



Quarterly Report

Fourth quarter ended December 31, 2002

Stock Exchange

Toronto Stock Exchange : MB

Shares Outstanding

(as at December 31, 2002)

26,881,061 Common Shares

Fourth Quarter Fiscal 2002 Trading History

TSX	(CA\$)
High:	\$24.30
Low:	\$17.65
Close:	\$23.50
Average volume:	56,812

Transfer Agent

CIBC Mellon Trust Company
1.800.387.0825

Financial Highlights

(all figures in millions of U.S. dollars, except per share amounts)

	Q4 2002	Q4 2001
Net sales	\$80.9	\$67.9
EBITDA	\$24.8	\$20.3
Net earnings	\$13.7	\$6.7
Earnings per share		
- Basic	\$0.51	\$0.34
- Diluted	\$0.47	N/A

Investor Relations

Brahm Segal
514.333.3339 ext. 434

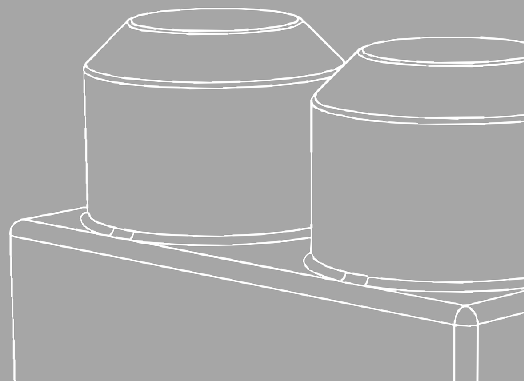
Eric Phaneuf
514.333.3339 ext. 745

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Q4: Quarterly Report

Fourth quarter ended December 31, 2002



Dear Shareholders:

We are pleased to announce record results for the 17th consecutive year of the Mega Bloks brand.

In 2002, net sales jumped 26% to \$189 million, compared with \$150 million in the previous year. Gross profit increased 29% and EBITDA increased 33%, both compared to the year earlier period. Net earnings for the year were a record \$20 million compared to \$6 million in the previous year.

Highlights for the fourth quarter were as follows: net sales increased 19%, gross profit was up 20% and EBITDA rose 22%, all compared to the year earlier period. Net earnings for the period were \$14 million compared to \$7 million in 2001, an improvement of 104%.

North American net sales were up 17% for the full year and 16% during the fourth quarter while traditional toy sales across the industry were relatively flat. Mega Bloks led the growth in the construction toy category with major retailers as well as expanding into new accounts. We were also recently honored by Wal-Mart Canada with the 2002 Vendor of the Year award for toys. Our investments in brand advertising and promotion enhanced our performance and we are well positioned for North American expansion in 2003.

International net sales grew by 52% for the full year and 38% for the fourth quarter while traditional toy sales in Europe grew approximately 3%. Our brand continues to grow internationally, with strong performance in all key European countries. We continue to see many opportunities to strengthen our position with leading retailers as we expand our sales force on the continent. We are also pleased to report double-digit growth in Asia and Latin America where we are increasing our penetration through our own sales force and third party distributors. In-store marketing and TV advertising in France, United Kingdom, Germany, Mexico and Australia have also helped strengthen the Mega Bloks brand worldwide.

Our 2003 line is the broadest and most comprehensive in the company's history, with over 40 new products and many updates to existing products. Our major customers gave us great reviews at the European trade shows and during the New York Toy Fair. We continue to focus on developing and promoting the wide age appeal of our brand. Our Preschool toys, for children aged 0-5, continue to build on our favorites while adding exciting new segments like Mega Play!, Disney (Winnie the Pooh, Lion King and Princess) and Tiny 'n Tuff. Our Micro collection, for kids aged 5 and up, features new lines such as Alien Agency, Mission X and construction toys based on the all-new Power Rangers Ninja Storm television series.

During the fourth quarter, we reported the closing of a secondary offering of common shares in the Company held by the Blackstone Group. As a result of the IPO and secondary offering, we have significantly broadened our shareholder base. Our balance sheet continues to improve and based on the strong free cash flow we generate, we expect to reduce our long-term debt during 2003.

Going into 2003, we are very excited by our new products, international opportunities and the momentum behind our brand. We are confident that our Company is well positioned for long-term growth based on the innovation and value that we deliver to consumers worldwide.

We look forward to seeing you at our first Annual General Meeting in Montreal on May 1st and thank you for your continued support.

Marc Bertrand
President and
Chief Executive Officer

Vic Bertrand
Executive Vice President and
Chief Operating Officer

February 26, 2003



Building Creating Learning™

Results of Operations

The following table presents a summary of certain selected consolidated financial information on a comparable basis to the same periods of the previous year:

(all figures in thousands of U.S. dollars, except per share amounts)	Three-month periods ended December 31,				Twelve-month periods ended December 31,			
	2002		2001		2002		2001	
	\$	% of net sales	\$	% of net sales	\$	% of net sales	\$	% of net sales
Net sales	80,876	100.0%	67,896	100.0%	188,807	100.0%	150,043	100.0%
Cost of sales	41,139	50.9%	34,724	51.1%	98,816	52.3%	80,021	53.3%
Gross profit	39,737	49.1%	33,172	48.9%	89,991	47.7%	70,022	46.7%
Marketing, research and development, and advertising expenses	8,375	10.4%	6,027	8.9%	21,701	11.5%	16,502	11.0%
Other selling, distribution and administrative expenses	9,402	11.6%	8,413	12.4%	30,047	15.9%	23,623	15.7%
(Gain) loss on foreign currency translation	(198)	(0.2%)	650	1.0%	(223)	0.1%	1,609	1.1%
Unusual items	-	0.0%	554	0.8%	5,816	3.1%	3,716	2.5%
Earnings from operations	22,158	27.4%	17,528	25.8%	32,650	17.3%	24,572	16.4%
Interest expense, net	1,254	1.6%	2,477	3.6%	4,856	2.6%	10,348	6.9%
Earnings before income taxes	20,904	25.8%	15,051	22.2%	27,794	14.7%	14,224	9.5%
Income taxes	7,176	8.9%	8,324	12.3%	7,628	4.0%	8,176	5.4%
Net earnings	13,728	17.0%	6,727	9.9%	20,166	10.7%	6,048	4.0%
Earnings per share								
Basic	0.51		0.34		0.83		0.31	
Diluted ⁽¹⁾	0.47		-		0.76		-	
Earnings per share before unusual items ⁽²⁾								
Basic	0.51		0.36		0.92		0.44	
Diluted ⁽¹⁾	0.47		-		0.84		-	
Weighted average number of outstanding shares								
Basic	26,838,838		19,524,251		24,261,617		19,273,020	
Diluted ⁽¹⁾	29,272,628		-		26,467,410		-	
EBITDA ⁽³⁾	24,790	30.7%	20,346	30.0%	45,355	24.0%	34,111	22.7%
Canadian Dollar Data⁽⁴⁾								
Net Sales	127,752		107,249		298,240		237,008	
EBITDA ⁽³⁾	39,158		32,139		71,643		53,882	
Net earnings	21,685		10,626		31,854		9,553	
Earnings per share								
Basic	0.81		0.54		1.31		0.49	
Diluted ⁽¹⁾	0.74		-		1.20		-	

(1) The dilutive effect of outstanding options under the treasury stock method for the three-month and twelve-month periods ended December 31, 2001 could not be determined since the average market price of common shares for the periods required is not reasonably determinable.

(2) Earnings per share before unusual items is computed excluding any and all unusual items and any non-recurring income tax adjustments.

(3) EBITDA represents earnings before interest, income taxes, depreciation and amortization, loss on foreign currency translation and unusual items. EBITDA should not be considered a measure of financial performance under Canadian generally accepted accounting principles. Items excluded from EBITDA are significant to understanding and assessing financial performance. EBITDA is a key measure used by management to evaluate the Company's operations and provide useful information to investors. EBITDA should not be considered in isolation or as an alternative to net earnings, cash flow generated by operations, investing or financing activities, or other financial statement data presented in the consolidated financial statements as indicators of financial performance or liquidity. Because EBITDA is not a measurement determined in accordance with Canadian generally accepted accounting principles, EBITDA as presented may not be comparable to other similarly titled measures of other companies.

(4) All US dollar financial data is converted into Canadian dollars at the December 31, 2002 exchange rate of CA\$1.5796 per US\$1.00 using the translation of convenience method.

MEGA BLOKS INC.

Consolidated statements of earnings

(expressed in thousands of U.S. dollars, except per share amounts)

	Three-month periods ended December 31,		Twelve-month periods ended December 31,	
	2002 (Unaudited)	2001 (Unaudited)	2002 (Audited)	2001 (Audited)
Net sales	\$ 80,876	\$ 67,896	\$ 188,807	\$ 150,043
Cost of sales	41,139	34,724	98,816	80,021
Gross profit	39,737	33,172	89,991	70,022
Marketing, research and development, and advertising expenses	8,375	6,027	21,701	16,502
Other selling, distribution and administrative expenses	9,402	8,413	30,047	23,623
(Gain) loss on foreign currency translation	(198)	650	(223)	1,609
Unusual items (Note 10)	-	554	5,816	3,716
Earnings from operations	22,158	17,528	32,650	24,572
Interest expense				
Long-term debt	1,197	2,445	4,516	10,218
Other	57	32	340	130
	1,254	2,477	4,856	10,348
Earnings before income taxes	20,904	15,051	27,794	14,224
Income taxes (Note 11)				
Current	7,870	6,210	9,854	4,082
Future	(694)	2,114	(2,226)	4,094
	7,176	8,324	7,628	8,176
Net earnings	\$ 13,728	\$ 6,727	\$ 20,166	\$ 6,048
Earnings per share (Note 8)				
Basic	\$ 0.51	\$ 0.34	\$ 0.83	\$ 0.31
Diluted	0.47	-	0.76	-

See accompanying notes to consolidated financial statements.

MEGA BLOKS INC.

Consolidated statements of deficit
(expressed in thousands of U.S. dollars)

	Three-month periods ended December 31,		Twelve-month periods ended December 31,	
	2002 (Unaudited)	2001 (Unaudited)	2002 (Audited)	2001 (Audited)
Balance, beginning of period	\$ (119,522)	\$ (133,231)	\$ (126,504)	\$ (132,552)
Net earnings	13,728	6,727	20,166	6,048
Change in accounting policy (Note 2)	-	-	544	-
Related party transaction adjustment (Note 9)	(220)	-	(220)	-
Balance, end of period	\$ (106,014)	\$ (126,504)	\$ (106,014)	\$ (126,504)

See accompanying notes to consolidated financial statements.

MEGA BLOKS INC.

Consolidated balance sheets

(expressed in thousands of U.S. dollars)

	December 31, 2002 (Audited)	December 31, 2001 (Audited)
Assets		
Current assets		
Cash and cash equivalents	\$ 2,876	\$ 7,954
Accounts receivable - trade	69,556	55,707
Accounts receivable - other	3,092	3,151
Inventories (Note 3)	14,486	12,026
Prepaid expenses	1,774	663
	91,784	79,501
Capital assets (Note 4)	30,318	27,018
Deferred charges (Note 5)	1,592	-
	\$ 123,694	\$ 106,519
Liabilities		
Current liabilities		
Bank overdraft	\$ -	\$ 1,416
Accounts payable and accrued liabilities	22,880	16,613
Income taxes	3,941	562
Current portion of long-term debt (Note 5)	3,742	5,097
	30,563	23,688
Deferred credits (Note 2)	-	544
Long-term debt (Note 5)	40,015	108,753
Future income taxes (Note 11)	6,067	10,321
	76,645	143,306
Shareholders' equity (deficiency)		
Capital stock (Note 6)	153,063	89,717
Deficit	(106,014)	(126,504)
	47,049	(36,787)
	\$ 123,694	\$ 106,519

See accompanying notes to consolidated financial statements.

MEGA BLOKS INC.

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

	Three-month periods ended December 31,		Twelve-month periods ended December 31,	
	2002 (Unaudited)	2001 (Unaudited)	2002 (Audited)	2001 (Audited)
Cash flows from operating activities				
Net earnings	\$ 13,728	\$ 6,727	\$ 20,166	\$ 6,048
Items not affecting cash				
Amortization of capital assets	2,744	1,702	6,649	4,572
Amortization of deferred charges	86	39	463	165
Amortization of deferred credits	-	(128)	-	(524)
Loss on disposal of capital assets	11	-	11	149
(Gain) loss on foreign currency translation	(198)	650	(223)	1,609
Future income taxes	(694)	2,114	(2,226)	4,094
Write-off of deferred charges	-	229	-	229
	15,677	11,333	24,840	16,342
Changes in non-cash operating working capital items (Note 12)	4,602	1,833	(7,596)	(2,997)
	20,279	13,166	17,244	13,345
Cash flows used in financing activities				
Issue of capital stock	(1,654)	-	61,514	7,500
Proceeds of long-term debt	-	-	40,000	270
Repayment of long-term debt	(1,704)	(2,715)	(71,555)	(5,935)
Change in revolving term bank loan balance	(15,000)	(3,900)	(39,500)	(4,500)
Related party transaction adjustment	(319)	-	(319)	-
Increase in deferred charges	-	-	(2,055)	-
Increase in deferred credits	-	164	-	743
	(18,677)	(6,451)	(11,915)	(1,922)
Cash flows used in investing activities				
Acquisition of capital assets	(1,031)	(937)	(9,069)	(7,551)
Proceeds on disposal of capital assets	78	-	78	3,413
	(953)	(937)	(8,991)	(4,138)
Increase (decrease) in cash and cash equivalents	649	5,778	(3,662)	7,285
Cash and cash equivalents, beginning of period	2,227	760	6,538	(747)
Cash and cash equivalents, end of period	\$ 2,876	\$ 6,538	\$ 2,876	\$ 6,538

Cash and cash equivalents are net of bank overdraft for 2001.
Supplementary disclosure of cash flow information (Note 12).

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

For the three-month and twelve-month periods
ended December 31, 2002 and 2001

(column figures are expressed in thousands of U.S. dollars, except per share data)

1. Nature of operations

Mega Bloks Inc. (the "Company") designs, manufactures and markets a broad line of construction toys under the MEGA BLOKS? brand name that incorporates its system of interlocking plastic building blocks. The Company sells and distributes its products in over 100 countries. On March 19, 2002, the Company changed its name from Ritvik Holdings Inc. to Mega Bloks Inc.

2. Significant accounting policies

Consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") using the U.S. dollar as the reporting currency.

Use of estimates

Preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Principles of consolidation

Consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated.

Cash and cash equivalents

Cash and cash equivalents include cash and short-term investments in money market instruments with maturities of three months or less at the date of acquisition.

Inventories

Inventories are stated at the lower of cost and market value. Cost is established based on the first-in, first-out method. Market value is defined as replacement cost for raw materials and net realizable value for work in process and finished goods.

Capital assets

Capital assets are recorded at cost and are amortized over their estimated useful lives using the straight-line method at the following annual amortization rates:

Machinery and equipment	3 to 15 years
Computer equipment	5 years
Leasehold improvements	over terms of the leases

The Company evaluates the carrying value of its long-lived assets for potential impairment on an ongoing basis. The Company considers projected future operating results, trends and other circumstances in making such evaluations. Impaired assets are written down to estimated fair value, being determined based on undiscounted expected future cash flows. No impairment charges have been recorded based on Management's review.

Income taxes

Future income taxes relate to the expected future tax consequences of differences between the carrying amount of balance sheet items and their corresponding tax values. Future income tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment or substantive enactment.

Revenue recognition

Revenue is recognized upon shipment of products to customers. Accruals for customer discounts, rebates and defective allowances are recorded as the related revenues are recognized.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange at the balance sheet date. Other balance sheet items denominated in foreign currencies are translated at the rates prevailing at the respective transaction dates. Revenue and expenses items arising from transactions in foreign currencies and from the foreign integrated subsidiaries are translated into U.S. dollars at average rates during each reporting period. Gains or losses on foreign exchange are recorded in the consolidated statements of earnings.

Effective January 1, 2002, the Company adopted the recommendations of the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1650, "Foreign Currency Translation". The amended recommendations require that all unrealized translation gains and losses on assets and liabilities denominated in foreign currencies be included in earnings for the year, including gains and losses on long-term monetary assets and liabilities, such as long-term debt, which were previously deferred and amortized on a straight-line basis over the remaining lives of the related items. On January 1, 2002, included in deferred credits was \$544,000 relating to unrealized foreign currency gains, which was credited to opening deficit.

Financial instruments

The Company uses a combination of financial instruments to manage risks related to fluctuations in exchange rates. The derivative instruments entered into by the Company comprise principally foreign currency contracts. Gains and losses on foreign exchange contracts are recognized

through income and generally offset transaction losses or gains on the foreign currency cash flows, which they are intended to hedge. The Company does not use derivative financial instruments for trading purposes.

Stock-based compensation plans

On January 1, 2002, the Company adopted the new recommendations of CICA Handbook Section 3870, "Stock-based Compensation and Other Stock-based Payments". This section establishes standards for the recognition, measurement and disclosure of stock-based compensation made in exchange for goods and services. This Section requires that direct awards of stock and liabilities based on the price of common stock be measured at fair value at each reporting date, with any change in fair value reported in the statement of earnings and encourages, but does not require, the use of the fair value method for all other types of stock-based compensation plans. The new standard also requires pro forma disclosures relating to net earnings and earnings per share figures as if the fair value method of accounting had been used. This section applies to awards granted on or after January 1, 2002.

None of the Company's plans qualify as direct awards of stock or as plans that create liabilities based on the price of the Company's stock, and as a result, the implementation of the Section had no impact on the consolidated financial statements. The Company has chosen not to use the fair value method to account for stock-based compensation plans. The pro-forma disclosure is presented in Note 8.

The Company has two stock-based compensation plans. No compensation is recognized when stock options are issued to employees. Any consideration paid by employees on exercise of stock options is credited to share capital.

Government grants

Government grants for capital asset acquisitions are netted against capital assets and are amortized on the same basis as the related asset.

Government grants to create employment are recorded in earnings as a reduction of the related expenses when conditions are met (see Note 14).

Future accounting changes

The CICA has issued the following new Handbook Sections:

1. Handbook Section 3063, "Impairment of long-lived assets". Effective April 1, 2003, this Section provides guidance on the recognition, measurement and disclosure of the impairment of long-lived assets. It replaces the write-down provisions in Section 3061 "Property, Plant and Equipment".

The Section:

- Requires an impairment loss for a long-lived asset to be held and used to be recognized when its carrying amount exceeds the sum of the undiscounted cash flows expected from its use and eventual disposition; and,

- Requires an impairment loss for a long-lived asset to be held and used to be measured as the amount by which its carrying amount exceeds its fair value.

The Company does not believe that the adoption of this new Section will have a material impact on its consolidated financial statements.

2. Handbook Section 3475, "Disposal of long-lived assets and discontinued operations". Effective for disposal activities initiated by an enterprise's commitment to a plan on or after May 1, 2003, this Section provides guidance on the recognition, measurement, presentation and disclosure of long-lived assets to be disposed of. It replaces the disposal provisions of "Property, Plant and Equipment", Section 3061 as well as "Discontinued Operations", Section 3475. The Section:

- Provides criteria for classifying assets as held for sale;
- Requires an asset classified as held for sale to be measured at fair value less cost to sell;
- Provides criteria for classifying a disposal as a discontinued operation; and,
- Specifies presentation and disclosures for discontinued operations and other disposals of long-lived assets.

The Company does not believe that the adoption of this new Section will have a material impact on its consolidated financial statements.

3. Inventories

	2002	2001
Raw materials	\$ 259	\$ 309
Work in progress	5,594	5,451
Finished goods	8,633	6,266
	\$ 14,486	\$ 12,026

4. Capital assets

	2002		
	Cost	Accumulated amortization	Net book value
Machinery and equipment	\$ 48,116	\$ 23,173	\$ 24,943
Computer equipment	3,502	1,905	1,597
Leasehold improvements	2,780	323	2,457
Computer equipment held under capital leases	1,454	812	642
Machinery and equipment held under capital leases	741	62	679
	\$ 56,593	\$ 26,275	\$ 30,318

	2001		
	Cost	Accumulated amortization	Net book value
Machinery and equipment	\$ 41,000	\$ 17,663	\$ 23,337
Computer equipment	2,620	1,362	1,258
Leasehold improvements	1,796	76	1,720
Computer equipment held under capital leases	1,250	547	703
	\$ 46,666	\$ 19,648	\$ 27,018

5. Long-term debt

	2002	2001
Term loan of \$25.0 million, secured, maturing in May 2008 ⁽¹⁾	\$ 24,875	\$ -
Term loan of \$15.0 million, secured, maturing in May 2007 ⁽²⁾	13,500	-
Revolving term bank loan of \$35.0 million, secured, of which the revolving period is maturing in May 2007 ⁽³⁾	4,000	-
Obligations under capital leases maturing at various dates up to November 2007 ⁽⁴⁾	1,247	663
Loans, secured, maturing at various dates up to June 2004 ⁽⁵⁾	135	217
Term loans, secured, repaid in 2002 ⁽⁶⁾	-	69,470
Revolving term bank loan, secured, repaid in 2002 ⁽⁶⁾	-	43,500
	43,757	113,850
Current portion	3,742	5,097
	\$ 40,015	\$ 108,753

- (1) Bearing interest at a floating rate based on U.S. Base Rate plus 2.00% to 3.50% or LIBOR rate plus 3.00% to 4.50%, at the option of the Company, of which 95% is repaid at maturity, secured by a moveable hypothec on all assets of the Company.
- (2) Bearing interest at floating rate based on U.S. Base Rate plus 1.50% to 3.00% or LIBOR rate plus 2.50% to 4.00%, at the option of the Company, repayable in equal annual instalments, secured by a moveable hypothec on all assets of the Company.
- (3) Bearing interest at floating rate based on U.S. Base Rate plus 1.50% to 3.00% or LIBOR rate plus 2.50% to 4.00%, at the option of the Company, secured by a moveable hypothec on all assets of the Company.
- (4) Bearing interest at rates ranging between 6.91% and 10.57%.
- (5) Bearing interest at rates ranging between 8.88% and 9.07%, secured by computer equipment having a net book value of \$0.2 million.
- (6) On May 9, 2002, the Company used the net proceeds of its Initial Public Offering closed on that date together with the proceeds from its new term loans to repay all its outstanding term and revolving term loans. A prepayment penalty for the cancellation of the previous credit facility totalling \$2.3 million was incurred and recorded as an unusual item (see Note 10). In addition, the Company incurred \$2.1 million of expenses to close its new credit facility comprising of fees paid to the lenders at closing and professional fees. These expenses are capitalized and deferred over the term of the new credit facility.

Payments required in each of the next five years to meet the retirement provision of the long-term debt are as follows:

Years	Obligations under capital leases			Other debt	Total principal repayments
	Minimum payments	Interest	Principal	Principal	
2003	\$ 496	\$ 96	\$ 400	\$ 3,342	\$ 3,742
2004	448	61	387	3,293	3,680
2005	168	31	137	3,250	3,387
2006	153	20	133	3,250	3,383
2007	200	10	190	5,625	5,815
Thereafter	-	-	-	23,750	23,750
	\$ 1,465	\$ 218	\$ 1,247	\$ 42,510	\$ 43,757

6. Capital stock

The capital stock of the Company is as follows:

Authorized

An unlimited number of common shares without par value.
An unlimited number of preferred shares issuable in series, without par value, non-voting, entitling the holder to receive dividends in priority to the holders of common shares as and when declared by the Board of Directors.

Issued and outstanding

	2002		2001	
	Shares	Book value	Shares	Book value
Class A Common Shares				
Balance, beginning of year	19,226,331	\$ 19,908	17,718,864	\$ 12,408
Converted from Class B	141,923	99	-	-
Converted from Class C	155,997	69,710	-	-
Redesignated to Common Shares	(19,524,251)	(89,717)	-	-
Issued	-	-	1,507,467	7,500
Balance, end of year	-	-	19,226,331	19,908
Class B Common Shares				
Balance, beginning of year	141,923	99	141,923	99
Converted to Class A	(141,923)	(99)	-	-
Balance, end of year	-	-	141,923	99
Class C Common Shares				
Balance, beginning of year	155,997	69,710	155,997	69,710
Converted to Class A	(155,997)	(69,710)	-	-
Balance, end of year	-	-	155,997	69,710
Common Shares				
Balance, beginning of year	-	-	-	-
Redesignated from Class A	19,524,251	89,717	-	-
Issued pursuant to Initial Public Offering	7,250,000	62,853	-	-
Issued pursuant to US Employee Plan	34,110	315	-	-
Issued pursuant to exercise of Stock Options	72,700	178	-	-
Balance, end of year	26,881,061	153,063	-	-
Total	26,881,061	\$ 153,063	19,524,251	\$ 89,717

Share Capital Reorganization and Initial Public Offering

On March 20, 2002, the Company amended its articles of incorporation thereby cancelling all the authorized but unissued class A through class G preferred shares.

On May 9, 2002, immediately prior to the closing of the Initial Public Offering, the Company completed a capital reorganization whereby:

- (i) All holders of the issued and outstanding Class B and Class C common shares converted such shares into Class A common shares on a share for share basis and;
- (ii) The Company's articles were amended to:
 - (a) Modify certain provisions attached to Class A common shares;
 - (b) Subdivide all the issued and outstanding Class A common shares on the basis of 13 Class A common shares for each Class A common share;
 - (c) Redesignate the Class A common shares to Common Shares; and
 - (d) Cancel all authorized but unissued classes of common shares.

On May 9, 2002, the Company successfully closed its Initial Public Offering. Through this Initial Public Offering, the Company issued 7,250,000 common shares from the treasury at a price of CA\$14.50 per share, resulting in gross proceeds of CA\$105.1 million or \$66.9 million before share issue costs of \$4.0 million (net of income taxes of \$1.8 million). Concurrently with the Initial Public Offering, the Company issued 34,110 common shares from the treasury at a price of CA\$14.50 per share, resulting in net proceeds of CA\$0.5 million or \$0.3 million.

All share and per share amounts presented herein have been adjusted to reflect the subdivision of shares for all periods presented.

7. Stock-based compensation plans

The Company has two stock-based compensation plans whereby, options may be granted to officers and other key employees of the Company and its subsidiaries to purchase common shares of the Company.

Under the Initial Stock Option Plan, the subscription price of each option equalled the estimated fair value of a share of the Company at the date of grant.

Immediately prior to the closing of the Initial Public Offering, the Company introduced a New Stock Option Plan. Under this plan, options to purchase common shares of the Company are granted at a subscription price of 100% of market value. Market value is determined as the closing price of the common shares on the Toronto Stock Exchange on the last date of trading prior to the effective date of the grant.

At December 31, 2002, a total of 6,398,154 common shares remained authorized for issuance under the Company's stock-based compensation plans. Options are exercisable during a period not to exceed ten years after the date of the grant. The right to exercise the options accrues over a period of three years of continuous employment. However, if there is a change of control of the Company, the options become immediately exercisable. Options are adjusted proportionately for any stock dividends or stock splits attributed to the common shares of the Company.

The following table summarizes total stock options outstanding at December 31 under the Company's Stock Option plans:

(in Canadian dollars)	2002		2001	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Options outstanding, beginning of year	2,578,173	\$ 3.85	2,621,983	\$ 3.85
Granted	1,462,629	14.60	101,114	3.85
Exercised	(72,700)	3.85	–	3.85
Forfeited	(42,619)	12.67	(144,924)	3.85
Options outstanding, end of year	3,925,483	\$ 7.76	2,578,173	\$ 3.85
Options exercisable, end of year	2,435,676	\$ 3.85	–	\$ –

The following table summarizes information about fixed stock options outstanding at December 31, 2002:

(in Canadian dollars)	Number outstanding	Weighted average contractual life	Weighted average exercise price	Number exercisable	Weighted average exercise price
Range of exercise price					
\$ 3.85	2,498,154	6.8	\$ 3.85	2,435,676	\$ 3.85
\$ 14.50 to \$ 18.25	1,427,329	9.4	\$ 14.61	–	–
Total	3,925,483	7.7	\$ 7.76	2,435,676	\$ 3.85

All share and per share amounts presented herein have been adjusted to reflect the subdivision of shares for all periods presented.

8. Earnings per share

A reconciliation between basic and diluted earnings per share is as follows:

	Three-month periods ended December 31,		Twelve-month periods ended December 31,	
	2002	2001	2002	2001
Numerator for basic and diluted net income per common share:				
Net income attributable to common shareholders	\$ 13,728	\$ 6,727	\$ 20,166	\$ 6,048
Denominator for basic net income per common share:				
Weighted average number of common shares outstanding	26,838,838	19,524,251	24,261,617	19,273,020
Basic earnings per share	\$ 0.51	\$ 0.34	\$ 0.83	\$ 0.31
Denominator for diluted net income per common share:				
Weighted average number of common shares outstanding	26,838,838	–	24,261,617	–
Plus impact of stock options	2,433,790	–	2,205,793	–
Diluted common shares	29,272,628	–	26,467,410	–
Diluted earnings per share	\$ 0.47	–	\$ 0.76	–

The dilutive effect of outstanding options under the treasury stock method for the year 2001 could not be determined since the average market price of common shares for the periods was not reasonably determinable.

Had compensation cost for the Company's stock-based compensation plan been determined using the fair value method for options granted on or after January 1, 2002, the Company's pro forma consolidated net earnings would have been as follows:

	Three-month period ended December 31, 2002	Twelve-month period ended December 31, 2002
Net earnings		
As reported	\$ 13,728	\$ 20,166
Pro forma	\$ 13,170	\$ 18,679
Earnings per share		
As reported - basic	\$ 0.51	\$ 0.83
As reported - diluted	\$ 0.47	\$ 0.76
Pro forma - basic	\$ 0.49	\$ 0.77
Pro forma - diluted	\$ 0.45	\$ 0.70

The fair value of the options granted on or after January 1, 2002 was estimated at the date of grant using the Black-Scholes option-pricing model using the following weighted-average assumptions:

Dividend yield	0%
Expected volatility	33%
Risk-free interest rates	5.64%
Expected life	8 years

The weighted average fair value of the options granted during 2002 was CA\$7.37.

All share and per share amounts presented herein have been adjusted to reflect the subdivision of shares for all periods presented.

9. Related party transactions

a) Related party transaction adjustment

On November 22, 2002, the Company closed a secondary offering through a filing of a Base PREP Prospectus with Canadian securities regulatory authorities. The secondary offering qualified the distribution of 6,250,000 common shares (the "Offered Shares") of the Company owned by certain shareholders. The Company did not receive any proceeds from the sale of the Offered Shares. The expenses (other than the Underwriters' fees) of the offering paid by the Company in the amount of approximately \$319,000 (\$220,000 net of income taxes) were recorded as a related party transaction adjustment reflected as an increase in deficit.

b) Other

During the year, monitoring and consulting fees in the amount of \$571,000 (\$541,000 in 2001) were charged by certain shareholders of the Company. Accounts payable and accrued liabilities as at December 31, 2002 include an amount of \$190,000 (\$1,435,000 as at December 31, 2001) payable to certain shareholders of the Company.

10. Unusual items

	Three-month periods ended December 31,		Twelve-month periods ended December 31,	
	2002	2001	2002	2001
Liquidity event award ⁽¹⁾	\$ -	\$ -	\$ 2,567	\$ -
Cancellation of previous credit facility ⁽²⁾	-	-	2,309	-
Charges incurred to settle CCRA's tax audit ⁽³⁾	-	-	720	-
Manufacturing facility move	-	134	-	1,715
Refinancing credit facility	-	-	-	1,389
Write-off of deferred charges	-	229	-	229
Others	-	191	220	383
	\$ -	\$ 554	\$ 5,816	\$ 3,716

⁽¹⁾ The Company granted selected executives and other key employees a Liquidity Event Award that entitles the holder to receive a bonus based upon the occurrence of certain future corporate events ("Liquidity Event"). These future events have been identified as a change in control or a public offering that would result in an active market of at least 25% of Common Stock. The amount of the liquidity bonus would be payable, however, only upon the date on which stock options become vested and exercisable pursuant to the Initial Stock Option Plan. On May 9, 2002, the Initial Public Offering constituted a Liquidity Event under the Liquidity Event Award and accordingly, the Company recorded a provision of \$2.6 million, of which \$2.2 million was paid during 2002.

⁽²⁾ See Note 5 for a description regarding the cancellation of the previous credit facility.

⁽³⁾ See Note 11 for a description of the Canada Customs and Revenue Agency's ("CCRA") tax audit and its outcome.

11. Income taxes

a) The following table is a reconciliation of the differences between the statutory income tax rate and the effective income tax rate:

	Twelve-month periods ended December 31,	
	2002	2001
Income tax expense at statutory rate	\$ 10,137	\$ 5,229
Manufacturing tax credit	(927)	(915)
Non-deductible items	174	516
Income tax reduction arising from losses carried forward not previously accounted for	-	(156)
Tax provision and other ⁽¹⁾	(1,756)	3,502
Income tax expense	\$ 7,628	\$ 8,176

b) As at December 31, future income taxes are as follows:

	Twelve-month periods ended December 31,	
	2002	2001
Future income tax assets		
Share issue costs	\$ 1,699	\$ -
Other	219	-
	1,918	-
Future income taxes liabilities		
Capital assets	6,146	5,480
Tax provision and other ⁽¹⁾	1,839	4,841
	7,985	10,321
Future income taxes, net	\$ (6,067)	\$ (10,321)

⁽¹⁾ The 2001 amount includes the non-recurring tax provision in connection with the CCRA's tax audit described below.

c) CCRA's tax audit

During 2002, the Company received a proposal for reassessment from CCRA covering the Company's 1996 to 1999 taxation years, which it accepted. Through this proposal, CCRA disallowed treatment of certain expenses deducted by the Company. Expenses disallowed by CCRA were mostly related to the 1996 re-capitalization transaction. The Company estimates that the total amount of income taxes otherwise payable, including all interest to be accrued following the disallowance of these expenses would total approximately \$1.2 million. During 2001, the Company recorded a non-recurring tax provision of \$3.0 million in connection with the tax audit performed by CCRA. Accordingly, approximately \$1.8 million of the non-recurring tax provision was reversed against earnings as a reduction of income tax expense during 2002.

12. Statement of cash flows

	Three-month periods ended December 31,		Twelve-month periods ended December 31,	
	2002	2001	2002	2001
a) Changes in non-cash operating working capital items:				
Accounts receivable - trade	\$ (5,369)	\$(3,337)	\$(13,849)	\$ (4,148)
Accounts receivable - other	905	1,548	59	1,068
Inventories	6,752	695	(2,460)	(1,507)
Income taxes	15,109	14,084	3,379	226
Prepaid expenses	(1,029)	2,200	(1,111)	1,921
Accounts payable and accrued liabilities	(14,568)	(13,776)	6,267	1,053
Foreign currency translation relating to working capital items	2,802	419	119	(1,610)
	\$ 4,602	\$ 1,833	\$ (7,596)	\$ (2,997)
b) Supplementary information:				
Interest paid	\$ 1,247	\$ 870	\$ 5,216	\$ 10,434
Income taxes paid	\$ 722	\$ 3,674	\$ 7,199	\$ 3,856

c) During the year, capital assets were acquired at an aggregate cost of \$10,016,000 (\$7,948,000 in 2001) of which \$947,000 (\$398,000 in 2001) were acquired by means of capital leases and which is netted from a government grant of \$498,000 (\$417,000 in 2001), received for acquisition of capital assets.

13. Financial instruments

Foreign currency risk management

The Company is exposed to market risks attributable to fluctuations in foreign currency exchange rates, primarily changes in the value of the U.S. dollar versus other currencies such as the Canadian dollar, the euro, the British pound and the Mexican peso. Sales are primarily denominated in U.S. dollars while the majority of its expenses were incurred in Canadian dollars.

The Company's policy is to mitigate, when appropriate, its exposure to market risk by partially hedging such exposure using foreign currency contracts primarily to hedge expenses denominated in Canadian dollars and inter-company transactions denominated in other foreign currencies.

The following table summarizes the Company's foreign currency commitments as at December 31, 2002 and 2001:

Foreign exchange contracts	Notional amount	Average exchange rate	Maturing up to	Notional equivalent US \$	Fair market value US \$
2002 - US \$ to CA \$	79,500	1.5887	Dec. 2004	77,500	77,583
- Euro to US \$	18,400	1.0074	Dec. 2004	18,537	17,933
- Euro to CA \$	6,000	1.6489	Dec. 2004	6,180	6,153
2001 - Euro to US \$	5,200	0.9000	August 2002	4,680	4,632

Credit risk

The Company's financial instruments that are exposed to concentrations of credit risk consist primarily of trade receivables.

The Company regularly monitors its credit risk exposure and takes steps to mitigate the risk of loss, including obtaining credit insurance. The Company's extension of credit is based on an evaluation of each customer's financial condition and the Company's ability to obtain credit insurance coverage for that customer.

Fair value

The Company has determined that the carrying value of its short-term financial assets and liabilities approximates fair values as at the balance sheet dates because of the short-term maturity of those instruments.

The fair value of the Company's long-term debt approximates its carrying value as the majority of long-term debt bears interest at rates that vary with the LIBOR rate.

Interest rates

The Company is exposed to market risks from changes in interest rates on its long-term debt and does not currently hold any financial instruments that mitigate this risk.

14. Commitments and contingencies

a) Legal proceedings have been initiated by a competitor against the Company which may result in substantial costs and expenses. On May 30, 2002, the Federal Court of Canada, Trial Division dismissed an action against the Company which commenced on December 20, 1996 by Kirkbi AG and LEGO Canada Inc. (collectively referred to as "LEGO"). Through this action, LEGO claimed exclusive rights in the "look" of the knobs on its standard LEGO brick and alleged that the manufacture and sale of the Company's "Micro" MEGA BLOKS® construction blocks constituted passing off pursuant to the Trade-marks Act. On June 20, 2002, LEGO filed an appeal to the Federal Court of Appeal. The Company and its outside counsel believe that it is unlikely that Lego's appeal will be successful.

b) The Company is also defending other claims, which arise in the ordinary course of business. The Company believes that the outcome of any individual claim or the aggregate of all such claims will not have a material impact on the Company's business, financial condition and results of operations.

c) The Company has entered into operating leases for premises, which it occupies, for an amount of \$25,577,000. The minimum annual rent payable (excluding certain occupancy charges) for each of the next five years, is as follows:

2003	\$ 2,616
2004	2,884
2005	2,911
2006	2,914
2007	3,055

d) In connection with an agreement with Investissement Québec, an aggregate amount of CA\$3,900,000 will be granted to the Company over a period of three years. This grant is conditional upon acquiring a certain level of capital assets and to the creation and maintenance of a certain level of employment for a period of five years. During the year, the Company received a grant in an amount of \$498,000 to acquire certain capital assets which was accounted for as a reduction of capital assets. During 2001, the Company received a grant in an amount of \$525,000 to acquire certain capital assets and to create employment. 80% of the grant received in 2001 was accounted for as a reduction of capital assets. The remaining portion of the grant will be recorded in earnings as a reduction of related expenses when conditions are met (see Note 2).

e) As at December 31, 2002, the Company had outstanding letters of guarantee in the amount of \$1,161,000 (\$1,007,000 in 2001) relating to financial guarantees issued in the normal course of business. These guarantees are issued under standby facilities available to the Company through various financial institutions.

15. Segmented information

The Company manages its business as a single operating segment - manufacturing and distribution toys.

Major customers and revenues by geographic areas:

a) Net sales to the Company's two largest customers amounted to \$50.3 million (\$35.0 million in 2001) and \$33.6 million (\$26.0 million in 2001).

b) Net sales were derived from customers located in the following geographic areas:

	Three-month periods ended December 31,		Twelve-month periods ended December 31,	
	2002	2001	2002	2001
Canada	\$ 6,456	\$ 4,780	\$ 13,445	\$ 9,708
United States	59,840	52,558	118,715	103,062
International	14,580	10,558	56,647	37,273
	\$ 80,876	\$ 67,896	\$ 188,807	\$ 150,043

Capital assets by geographic areas are as follows:

	As at December 31,	
	2002	2001
Canada	\$ 30,072	\$ 26,853
International	246	165
	\$ 30,318	\$ 27,018