
Accounts receivable	91,212	161,612	89,310
Inventories	149,855	140,630	104,566
Income taxes	6,730	9,317	10,728
Future income taxes	7,940	8,354	16,790
Prepaid expenses	13,385	12,316	10,448
	275,162	345,887	262,211
Property, plant and equipment	46,053	43,213	40,221
Intangible assets	79,332	79,517	72,149
Goodwill	301,171	300,829	321,653
Derivative financial instruments	1,994	-	-
Future income taxes	44,752	28,006	-
	\$ 748,464	\$ 797,452	\$ 696,234
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	105,750	153,437	92,865
Additional consideration accrued on business combination	57,316	57,825	68,284
Derivative financial instruments	381	397	-
Current portion of long-term debt	8,792	8,898	8,853
	172,239	220,557	170,002
Long-term debt	320,756	299,669	286,553
Future income taxes	27,981	27,782	18,303
	520,976	548,008	474,858
Shareholders' equity			
Capital stock	236,972	236,088	232,302
Contributed Surplus	555	720	1,208
Retained earnings (deficit)	(11,274)	12,636	(12,134)
Accumulated other comprehensive income	1,235	-	-
	227,488	249,444	221,376
	\$ 748,464	\$ 797,452	\$ 696,234

MEGA Brands Inc.

Consolidated statements of cash flows
(in thousands of U.S. dollars)
(Unaudited)

	Three-month periods ended March 31,	
	2007	2006
Cash flows from operating activities		
Net earnings (loss)	\$ (23,910)	\$ 578
Items not affecting cash and cash equivalents		
Amortization of property, plant and equipment	3,020	2,982
Amortization of deferred financing costs	170	191
Amortization of intangible assets	185	81
Stock-based compensation plans	(125)	71
Future income taxes	(16,133)	2,436
Gain on disposal of property, plant and equipment	(220)	-
Loss (gain) on foreign currency	137	(1,289)
	(36,876)	5,050
Changes in non-cash operating working capital items	13,525	27,923
	(23,351)	32,973
Cash flows from financing activities		
Repayment of long-term debt	(2,389)	(1,682)
Change in revolving credit facility	23,200	-
Issuance of capital stock	702	710
	21,513	(972)
Cash flows from investing activities		
Acquisition of property, plant and equipment	(6,236)	(3,699)
Proceeds from disposal of property, plant and equipment	798	-
Business combinations	(342)	(17,500)
	(5,780)	(21,199)
Increase (decrease) in cash and cash equivalents	(7,618)	10,802
Cash and cash equivalents, beginning of period	13,658	19,567
Cash and cash equivalents, end of period	\$ 6,040	\$ 30,369
Supplementary disclosure of cash flow information		
Interest paid	\$ 6,388	4,856
Income taxes paid (recovery)	(4,002)	11,422