

Menu Foods Income Fund announces 2007 Fourth quarter results

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Not for release over US newswire services

Attention Business/Financial Editors:

Menu Foods Income Fund (TSX: MEW.UN) announces its financial results for the fourth quarter ended December 31, 2007.

A conference call to review these results will take place tomorrow on Thursday, February 14, 2008 at 8:30 a.m. EST (Toronto time). The conference call will be chaired by Paul Henderson, Menu's President and Chief Executive Officer. Paul will be joined on the call by Mark Wiens, Menu's Executive Vice-President and Chief Financial Officer.

To access the conference call in real time, please call 416-850-9150 or 1-866-809-4939. A replay will be available from approximately one hour after the end of the conference call until February 28, 2008 by dialing 416-915-1035 or 1-866-245-6755, using passcode 996525 followed by the number sign. A live audio webcast of the conference call is also available, it can be accessed by entering <http://events.onlinebroadcasting.com/menufoods/021408/index.php> on an Internet browser. A replay of the webcast will be available for one year, it can be accessed by entering <http://events.onlinebroadcasting.com/menufoods/021408/index.php> on an Internet browser.

Message to Unitholders

Quarter ended December 31, 2007

It would not be an overstatement to say that 2007 was the most unsettling time in Menu's 37 year history. In March 2007, Menu was the first of 10 pet food manufacturers to recall a portion of its production. The decision to recall was made following indications that some Menu-produced cuts and gravy product might have been adversely affecting the renal health of dogs and cats. Menu put the interests of the pets first, and on March 16, 2007 undertook the first of several recalls of its products. Menu reacted almost two weeks before any of the other 9 pet food manufacturers. Curiously, many people don't even realize that several other pet food manufacturers had recalls of their own. Such was 2007 for Menu Foods.

Following the recalls, Menu continued to work closely with regulatory authorities, as well as university and independent laboratories in an effort to discover the source of the problem. What finally came to light was a fraud on the pet food community that had been committed half way around the world. A manufacturer of wheat gluten in China had apparently adulterated their product by adding melamine and other compounds in order to artificially inflate protein levels to bring them into a range where the wheat gluten could be sold. This adulterated product was then purchased by members of the pet food industry in North America. Standard industry testing did not detect the melamine and other compounds which would not be expected to be found in the wheat gluten.

The negative financial impact of these recalls was significant. In direct financial terms the recall cost Menu \$55 million. However, much of the financial impact is indirect and not easily quantifiable. Early in the recall, Menu suspended shipments of all cuts and gravy product to ensure that no mix up happened between good and recalled product. While it was the right thing to do, this precaution cost Menu significant sales during the second quarter. At the same time, many customers temporarily stopped buying product from Menu as they formulated their own back-to-market strategies. Similarly, consumers stopped buying product until certainty could be returned to the marketplace. As a consequence of the recalls customers, who accounted for approximately 37% of Menu's volume in 2006, decided to stop buying those products from Menu. All of these events aggregated to significant lost volumes, which in turn had significant adverse effects on operating costs as Menu lost the benefit of longer production runs, together with other economies of scale it had previously enjoyed.

Furthermore, the loss of customers required Menu to restructure its operations to reflect the lower levels of capacity required to fulfill its customers' demands. This restructuring was announced in October 2007 and was largely executed by December 31, 2007. As part of this process, Menu sold its production facility in North Sioux City, South Dakota and certain other assets to Mars Incorporated. In addition to the 14% reduction in its workforce that arose as a consequence of that sale, Menu announced an additional reduction of 10% to 15% of its full-time workforce. On December 31, 2007 Menu had 673 full-time employees, down 27% from the 924 at the end of 2006.

Throughout the last half of 2007, Menu's remaining customers have been getting back into business. A few large customers, who had not resumed shipments of cuts and gravy in 2007, re-commenced shipments with Menu during the first quarter of 2008. Sales in the third quarter were 79% higher than in the second quarter of 2007. Management believes a portion of this increase represented the customers' purchases of inventory to 'refill' their distribution pipelines. Accordingly, the softening of sales during the fourth quarter was expected, as the pipeline fill did not recur, but volume was still 34% higher than the second quarter of 2007. Slowly but surely our business is being re-established.

In January 2008, Menu followed the leading national brand manufacturers and increased prices to its private-label customers. These price increases are expected to increase Menu's sales by more than 3% and should enable it to recover some of the cost increases absorbed during the time since the last price increase.

Though smaller in size, management still believes that Menu remains the largest supplier of private-label wet pet food in North America. I want to express my thanks to all who stood by us during this very

difficult year. Throughout these trying times, Menu enjoyed and was grateful for the continued support of its lenders, suppliers and customers. I especially want to thank Menu's employees for their hard work and diligence. I am proud of the professional manner in which they dealt with this very difficult situation.

I look forward to reporting to you in 2008.

Paul K. Henderson
President and Chief Executive Officer
Menu Foods GenPar Limited Administrator of Menu Foods Income Fund

Management's Discussion and Analysis of Financial Results (For the quarter ended December 31, 2007)

Presentation of Financial Information

The following discussion and analysis of the financial results of Menu Foods Income Fund (the "Fund") is dated as of February 13, 2008 and is supplementary to and should be read in conjunction with the unaudited consolidated financial statements for the quarters and years ended December 31, 2007 and 2006.

Menu Foods Income Fund (the "Fund") is the indirect owner of Menu Foods Limited ("Menu"), the leading North American private label/contract manufacturer of wet pet food products. The Fund's results include those of Menu, its subsidiaries, affiliates and the partnerships which conduct its day-to-day business.

Where applicable, financial information contained herein is prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and is reported in Canadian dollars.

Certain statements in this Management's Discussion and Analysis of Financial Results are "forward-looking statements", which reflect management's expectations regarding the Fund and Menu's future growth, results of operations, performance, business prospects and opportunities. Such forward-looking statements reflect management's current beliefs and are based on information currently available to management. Many factors could cause results to differ materially from the results discussed in the forward-looking statements, such as risks related to issues associated with the product recall, including litigation related matters; key customer performance; dependence on key suppliers; economic conditions; competition; regulatory matters/changes; foreign exchange rates and interest rates, among others. Although the forward-looking statements are based on what management believes to be reasonable assumptions, the Fund and Menu cannot assure investors that actual results will be consistent with these forward-looking statements. These forward-looking statements are made as of the date of this report, and neither the Fund nor Menu assumes any obligation to update or revise them to reflect new events or circumstances.

Overall Performance and Results of Operations

The following table highlights selected comparative results (all figures, except per unit amounts, expressed in thousands of Canadian dollars)

	For the quarter ended December 31,		For the year ended December 31,	
	2007	2006	2007	2006
	\$	\$	\$	\$
Sales	55,001	87,933	244,801	356,196
Cost of sales	49,743	74,289	220,423	304,913
Gross profit	5,258	13,644	24,378	51,283
Selling, general and administrative expenses	6,029	7,332	22,986	27,276
Income before the under noted	(771)	6,312	1,392	24,007
Product recall	-	-	52,115	-
Restructuring	(11,452)	-	4,437	-
Goodwill impairment loss	30,615	-	30,615	-
Financial expenses	3,887	2,088	13,415	10,327
Income (loss) before income taxes and non-controlling interest	(23,821)	4,224	(99,190)	13,680
Current income taxes	85	904	414	1,482
Future income taxes	-	572	(14,337)	2,069
Total income taxes	85	1,476	(13,923)	3,551
Income (loss) before non-controlling interest	(23,906)	2,748	(85,267)	10,129
Non-controlling interest of Class B Exchangeable Units	(2,183)	939	(23,138)	3,699
Net (loss) income for the period	(21,723)	1,809	(62,129)	6,430
Basic net (loss) income per Trust Unit	(1.113)	0.095	(3.237)	0.348
Diluted net (loss) income per Unit	(1.113)	0.094	(3.237)	0.348
Diluted distributable cash per Trust Unit and Class B Unit	(0.0958)	0.1598	(1.4255)	0.8298
Basic weighted average number of Trust Units outstanding (000's)	19,516	19,040	19,194	18,468
Diluted weighted average number of Units outstanding (000's)	28,984	29,163	28,983	29,106
Average US/Cdn exchange rate per Bank of Canada	1.0184	0.8778	0.9309	0.8816

Operating Results for the Quarter Ended December 31, 2007

The recalls announced during the first half of 2007 continued to impact the performance of the Fund during the fourth quarter of the year. Given the timing of the various recalls, the second quarter of 2007 was the most adversely impacted and performance during that quarter serves as a useful baseline against which improvements should be measured. As previously reported, many of Menu's customers had resumed shipments of cuts and gravy formatted product by late in the second quarter or early in the third quarter of 2007. This was evident in the fact that sales in the third quarter were approximately 79% greater than in the second quarter. Management believes that, for those customers who resumed purchasing, a portion of their purchases were made to rebuild inventory within their distribution systems. This rebuilding of inventory was not expected to continue into the fourth quarter, so a softening of sales was expected. While sales declined from levels achieved in the third quarter they were still 34% greater than in the second quarter of 2007.

As previously reported, the Fund has been advised that customers whose volume represented approximately 37% of sales in 2006 will no longer be purchasing these products from Menu. The effects

of this lost business will be felt over time, with almost 14% impacting the second and third quarters of 2007, approximately 11% impacting the fourth quarter of 2007 and the remainder being lost by December 31, 2008.

The above-noted developments and trends should be considered when evaluating the Fund's results during the fourth quarter of 2007 and assessing future performance.

Sales for the quarter ended December 31, 2007, were \$55.0 million, down 37.4% or \$32.9 million compared to the same quarter last year. This decrease is attributable to:

1. a 33.2% decrease in volume resulting in a sales decrease of \$27.9 million;
2. the strengthening of the Canadian dollar relative to the United States dollar, which had the effect of reducing sales by \$6.3 million relative to the fourth quarter of 2006; and
3. take-or-pay agreements in the fourth quarter of 2006, which did not recur in 2007, had the effect of decreasing sales by \$0.5 million. These decreases in sales were partially offset by:
4. the effect of pricing adjustments to pass through cost increases to Menu's contract manufacturing customers and the price increase initiated on aluminum can sales to Menu's United States private-label customers, together with changes to sales mix and other variables, had the effect of increasing sales by \$1.8 million;

As noted above, overall, volume was down 33.2% compared to the quarter ended December 31, 2006. Approximately 56.3% of this decrease can be attributed to customers who had previously advised the Fund that they would no longer be purchasing products from Menu. A further 23.5% arises because the Fund's largest U.S. private-label customer, during 2006, has been very slow to return to pre-recall volume levels, and may in fact have suffered a permanent loss in their business. In the fourth quarter of 2006, 88.4% of this customer's volume was in the cuts and gravy format, which was the format most significantly impacted by the recalls during the first half of 2007. This higher than average concentration of business in the cuts and gravy format may be the reason for the softness in their sales as compared to Menu's other private-label customers. Another 11.5% can be attributed to the Fund's second and third largest U.S. private-label customers, during 2006, who did not resume the shipment of cuts & gravy products until the first quarter of 2008. The remaining 8.7% of the decrease is attributable to lower sales to the balance of the Fund's continuing customers. Time will tell whether or not this change in demand is permanent or temporary.

Can volume, which represented 85.0% of Menu's volume in the fourth quarter of 2007 (75.8% in 2006), contracted by 25.2% (equating to a decrease in total volume of 19.1%). During the fourth quarter of 2007, case sales of the pouch product, which represented 15.0% of total volume (24.2% in 2006), decreased by 58.5% (equating to a decrease in total volume of 14.2%) compared to the fourth quarter of 2006.

The cuts and gravy format, which had accounted for only 6.3% of total volume in the second quarter of 2007, grew to 28.3% of total volume by the fourth quarter (39.7% in 2006; or 34.0% if adjusted for customers who had previously advised the Fund that they would no longer be purchasing products from the Fund). This shortfall is in large part due to the lower sales to the Fund's largest U.S. private-label customer during 2006. As discussed above, in 2006, 88.4% of the volume sold by the Fund to that customer was in the cuts and gravy format, so that the decline in sales to that customer during the fourth quarter of 2007 shifted the Fund's mix of business.

Gross profit decreased by \$8.4 million (or 61.5%) for the quarter ended December 31, 2007, compared to the prior year. This decrease is attributable to:

1. *Effect of Change in Sales Volume.* As noted above, total volume for the fourth quarter decreased by 33.2%, reducing sales by \$27.9 million. This reduction in sales decreased gross profit by \$5.2 million;
2. *Price and Cost Increases/Adjustments.* In February 2007, Menu again followed a leading national brand manufacturer and announced a price increase on aluminum canned products sold to its United States private-label customers. While costs continue to rise, this price increase, which was effective by late in the second quarter of 2007, enabled Menu to recover some of the cost increases experienced since the last price increase on the sale of aluminum cans to United States private-label customers.

On a comparative basis to the same quarter in 2006, the increase in costs of certain inputs to production, including raw and packaging materials and labour and benefits, as well as increases in the cost of fuel, have led to a higher cost of sales. In addition, the 32.8% decline in volume since the end of the first quarter of 2007 significantly increased the cost of manufacturing as production-runs were shortened and the factory overhead associated with the Fund's manufacturing facilities was allocated over a reduced level of production. As a consequence, the cost of the Fund's inventory on hand increased, which further increased cost of sales as that inventory was sold. Going forward, the costs of production will continue to be higher than historical levels as the Fund has lost some of the benefits associated with higher capacity utilization. These increased costs and other variables more than offset the selling price increases referred to above, as well as selling price increases to contract manufacturing customers, and decreased gross profit by \$2.9 million.

3. *Take-or-Pay Agreement.* In 2006, the quarter's sales included an accrual under a take-or-pay agreement that did not recur in 2007 and had the effect of decreasing comparative gross profit by \$0.5 million;
4. *Foreign Exchange Effect on Sales.* The strengthening of the Canadian dollar relative to the United States dollar during the quarter had the effect of reducing sales by approximately \$6.3 million and gross profit of \$0.8 million for the quarter ended December 31, 2007; and
5. *Decrease in Amortization.* The incremental amortization arising from capital projects completed in the past year was more than offset by the effect of fully amortized assets and the stronger Canadian dollar, resulting in a decrease in the amortization associated with the cost of goods sold of \$1.0 million versus the fourth quarter of 2006.

Selling, general and administrative expenses for the quarter ended December 31, 2007 decreased by \$1.3 million compared to the prior year. Since the product recall has such a significant effect on the overall operating performance of the Fund, performance bonuses will not be paid in respect of 2007, which results in a bonus expense that is \$0.9 million less than in the quarter ended December 31, 2006. A further decline of \$0.3 million in spending occurred as a consequence of the Fund's sale of its production facility in North Sioux City, South Dakota. Savings resulting from the Fund's restructuring initiatives announced on October 10, 2007 produced modest savings during the fourth quarter as the changes made were only completed during that quarter. Partially offsetting these savings was a \$0.6 million increase in legal and consulting costs reflecting the Fund's defence costs and public relations initiatives. Foreign exchange gains on the United States dollar exposure in working capital in Menu's Canadian operations increased by about \$0.4 million compared to last year. Amortization was \$0.2 million less than in 2006, largely as a result of the reduction in amortization associated with fully-depreciated assets during the period exceeding amortization associated with newly acquired assets being put into service and as a result of the stronger Canadian dollar.

As reported last quarter, as a consequence of the recall, the Fund has had to restructure to better align costs with its ongoing business operations. The restructuring initiatives take several forms and under Canadian generally accepted accounting principles, depending upon their nature, must be recognized either in the third or fourth quarter of 2007 or over future periods. In total, during the third quarter,

management estimated that the net restructuring expense would amount to approximately \$0.2 million and the cash generated would amount to approximately \$19.0 million (net of Lenders' fees of \$1.4 million). Costs associated with the write-off or write-down of: redundant inventory, the customer relationship previously capitalized, take-or-pay receivables previously accrued and idle assets, together with severance and other restructuring related costs aggregated to approximately \$15.9 million and were reflected in the third quarter of 2007. The gains on the previously announced transactions with Mars, Incorporated ("Mars") net of the costs associated with the restructuring implemented during the fourth quarter of 2007, amounted to approximately \$11.5 million. The net restructuring costs incurred during 2007 amounted to \$4.4 million. Management has updated its estimate of total restructuring costs, based upon more current information, from \$0.2 million to \$5.4 million. Additional costs will be reflected in future periods as incurred.-

In order to have any meaningful discussion of EBITDA it is necessary to remove the impacts of the restructuring as described above. Adjusting for the \$11.5 million in restructuring gains, the foregoing resulted in an adjusted EBITDA (See Note A) of \$1.9 million for the quarter ended December 31, 2007, a decrease of \$8.3 million (or 81.4%) compared to the same period in 2006. The strengthening of the Canadian dollar, relative to the United States dollar, has decreased sales, gross margin, selling, general and administrative expenses, amortization, interest and EBITDA. Management estimates that each change of \$0.01 in the cost of the Canadian dollar changes EBITDA by approximately \$0.095 million and Distributable Cash (see Note A) by approximately \$0.075 million, on a quarterly basis.

Management estimates that the strengthening of the Canadian dollar during the fourth quarter of 2007 versus the same period in 2006 decreased EBITDA by approximately \$1.3 million and Distributable Cash by approximately \$1.1 million.

Amortization (which is included in cost of sales and SG&A expense) in the fourth quarter of 2007 was \$1.2 million lower than in 2006. This decrease is directly attributable to fully amortized assets, the sale of the South Dakota facility, the write-down of idle assets and the effects of the strengthening of the Canadian dollar relative to the United States dollar, offset by the additional amortization in 2007 on the \$4.0 million of capital expenditures made during the twelve-month period ended December 31, 2007 together with the full-quarter amortization of the \$0.9 million of capital expenditures made during the quarter ended December 31, 2006.

Under generally accepted accounting principles in Canada, goodwill is subject to an annual impairment test that, for the Fund, takes place as at September 30th of each year. The application of current accounting principles at September 30, 2007 did not identify any impairment in the carrying value of goodwill. In addition, the Fund reviews goodwill whenever events or changes occur that suggests impairment in its carrying value. During the fourth quarter of 2007 and subsequent to year end, the Fund's units have traded at a value insufficient to support the carrying value of goodwill. Accordingly, a fair value assessment was undertaken as at December 31, 2007 and goodwill was written-down by \$30.6 million. This charge is a non-cash item and does not impact EBITDA, Distributable Cash or the Fund's credit facilities. No impairment in the value of the Fund's property, plant and equipment was identified.

Financial expenses were \$1.8 million higher during the quarter ended December 31, 2007 than in the fourth quarter of 2006. The Fund recorded a loss of \$1.0 million on interest rate swaps during the fourth quarter of 2007 compared to a gain of \$0.1 million in the same quarter last year. The remaining \$0.7 million of this increase reflects both the higher interest rates and the higher amounts borrowed this year.

The Fund operates using a number of different legal structures (e.g. partnerships, trusts, corporations etc.) in a number of jurisdictions. Each of these structures and jurisdictions is subject to income tax at different rates. The effective tax rate can vary from quarter-to-quarter, depending upon the taxing jurisdiction and the legal structure in which the income is earned.

Loss before non-controlling interest of Class B Exchangeable Units ("Class B Units") for the quarter ended December 31, 2007 was \$23.9 million, compared to income of \$2.7 million for the quarter ended December 31, 2006.

Operating Results for the Year Ended December 31, 2007

On March 16, 2007, the Fund announced the recall of a portion of the dog and cat food it manufactured between December 3, 2006 and March 6, 2007. This recall, primarily related to the “cuts and gravy” style pet food in cans and pouches manufactured at two of the Fund’s United States facilities. These products recalled were both manufactured and sold under private-label and were contract-manufactured for some national brands.

By early March 2007, the Fund had received feedback raising concerns about pet food manufactured since early December, and its impact on the renal health of the pets consuming the products. Preliminary investigations by the Fund, by a university laboratory and by an independent laboratory did not identify any contamination in the product. However, the Fund took the proactive step of recalling product, without knowing the specific cause of the problem, out of an abundance of caution, because the health and well being of pets is paramount to the Fund.

The Fund’s investigation discovered that the timing of production associated with the concerns reported coincided with the introduction of wheat gluten from a new supplier. For production since March 7, 2007, the Fund has changed this supplier and has increased its already extensive testing of specific raw materials and finished goods. Following comprehensive investigations involving numerous government agencies and a significant number of university and independent laboratories across North America, it was proven that the suspected wheat gluten had been adulterated with melamine and related compounds. Menu was the first of a number of companies to recall product adulterated with melamine and related compounds in connection with one of the largest recalls in the history of the pet food industry. Menu, its competitors, its customers and consumers were all victims of a terrible fraud perpetrated on the pet food industry as a whole.

Since March 16, 2007 the Fund has worked closely with regulatory authorities to isolate the source of the contamination. As more information became available, the Fund expanded its recall to include: certain products manufactured by its Emporia, Kansas plant between November 8, 2006 and December 2, 2006; certain products manufactured at its Canadian facility; a small number of additional products manufactured in the United States; and selected other products manufactured during the time when the adulterated wheat gluten was present in the Fund’s facilities. Furthermore, to ensure consumers were adequately protected, on March 24, 2007, the Fund asked its customers to withdraw all recalled pet food, regardless of the dates, thereby minimizing the risk that any recalled product might remain on the retailers’ shelves.

While most of the expected costs associated with the recalls were expensed by the Fund during the first quarter of 2007, since the recall took place so close to quarter-end, its impact on Menu’s sales and operations to March 31, 2007 were minimized. By contrast, fewer recall related expenses arose in the second quarter of 2007, but significant impacts in terms of lost sales and higher operating costs were experienced as the Fund suspended shipments of most “cuts and gravy” products while the recall was in effect. To put things in context, the “cuts and gravy” style product, sold in cans and pouches, accounted for approximately 48% of the Fund’s business in 2006. In addition, several of the Fund’s customers, including its two largest private-label customers in 2006, suspended all purchases from Menu, regardless of format, until such time as the recall of their product was complete. The net effect of the above was that the second quarter of 2007 was the most adversely impacted and as such, the performance during that quarter serves as a useful baseline against which improvements should be measured.

During the second and third quarters of 2007, the Fund was advised that customers whose volume represented approximately 37% of sales in 2006 will no longer be purchasing these products from Menu. The effects of this lost business will be felt over time, with almost 14% impacting the second and third quarters of 2007, approximately 11% impacting the fourth quarter of 2007 and the remainder being lost by December 31, 2008.

By the third quarter of 2007 the Fund had resumed shipping to most of its private-label customers although its second and third largest United States private-label customers, in 2006, did not resume the purchase of cuts and gravy products until the first quarter of 2008. As a result of the resumption of sales to these customers, volume (expressed in cases of 24 cans or pouches) during the third quarter was about 79% more than the volume of the second quarter of 2007.

Management believes that a portion of the demand in the third quarter can be attributed to the fact that many customers, who had been without product for several months, needed to rebuild inventory in their distribution systems. Management did not expect this process to continue into the fourth quarter. Sales during the fourth quarter did fall to about 75% of volumes in the third quarter, but remained 34% greater than in the second quarter.

Management estimates that the total costs of the recall will approximate \$55 million. This expense principally comprises product collection, write-off and disposal costs of \$46.5 million, the lost margin on returned product of \$2.9 million discussed below, \$2.4 million to establish and operate a call centre to respond to consumer concerns and \$3.2 million in professional and associated fees necessary to manage through this difficult process. All of these costs have been reflected in the results for the year ended December 31, 2007.

Furthermore, as a consequence of the recall, the Fund has had to restructure to better align costs with its ongoing business operations. The restructuring initiatives take several forms and under Canadian generally accepted accounting principles, depending upon their nature, must be recognized in 2007 or over future periods. Costs associated with the write-off or write-down of: redundant inventory, the customer relationship previously capitalized, take-or-pay receivables previously accrued and idle assets, together with severance and other restructuring related costs aggregated to approximately \$15.9 million and were reflected in the third quarter of 2007. The gains on the previously announced sales of the Fund's South Dakota production facility and certain other assets to Mars, together with the settlement of certain other contractual obligations with Mars, net of the costs associated with the restructuring implemented during the fourth quarter of 2007, amounted to approximately \$11.5 million. The net restructuring costs incurred during 2007 amounted to \$4.4 million. This process will continue into 2008. Management estimates that by the time it is completed the resultant net restructuring expense will be approximately \$5.4 million.

Another by-product of the recalls has been the need to write-down goodwill by \$30.6 million to reflect the value the marketplace is ascribing to the Fund's units. While this charge is a non-cash item and does not impact EBITDA, Distributable Cash or the Fund's credit facilities, it none-the-less impacts overall performance for the year.

The various recalls initiated by the Fund have clearly had a significant impact on the Fund's results for the year ended December 31, 2007. In order to draw meaningful conclusions with respect to the Fund's performance during 2007, it is important to isolate the effects of the recalls and restructuring from the ongoing business.

The following table further evaluates the results noted above:

	2007		For the year ended December 31,	
	Excluding Recall, Restructuring and Related Costs	Recall, Restructuring and Related Costs	2007	2006
	\$	\$	\$	\$
Sales	259,121	(14,320)	244,801	356,196
Cost of sales	231,858	(11,435)	220,423	304,913
Gross profit	27,263	(2,885)	24,378	51,283
Selling, general and administrative expenses	22,986	-	22,986	27,276
Income (loss) before the under noted	4,277	(2,885)	1,392	24,007
Product recall expenses	-	52,115	52,115	-
Restructuring expenses	-	4,437	4,437	-
Goodwill impairment	-	30,615	30,615	-
Financial expenses	13,415	-	13,415	10,327
(Loss) income before income taxes and non-controlling interest	(9,138)	(90,052)	(99,190)	13,680

While the specific sales lost as a result of the recall may never be quantified, their impact on the Fund's business has been significant. For example, on a comparative basis, from March 16 to March 31 case sales, adjusted for recall returns, were down by 48.5% from the prior year. This trend continued through the second quarter of 2007, with sales volume down 50.1% from the same period in 2006. Sales of the "cuts and gravy" style of pet food in cans and pouches (the style primarily impacted by the recalls) accounted for approximately 48% of Menu's volume in 2006, so these results were expected. Sales during the third quarter of 2007 were 79% greater than in the second quarter. Management believes this was due, at least in part, to customers rebuilding inventory within their distribution systems with products that had not been purchased for several months. However, as a result of the loss of certain customers (as previously reported), volumes for the third quarter of 2007 were still 16.3% less than in the same period in 2006. This rebuilding of inventory was not expected to continue into the fourth quarter of 2007 and, while sales in the fourth quarter softened as compared to the third quarter, they were still 34% greater than in the second quarter of 2007.

Sales for the year ended December 31, 2007, were \$244.8 million, down 31.3% or \$111.4 million compared to the same period last year. This decrease is attributable to:

1. a 30.6% decrease in volume resulting in a sales decrease of \$102.8 million primarily due to the recall. About 53% of this decline is attributed to customers who had previously advised the Fund that they would no longer be purchasing products from Menu. All customers were negatively impacted by the recall, accounting for the balance of the decline. Based upon performance during the fourth quarter of 2007, while most remaining customers appear well on the road to returning to volume levels achieved in 2006 others, including the Fund's largest United States private-label customer in 2006, have been slow to rebuild volumes or have not resumed purchasing products from the Fund;
2. as a further consequence of the product recall, \$14.3 million in sales returns were received or accrued during the quarter ended March 31, 2007;
3. the strengthening of the Canadian dollar relative to the United States dollar, which had the effect of reducing sales by \$9.8 million relative to 2006;
4. take-or-pay agreements during 2006, which did not affect 2007, had the effect of decreasing sales by \$1.4 million. These decreased sales were partially offset by:

- 5 the impact of the price increases since the end of the first quarter of 2006 and the effect of pricing adjustments to pass through cost increases to Menu's contract manufacturing customers, together with changes to sales mix and other variables, had the effect of increasing sales by \$16.9 million.

Overall, excluding actual returns arising from the product recall, volume (expressed in cases of 24 cans or pouches) was down 30.6% compared to the year ended December 31, 2006. Can volume, which represented 85.6% of Menu's volume in 2007 (76.2% in 2006), contracted by 22.0% (equating to a decrease in total volume of 16.8%). Virtually all customers who purchased the cuts and gravy style of products from Menu experienced decreased sales, which is directly attributable to the recall. However, the decline in sales is also reflective of the loss of customers who left Menu following the recall.

In addition to the decrease in case sales of canned wet pet food as described above, sales of Menu's pouch product, excluding actual returns arising from the product recall, also decreased over the same period in the prior year, since almost all customers stopped purchasing this product during the second quarter of 2007. During the year ended December 31, 2007, case sales of the pouch product, which represented 14.4% of total volume (23.8% in 2006), decreased by 58.0% (equating to a decrease in total volume of 13.8%) compared to 2006. As with cans, this decline is directly attributable to the recall and to the subsequent loss of customers.

Gross profit decreased by \$26.9 million (or 52.5%) for the year ended December 31, 2007, compared to the prior year. This decrease is attributable to:

1. *Effect of Change in Sales Volume.* As previously noted, excluding actual returns arising from the product recall, total volume for the year decreased by 30.6%. This change in sales volume decreased gross profit by \$16.8 million.
2. *Product Recall Impacts.* As noted above, due to the product recall, \$14.3 million in sales returns were received or accrued during the quarter ended March 31, 2007. The gross profit associated with these returns amounted to \$2.9 million.
3. *Price and Cost Increases/Adjustments.* During the first half of 2006, Menu followed a leading national brand manufacturer and announced a price increase on canned and pouch products, respectively, sold to its United States private-label customers. These increases were effective from the beginning of the second and fourth quarters of 2006, respectively. In February 2007, Menu again followed a leading national brand manufacturer and announced a price increase on aluminum canned products sold to its United States private-label customers. This increase was effective in the second quarter of 2007. While costs continue to rise, these price increases should enable Menu to recover some of the cost increases experienced since the last price increase.

On a comparative basis to the same period in 2006, the increase in costs of certain inputs to production, including raw and packaging materials and labour and benefits, have led to higher cost of sales. In addition, the 30.6% decline in volume during 2007 significantly increased the cost of manufacturing, as production-runs were shortened, and the factory overhead associated with the Fund's production facilities was allocated over a reduced level of production. As a consequence, the cost of the Fund's inventory increased, which increased the cost of sales as that inventory was sold. The price increases, referred to above, together with selling price increases to contract manufacturing customers combined to partially offset the increased costs resulting in decreased gross profit of \$7.5 million.

4. *Take-or-Pay Agreement.* In 2006, the sales for the year ended December 31 included an accrual under a take-or-pay agreement having the effect of decreasing comparative gross profit by \$1.5 million;
5. *Foreign Exchange Effect on Sales.* The strengthening of the Canadian dollar relative to the United States dollar during the year had the effect of reducing sales by approximately \$9.8

million, and that translated into a reduction in gross profit of \$1.4 million for the year ended December 31, 2007;and

6. *Decrease in Amortization.* The amortization of capital projects completed in the past year was more than offset by the effects of fully-amortized assets, the sale of the South Dakota facility, the write-down of idle assets and the stronger Canadian dollar, resulting in a \$3.2 million decrease in the amortization associated with the cost of goods sold versus the year ended December 31, 2006

Selling, general and administrative expenses for the year ended December 31, 2007 decreased by \$4.3 million compared to the prior year. Since the product recall has such a significant effect on the overall operating performance of the Fund, performance bonuses will not be paid in respect of 2007, which results in a bonus expense that is \$3.3 million less than in the year ended December 31, 2006. Foreign exchange gains on the United States dollar exposure in working capital in Menu's Canadian operations increased by almost \$1.8 million compared to last year. Administrative costs decreased approximately \$0.3 million as a consequence of the sale of the South Dakota facility during the fourth quarter of 2007. The balance of the change is attributable to higher administrative costs, including \$0.6 million in higher legal costs, incurred as a consequence of the recall, which more than offset the effect of the favourable impact that foreign exchange had on Menu's selling, general and administrative costs incurred in the United States.

As noted above, management estimates that the total costs associated with the recall will approximate \$55 million. Furthermore, as a consequence of the recalls and the resulting loss of customers, the Fund has had to restructure its operations to better align them with its ongoing business. Accordingly, \$4.4 million in restructuring and related charges were expensed during 2007.

In order to have any meaningful discussion of EBITDA it is necessary to remove the impacts of the recall and restructuring as described above. Adjusting for the \$55 million in recall related costs and the \$4.4 million in restructuring related costs, the foregoing resulted in an adjusted EBITDA (See Note A) of \$16.3 million for the year ended December 31, 2007, a decrease of \$23.2 million (or 58.7%) compared to the same period in 2006. The strengthening of the Canadian dollar, relative to the United States dollar, has decreased sales, gross margin, selling, general and administrative expenses, amortization, interest and EBITDA. Menu estimates that each change of \$0.01 in the cost of the Canadian dollar changes EBITDA by approximately \$0.38 million and Distributable Cash (see Note A) by approximately \$0.3 million, on an annual basis.

Menu estimates that the strengthening of the Canadian dollar during the year ended December 31, 2007 versus the same period in 2006 decreased EBITDA by approximately \$1.9 million and Distributable Cash by approximately \$1.5 million.

Amortization (which is included in cost of sales and SG&A expense) during the year ended December 31, 2007 was \$3.5 million less than in 2006. This decrease is directly attributable to fully-amortized assets, the sale of the South Dakota facility, the write-down of idle assets, and the effects of the strengthening of the Canadian dollar relative to the United States dollar offset by the additional amortization in 2007 on the \$4.0 million of capital expenditures made during year ended December 31, 2007 together with the full period amortization of the \$5.0 million of capital expenditures made during the year ended December 31, 2006.

Under generally accepted accounting principles in Canada, goodwill is subject to an annual impairment test that, for the Fund, takes place as at September 30th of each year. The application of current accounting principles at September 30, 2007 did not identify any impairment in the carrying value of goodwill. In addition, the Fund reviews goodwill whenever events or changes occur that suggests impairment in its carrying value. Since, during the fourth quarter of 2007 and into 2008 the Fund's units were trading at lower than their book value, the application of current accounting principles identified an impairment in the carrying value of goodwill. Following a fair value assessment of other assets, at December 31, 2007, goodwill was written down by \$30.6 million. This charge is a non-cash item and

does not impact EBITDA, Distributable Cash or the Fund's credit facilities. No impairment in the value of the Fund's property, plant and equipment was identified.

Financial expenses were \$3.1 million greater during the year ended December 31, 2007, than in the same period in 2006. The amendments to the Agreements with the Fund's Lenders were such that under Canadian generally accepted accounting principles, for accounting purposes, they resulted in a deemed settlement of the original senior secured notes facility. As a consequence, it was necessary to write-off \$1.1 million in costs associated with the establishment of the original facility. The Fund recorded a loss of \$1.4 million on interest rate swaps in 2007 compared to a loss of \$0.1 million during 2006. The remaining \$0.7 million of this increase primarily reflects both the higher interest rates and the higher amounts borrowed this year. Since much of the Fund's debt is denominated in United States dollars the interest expense benefited from the favourable foreign exchange rates in 2007.

The Fund operates using a number of different legal structures (e.g. partnerships, trusts, corporations etc.) in a number of jurisdictions. Each of these structures and jurisdictions is subject to income tax at different rates. The effective tax rate can vary from quarter-to-quarter, depending upon the taxing jurisdiction and the legal structure in which the income is earned.

Loss before non-controlling interest of Class B Exchangeable Units ("Class B Units") for the year ended December 31, 2007, was \$85.3 million, compared to income of \$10.1 million for the year ended December 31, 2006.

Liquidity

During the year ended December 31, 2007, the Fund used cash flow in operations of \$18.0 million that was increased by a further \$21.6 million as a result of changes in non-cash working capital items. The increase in non-cash working capital items related primarily to accounts receivable and inventories. The \$5.2 million decrease in accounts receivable reflects a decline in sales during the fourth quarter of 2007. With respect to inventory, as a result of the significant amount of inventory written-down as a consequence of both the recall and the restructuring it has been necessary to invest \$26.2 million to rebuild inventory to service ongoing business.

No distributions were declared during 2007.

On May 15, 2007 the Fund reached agreement with its Lenders to modify the terms of its existing credit facilities. This arrangement modified the terms governing the US\$30 million bank and US\$85 million senior secured notes facilities and increased the bank facility by US\$20 million. On October 19, 2007 the Fund reached agreement with its Lenders to further modify the terms of its credit facilities given changes in estimated recall costs and the restructuring of the Fund's operations. The available bank facility reduced by US\$2.5 million on both September 30 and October 19, 2007 and will be further reduced by US\$2.5 million on March 31, June 30, September 30 and December 31, 2008. Similar reductions will occur into 2009 until such time as the US\$20 million facility is extinguished. The Fund had drawn or committed US\$34,891 (\$34,588) of the bank facility on December 31, 2007. Cash flow from operations, together with the remaining unutilized bank facilities and working capital management, is expected to be sufficient to fund Menu's normal, ongoing operating requirements and maintenance capital expenditures.

Various legal actions and investigations have been commenced against the Fund as a consequence of the product recall. It is possible that additional actions or investigations may arise in the future. The Fund may be required to expend significant amounts and devote considerable management time with regard to these matters. It is not possible to predict the amount of such expenses, the resolution of any claims or investigations, or the extent to which these items will be paid by insurance. Furthermore, if the actual cost of the recall and restructuring significantly exceed management's estimates of \$55 million and \$5.4 million respectively or if the replenishments following the re-launches for any significant customers and/or the degree to which business is re-established are unexpectedly low, the Fund may need to obtain additional credit facilities, although there can be no assurances that such facilities would be available.

Capital Resources

During the twelve months ended December 31, 2007, Menu spent \$4.0 million on property, plant and equipment. Capital expenditures, which the Fund defines as being of a maintenance nature for purposes of determining Distributable Cash, which totalled \$1.7 million for the year ended December 31, 2007, were financed from the cash flow of the business. These maintenance capital expenditures were over and above the \$11.9 million (2006 - \$14.2 million) for labour and parts expended by Menu for the ongoing repairs and maintenance of its plants that have been expensed as part of cost of sales. Capital expenditures of a growth nature totalled \$2.3 million for the year (\$1.3 million in the first quarter; \$0.4 million in the second quarter; \$0.1 million in the third quarter; and \$0.5 million in the fourth quarter). The majority of these expenditures were associated with capital projects which were underway at the time of the first recall on March 16, 2007. Shortly after the initial recall, management undertook a review of ongoing projects and determined which needed to be completed and which should be deferred. During the balance of the year, a select portion of those projects already underway at the time of the first recall were completed. Very limited capital was committed on new projects after March 16, 2007.

Outstanding Units

The following table highlights the number of units outstanding:

	Trust Units	Class B Exchangeable Units
December 31, 2004	16,140,236	12,631,915
Conversion of Class B Units during the year	1,498,260	(1,498,260)
Options exercised during the year	127,663	--
December 31, 2005	17,766,159	11,133,655
Conversion of Class B Units during the year	1,236,431	(1,236,431)
Options exercised during the year	74,683	--
December 31, 2006	19,077,273	9,897,224
Conversion of Class B Units during the year	1,274,635	(1,274,635)
Options exercised during the year	9,746	--
December 30, 2007	20,361,654	8,622,589

During the year ended December 31, 2006, 959,296 unit options with an exercise price of \$4.56 were granted to 41 employees; 6,000 unit options with an exercise price of \$5.25 were granted to one employee; 21,000 unit options with an exercise price of \$5.00 were granted to one employee; 21,000 unit options with an exercise price of \$6.20 were granted to one employee; 6,000 unit options with an exercise price of \$6.55 were granted to one employee; and 57,000 unit options with an exercise price of \$4.56 were forfeited by three employees. These options, of which 238,148 will vest after 36 months, with the balance vesting in equal annual amounts over three years will expire 39 months after the date they were granted. On May 11, 2006 the option plan under which these options were granted, which authorizes 2,815,000 units, received Unit holder approval at the Annual and Special Meeting of Unit holders.

During the quarter ended March 31, 2007, 390,156 unit options with an exercise price of \$7.34 were granted to 47 employees and during the quarter ended September 30, 2007, 18,390 unit options with an exercise price of \$3.00 were granted to one employee. During the quarter ended December 31, 2007, 1,189,300 unit options with an exercise price of \$1.82 were granted to 70 employees and 21,000 unit options with an exercise price of \$0.92 were granted to one employee. These options vest in equal annual amounts over three years and will expire 39 months after the day they were granted. During the quarter ended December 31, 2007; 219,416 unit options with an exercise price of \$4.56, 21,000 unit options with an exercise price of \$5.00; 21,000 unit options with an exercise price of \$6.20; 6,000 unit options with an exercise price of \$6.55, and 87,588 unit options with an exercise price of \$7.34 were forfeited. During the quarter ended March 31, 2007, 9,746 options with an exercise price of \$4.56 were exercised by one employee.

Controls and Procedures

Multilateral Instrument 52-109 (“MI 52-109”) requires the Fund’s Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”) to make certain certifications related to the information contained in the Fund’s annual filings. Specifically, the CEO and CFO must acknowledge that they are responsible for establishing and maintaining disclosure controls and procedures and internal control over financial reporting for the Fund. In addition, in respect of:

(a) Disclosure Controls and Procedures

The CEO and CFO must certify that they have designed the disclosure controls and procedures, or caused them to be designed under their supervision, to provide reasonable assurance that material information relating to the Fund, including its consolidated subsidiaries, is made known to them in a timely manner.

As at December 31, 2007, the Fund’s management, under the supervision of, and with the participation of the CEO and CFO evaluated the design of the disclosure controls and procedures. Based on this evaluation, the CEO and CFO have concluded that as at December 31, 2007, the Fund’s disclosure controls and procedures were appropriately designed.

Consistent with the concept of reasonable assurance, the Fund recognizes that the relative cost of maintaining these controls and procedures should not exceed their expected benefits. As such, the Fund’s disclosure controls and procedures can only provide reasonable, and not absolute, assurance that the objectives of such controls and procedures are met.

(b) Internal Controls over Financial Reporting

The CEO and CFO must certify that they have designed such internal controls over financial reporting, or caused them to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles.

Consistent with the concept of reasonable assurance, the Fund recognizes that the relative cost of maintaining these controls should not exceed their expected benefits. As such, the Fund’s internal controls over financial reporting can only provide reasonable, and not absolute, assurance that the objectives of such controls are met.

No material changes were made to the design of the internal controls over financial reporting during the three and twelve month periods ended December 31, 2007.

Outlook

Product Recall and Litigation

On March 16, 2007 the Fund announced the recall of a portion of the dog and cat food it manufactured between December 3, 2006 and March 6, 2007. This recall was primarily related to “cuts and gravy” style pet food in cans and pouches manufactured at two of the Fund’s United States facilities. These products were both manufactured and sold under private-label and were contract-manufactured for some national brands.

On March 24, 2007 the Fund instituted a withdrawal of all varieties of recalled pet food, regardless of the dates, to reduce the risk that any recalled product might remain on the retailer’s shelves. On April 5, 2007 Menu expanded the recall to include certain products manufactured by its Emporia, Kansas plant between November 8, 2006 and December 2, 2006. This was necessary to align the Fund’s recall with that of the supplier of the adulterated ingredient. On April 10, 2007 Menu expanded the recall to include

some limited production from its Streetsville, Ontario facility. Finally, on April 17, 2007, May 2, 2007 and May 22, 2007 the Fund made some further refinements to the list of recalled products.

Throughout this period of time, the Fund worked closely with regulatory authorities and its customers to learn as much as it could about the cause for the recall. It was ultimately determined that the contaminated ingredient was wheat gluten adulterated with melamine and related compounds. This ingredient was imported from China by one broker in the United States. Subsequent to Menu's recall a number of other significant companies in the pet food industry, who had also purchased wheat gluten from this same broker, followed suit and instituted recalls of their own. As it transpired, the Fund, the pet food industry, our customers and consumers were all victims of a fraud of monumental proportions.

The Fund estimates that, based on currently available information, the direct costs associated with this recall, which will be financed from a combination of internally generated cash flow and bank credit facilities, will approximate \$55 million, which has had a significant impact on the results for the year ended December 31, 2007.

On May 15, 2007 and again on October 19, 2007, the Fund reached agreement with its Lenders to modify the terms of its existing credit facilities and, on May 15, 2007, to increase the amount available under the bank facility. Management expects that the direct and indirect costs of the recall will lead to a further utilization of available credit facilities by the Fund. The amended agreements increase the rates of interest paid by the Fund. Both of these changes are expected to increase the Fund's financial expenses going forward.

Lawsuits have been initiated against the Fund and certain of its subsidiaries in the United States and in Canada, which seek to recover damages on behalf of the named plaintiffs and a purported class of pet owners. Furthermore, the U.S. Food and Drug Administration is conducting an investigation into the situation. The United States Attorney for the Western District of Missouri, based in Kansas City has informed Menu that it is the target of a criminal investigation for possible violations of the U.S. federal Food, Drug and Cosmetic Act. It is possible that additional actions or investigations may arise in the future. The Fund expects to expend significant amounts and devote considerable management time with regard to these matters. The Fund cannot predict the amount of such expenses, the resolution of any claims or investigations, the extent to which these items will be paid by the Fund's insurers, or whether the Fund will have sufficient resources to pay any or all of these items.

Initiatives have been ongoing to reach a mediated settlement in respect of the purported class actions referenced above. Early in 2008, the parties to the Multi-District Litigation notified the U.S. District Court that they had made significant progress in the mediation. By Order filed on January 4, 2008, the U.S. District Court directed that the litigation be stayed until February 14, 2008, when the parties will report to the Court on the status of the mediation.

Customers

The Fund has been advised that customers whose volume represented approximately 37% of sales in 2006 will no longer be purchasing these products from Menu. The effects of this lost business will be felt over time, with customers who accounted for just over 25% of 2006 volume impacting 2007 and the remainder being lost during 2008 and into 2009. Upon announcing the recall, Menu's customers suspended the purchase of most cuts and gravy products. Management expected that this business would be slowly re-established, with this process having started late in the second quarter, and that sales for the remainder of the year would be at less than historical levels, as the effects of the recall continue to be felt. Management cannot predict the effect the recall will have on its relationships with its other customers. The Fund believes that the recall did not cause it to violate any of its contracts with its customers because, among other things, the recall was caused by unforeseen circumstances beyond the Fund's control. However, it is possible that in the future Menu may be found to have breached contracts with one or more of its customers as a result of the recall.

Cost and Price Increases

In respect of its private-label business, in both the United States and Canada, Menu's practice, in order to help ensure that the Fund's products are competitively priced at retail, has been to initiate price increases once leading national brand manufacturers have announced price increases on their products. Typically these increases follow a period of rising costs and consequently are preceded by a time of compressed margins. In some instances, as was the case in 2005, outside factors can allow the period of compression to continue for much longer than would otherwise be the case. Absent regular price increases in the future, Menu expects that the margins on its private-label business will continue to be compressed.

Increasing input costs are a regular part of Menu's business. Rising costs of steel and aluminum mean higher can costs. Higher utility costs, together with increases in medical benefits (escalating at rates well above inflation) and labour, push the cost of operating higher. Higher fuel costs, together with legislation in the United States on work hours for truck drivers and trucking delays crossing the Canadian/United States border similarly increases the cost of delivery. Such cost increases have occurred routinely over the past number of years. Regular price increases are essential to mitigate the effect rising costs have on margins.

For the contract-manufacturing portion of Menu's business, most of these cost increases are automatically passed on to customers (albeit with some timing delays). Consequently, the degree of margin compression is not as severe as it can be in the case of the private-label business.

Looking ahead to 2008, the 33.2% decline in volume during the fourth quarter of 2007 significantly increased the cost of manufacturing during that quarter as production-runs were shortened and the factory overhead associated with the Fund's production facilities was allocated over a reduced level of production. As a consequence, the cost of the Fund's inventory on hand at the end of the fourth quarter increased, which will increase cost of sales during the first quarter of 2008, as that inventory is sold.

In January 2008, Menu again followed the leading national brand manufacturers and increased prices to its private-label customers. These price increases are expected to increase Menu's sales by more than 3% and should enable Menu to recover some of the cost increases absorbed during the time since the last price increase.

Bovine Spongiform Encephalopathy ("BSE")

BSE surveillance continues to confirm an extremely low incidence of BSE in North America, with cases in both the U.S. and Canada. Both countries instituted a ruminant feed rule in 1997 as part of their prevention programs. Cases have been identified in Canada in cattle born after the feed ban. In response to this, Canada has announced a strengthening of the feed ban to prevent the addition of specified risk materials (those components of the animal thought to have the highest level of infectivity when consumed) in all animal feed, including pet food. The effective date of implementation was July 12, 2007. This change does not impact the Fund's formulations, as these risk materials are not currently used.

Additionally, the U.S. has published information stating that the BSE agents found in its cases come from a rare strain also seen in France, Sweden and Poland, which is harder to detect and mainly found in older cattle. It is possible that these cases form spontaneously in older cattle without consumption of ruminant material.

The U.S. currently requires companies to obtain import permits for Canadian pet food imported into the country. and Canada will shortly impose similar requirements for products manufactured in the U.S. An announcement to be published in the Canada Gazette, outlining the specifics of the program, is expected shortly, after which there will be a grace period, with implementation expected by the summer of 2008.

Subordination and Distribution

The Fund has two classes of units: (a) publicly traded Trust Units and (b) privately held Class B Units. The Declaration of Trust established that the Class B Units' rights to distributions were subordinated to those of the public Trust Units until such time as certain conditions were satisfied. These conditions were met by February 2005, since which time, except as discussed below, the Class B Units have no longer been subordinated to the publicly traded Trust Units.

On May 11, 2005 certain holders of Class B Units (including senior management), representing more than 11 million units, agreed to forego a portion of their distributions until February 2006. Specifically, holders of approximately 3.4 million units agreed to forego all distributions, while holders of approximately 7.7 million units agreed to forego receipt of distributions in excess of \$0.02 per unit. Such unit holders are entitled to a reimbursement of such foregone distributions, which at December 31, 2007 amounted to \$4.2 million, only to the extent that the Fund generates sufficient Distributable Cash in the future and declares distributions in excess of 9 cents per unit, per month.

Financial Covenants

Most of the Fund's outstanding debt is represented by its bank facility and senior secured notes. As at December 31, 2007, the Fund had \$33.8 million drawn on its bank facility and \$74.5 million of senior secured notes outstanding. Each of these facilities has financial covenants and cross default provisions that must be met.

The costs associated with the recall announced on March 16, 2007 have been significant and resulted in the Fund not being in compliance with certain financial covenants with its Lenders as at March 31, 2007. Accordingly, on May 15, 2007, the Fund entered into amended Agreements with its Lenders, which among other things, define the terms and conditions governing the Fund's US\$30 million bank and US\$85 million senior secured notes facilities, going forward. In addition, the agreement with the bank was expanded to include a new US\$20 million credit facility (subsequently reduced to US\$15 million on October 19, 2007). Events after May 15, 2007 resulted in the Fund not being in compliance with these amended terms and on October 19, 2007 the Fund entered into amended Agreements with its Lenders, which among other things, define the terms and conditions governing the Fund's US\$50 million bank and US\$85 million senior secured notes facilities, going forward.

Legislative Changes

Like others in the trust sector, the Fund was impacted by the Canadian Government's decision on October 31, 2006 to introduce a tax on distributions made by publicly traded income trusts. Bill C-52, which, in part, imposes this new tax on income funds and other similar flow through entities, passed fourth reading in the House of Commons on June 12, 2007. To put things in context, it is important to note that the majority of the Fund's business is conducted outside of Canada and that the Fund pays tax in each of the foreign jurisdictions in which it operates. Since the Fund's IPO, for the periods ended December 31, 2002, 2003, 2004 and 2005, the percentage of distributions that were considered "other taxable income" amounted to 22.79%, 22.38%, 21.05% and 34.98%, respectively. Given the difficult conditions experienced in 2005, management does not consider the composition of distributions in that year to be representative of future expectations. Distributions have been suspended since 2005, and the Fund's distribution strategy will not be revisited until such time as distributions are permitted under the covenants with its Lenders. Management's interpretation of the announcements made by the Department of Finance is that it is only this "other taxable income" that will be subject to the proposed tax of 31.5% starting in 2011.

Risks and Uncertainties

Menu and the Fund are subject to numerous risk factors in its ongoing business. These include reliance on key customers, absence of long-term sales contracts, customer performance and relationships, foreign exchange fluctuations, governmental regulations and restrictions, legislative changes, reliance on key suppliers, reliance on key personnel, among others. For a review of some of the risks affecting the business, please refer to notes 23 and 24 to the accompanying consolidated financial statements. Additional information about the Fund is available at www.sedar.com.

In the present economic climate, the most significant risks and uncertainties facing the Fund result from the product recall, including its ultimate final cost, the timing and extent of the resumption of normal business, the extent of any fines or penalties which may be assessed, and the cost of any resulting litigation or investigations, including the extent to which these will be covered by insurance.

The continued strength of the Canadian dollar relative to the United States dollar and the ongoing inability to pass input cost increases on to private-label customers in a timely manner are more traditional risks facing the Fund. Since a majority of the Fund's operations and assets are in the United States, a "natural" business hedge exists. However, while it is possible, for specified periods, to hedge distributable cash flow against future fluctuations in the currency (as has been done in the past during periods when distributions were being paid), it is not possible to hedge business operations, so a continuation of a strong Canadian dollar will have a negative impact on the relative contribution of the Fund's United States dollar denominated business. Similarly, if the Fund must continue to absorb increased raw material and other costs without the benefit of a timely price increase to its private-label customers, gross margin will be depressed and profitability and the Fund's ability to pay distributions will be curtailed. Given the nature of the industry, price increases are largely beyond Menu's control.

The Fund's Lenders do not permit the Fund to make any monthly distributions unless it is in compliance with the covenants contained in the original Agreements with the Lenders, including a total debt to EBITDA ratio of 3 to 1 or less. There can be no assurance as to either when the Fund will resume monthly distributions, or the amount of the monthly distributions that will be paid at that time.

On October 31, 2006 the Department of Finance (Canada) announced the "Tax Fairness Plan" whereby the income tax rules applicable to publicly traded trusts and partnerships were significantly modified. Bill C-52, which imposes a new tax on distributions of income funds and other similar public flow through entities, passed fourth reading in the House of Commons on June 12, 2007 and is therefore considered substantially enacted under Canadian generally accepted accounting principles. The Fund is considering the possible impact of the new rules to the Fund. The new rules may adversely affect the marketability of the Fund's units and the ability of the Fund to undertake financings and acquisitions, and, at such time as the new rules apply to the Fund, the distributable cash of the Fund may be reduced.

On March 16, 2007 the Fund announced the recall of a portion of the pet food it manufactured between December 3, 2006 and March 6, 2007. Since March 16, 2007 the recall has been expanded on a number of occasions. The Fund estimates the cost of the recall will be significant. There can be no assurance that these costs will not exceed available resources or that customers affected by the recall will continue to purchase the Fund's products. In addition, there can be no assurance that the customers supplied by the Fund prior to the recall will continue to purchase from the Fund or purchase from the Fund at historical levels. As discussed above, several significant customers have discontinued, or stated their intent to discontinue, all or a portion of their business with Menu.

Lawsuits have been initiated against the Fund and certain of its subsidiaries in the United States and Canada, which seek to recover damages on behalf of the named plaintiffs and a purported class of affected pet owners. Furthermore, the U.S. Food and Drug Administration is conducting an investigation of the situation. The United States Attorney for the Western District of Missouri, based in Kansas City has informed Menu that it is the target of a criminal investigation for possible violations of the U.S. federal Food, Drug and Cosmetic Act. It is possible that additional actions or investigations may arise in the future. The Fund expects to expend significant amounts and to devote considerable management time to

these matters. We cannot predict the amount of such expenses, the resolution of any claims or investigations, the extent of any fines or penalties, or the extent to which these items will be paid by the Fund's insurers.

Note A: EBITDA is not a recognized measure under Canadian generally accepted accounting principles ("GAAP"). Management believes that in addition to net income, EBITDA is a useful supplemental measure of operating performance as it provides investors with an indication of cash available for distribution prior to debt service, capital expenditures and income taxes. EBITDA, as defined in the Menu Foods Limited Partnership Agreement, is Earnings Before Interest, Taxes, Depreciation, Amortization and Non-controlling Interest.

Distributable Cash is not a recognized measure under Canadian GAAP. Management believes that together with net income and EBITDA, Distributable Cash is a useful supplemental measure of operating performance, which provides investors with an indication of cash available for distribution after adjusting for maintenance capital expenditures and certain principal repayments. The computation of Distributable Cash in this Management's Discussion and Analysis is in all material respects in accordance with the guidance provided in the CICA's publication "Standardized Distributable Cash in Income Trusts and Other Flow-Through Entities – Management's Discussion and Analysis Guidance on Preparation and Disclosure." and with Canadian Securities Administrator's National Policy 41-201 ("NP 41-201"). The disclosures of Distributable Cash are in all material respects in accordance with NP 41-201.

Distributable Cash per Trust Unit is not a recognized measure under Canadian GAAP. Management believes that together with net income, EBITDA and Distributable Cash, Distributable Cash per Trust Unit is a useful supplemental measure of operating performance. Distributable Cash per Trust Unit, is defined as Distributable Cash divided by the diluted weighted average number of Trust Units outstanding during the period.

Investors should be cautioned, however, that neither EBITDA nor Distributable Cash should be construed as an alternative to net income determined in accordance with GAAP as an indicator of Menu's performance or to cash flows from operating, investing and financing activities as a measure of liquidity and cash flow. Menu's method of calculating EBITDA and Distributable Cash may differ from other companies and, accordingly, EBITDA and Distributable Cash may not be comparable to measures used by other companies.

The following are reconciliations of: Net income to EBITDA and of Cash Flow from Operating Activities to Distributable Cash for the fourth quarter:

	For the Quarter ended December 31,	
	2007	2006
	\$'000's	\$'000's
Net income (loss)	(21,723)	1,809
Adjust for:		
Goodwill impairment loss	30,615	-
Non-controlling interest of Class B Exchangeable Units	(2,183)	939
Amortization of property, plant and equipment	2,676	3,790
Amortization of customer relationship	-	129
Future income taxes	-	572
Current income taxes	85	904
Interest and financial expenses	3,887	2,088
EBITDA	13,357	10,231
Adjust for non-recurring items		
Restructuring and related expenses	(11,452)	-
Adjusted EBITDA	1,905	10,231

	For the Quarter ended	
	December 31,	
	2007	2006
	\$'000's	\$'000's
Cash flow from operating activities	(2,252)	5,497
Adjust for:		
Maintenance capital expenditures	(519)	(830)
Principal repayments (*)	(7)	(6)
Distributable Cash	<u>(2,778)</u>	<u>4,661</u>

The following are reconciliations of: Net income to EBITDA and of Cash Flow from Operating Activities to Distributable Cash for the year and since the inception of the Fund:

	For the Year		Since Inception
	ended December 31,		(May 22, 2002)
	2007	2006	to December 31,
	\$'000's	\$'000's	2007
	\$'000's	\$'000's	\$'000's
Net income (loss)	(62,129)	6,430	(84,340)
Adjust for:			
Goodwill impairment loss	30,615	-	124,030
Non-controlling interest of Class B Exchangeable Units	(23,138)	3,699	(30,210)
Amortization of property, plant and equipment	11,765	15,058	79,113
Amortization of customer relationship	298	517	2,789
Future income taxes	(14,337)	2,069	(7,370)
Current income taxes	414	1,482	3,002
Interest and financial expenses	13,415	10,327	41,311
EBITDA	<u>(43,097)</u>	<u>39,582</u>	<u>128,325</u>
Adjust for non-recurring items			
Product recall	55,000	-	55,000
Restructuring and related expenses	4,437	-	4,437
Adjusted EBITDA	<u>16,340</u>	<u>39,582</u>	<u>187,762</u>

	For the Year		Since Inception
	ended December 31,		(May 22, 2002)
	2007	2006	to December 31,
	\$'000's	\$'000's	2007
	\$'000's	\$'000's	\$'000's
Cash flow from operating activities	(39,627)	27,327	75,817
Adjust for:			
Maintenance capital expenditures	(1,660)	(3,151)	(13,747)
Principal repayments (*)	(27)	(24)	(594)
Distributable Cash	<u>(41,314)</u>	<u>24,152</u>	<u>61,476</u>

(*) principal repayments exclude amounts paid to the bank and note holders under the terms of amended Agreements

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For further information: Mark Wiens, Chief Financial Officer, Menu Foods GenPar Limited, (905) 826-3870

Menu Foods Income Fund
Consolidated Balance Sheets

(All figures expressed in thousands of Canadian dollars, unaudited)

	As at December 31,	
	2007	2006
	\$	\$
Assets		
Current assets		
Cash	25	2,813
Accounts receivable		
Trade	13,458	20,062
Other	772	2,175
Inventories (note 6)	31,161	49,576
Prepaid expenses and sundry assets	2,194	1,956
Future income taxes (note 18)	-	1,657
Total Current Assets	47,610	78,239
Property, plant and equipment (note 7)	65,915	97,734
Assets held for sale (note 7)	3,339	-
Goodwill (note 8)	41,357	71,972
Other assets (note 9)	840	4,810
Total Assets	159,061	252,755
Liabilities		
Current liabilities		
Bank indebtedness (note 10)	33,770	15,627
Accounts payable and accrued liabilities (note 2)	31,339	19,806
Income taxes payable	776	603
Current portion of long-term debt (note 11)	30	27
Total Current Liabilities	65,915	36,063
Long-term debt (note 11)	74,017	87,618
Future income taxes (note 18)	-	16,085
Total Liabilities	139,932	139,766
Class B Exchangeable Units (note 12)	-	27,823
Unitholders' Equity		
Trust Units (note 13)	176,004	174,648
Contributed surplus (note 15)	658	272
Deficit	(144,529)	(82,400)
Accumulated other comprehensive loss (note 16)	(13,004)	(7,354)
Total Unitholders' Equity	19,129	85,166
Total Liabilities, Class B Exchangeable Units and Unitholders' Equity	159,061	252,755

(Contingencies and Commitments - notes 2, 3 and 20)

Menu Foods Income Fund
Consolidated Statements of Operations and Deficit

(All figures, except Unit and per Unit amounts, expressed in thousands of Canadian dollars, unaudited)

	Quarter ended December 31,	
	2007	2006
	\$	\$
Sales	55,001	87,933
Cost of sales (note 19)	49,743	74,289
Gross profit	5,258	13,644
Selling, general and administrative expenses	6,029	7,332
Income (loss) before the undernoted	(771)	6,312
Restructuring and related expenses (note 3)	(11,452)	-
Goodwill impairment (note 8)	30,615	-
Financial expenses (note 17)	3,887	2,088
(Loss) income before income taxes and non-controlling interest	(23,821)	4,224
Current income taxes	85	904
Future income taxes	-	572
Total income taxes	85	1,476
(Loss) income before non-controlling interest	(23,906)	2,748
Non-controlling interest of Class B Exchangeable Units (note 12)	(2,183)	939
Net (loss) income for the period	(21,723)	1,809
Deficit - beginning of period	(122,806)	(84,209)
Deficit - end of period	(144,529)	(82,400)

Basic net (loss) income per Trust Unit	\$ (1.113)	\$ 0.095
Diluted net (loss) income per Trust Unit	\$ (1.113)	\$ 0.094
Basic weighted average number of Trust Units outstanding (note 13)	19,515,708	19,039,539
Diluted weighted average number of Trust Units outstanding (note 13)	28,984,243	29,162,905

Consolidated Statements of Other Comprehensive Income (Loss)

(All figures expressed in thousands of Canadian dollars, unaudited)

	Quarter ended December 31, 2007
	\$
Net loss for the period	(21,723)
Other comprehensive (loss) income, net of tax of \$nil:	
Unrealized losses on translating financial statements of self-sustaining foreign operations	(2,772)
Gains on hedges of unrealized foreign currency translation	1,826
Comprehensive loss for the period	(22,669)

Menu Foods Income Fund
Consolidated Statements of Operations and Deficit

(All figures, except Unit and per Unit amounts, expressed in thousands of Canadian dollars, unaudited)

	Year ended December 31,	
	2007	2006
	\$	\$
Sales	244,801	356,196
Cost of sales (note 19)	220,423	304,913
Gross profit	24,378	51,283
Selling, general and administrative expenses	22,986	27,276
Income before the undernoted	1,392	24,007
Product recall (note 2)	52,115	-
Restructuring and related expenses (note 3)	4,437	-
Goodwill impairment (note 8)	30,615	-
Financial expenses (notes 2 and 17)	13,415	10,327
(Loss) income before income taxes and non-controlling interest	(99,190)	13,680
Current income taxes	414	1,482
Future income taxes	(14,337)	2,069
Total income taxes	(13,923)	3,551
(Loss) income before non-controlling interest	(85,267)	10,129
Non-controlling interest of Class B Exchangeable Units (note 12)	(23,138)	3,699
Net (loss) income for the year	(62,129)	6,430
Deficit - beginning of year	(82,400)	(88,830)
Deficit - end of year	(144,529)	(82,400)
Deficit comprises:		
Accumulated net loss	(84,340)	(22,211)
Accumulated distributions	(60,189)	(60,189)
	(144,529)	(82,400)
Basic net (loss) income per Trust Unit	\$ (3.237)	\$ 0.348
Diluted net (loss) income per Trust Unit	\$ (3.237)	\$ 0.348
Basic weighted average number of Trust Units outstanding (note 13)	19,193,657	18,467,879
Diluted weighted average number of Trust Units outstanding (note 13)	28,982,828	29,105,933

Consolidated Statements of Other Comprehensive Income (Loss)

(All figures, except per Unit amounts, expressed in thousands of Canadian dollars, unaudited)

	Year ended December 31, 2007
	\$
Net loss for the year	(62,129)
Other comprehensive (loss) income, net of tax of \$nil:	
Unrealized losses on translating financial statements of self-sustaining foreign operations	(23,473)
Gains on hedges of unrealized foreign currency translation	17,823
Comprehensive loss for the year	(67,779)

Menu Foods Income Fund
Consolidated Statements of Cash Flows

(All figures expressed in thousands of Canadian dollars, unaudited)

	Quarter ended December 31,	
	2007	2006
	\$	\$
Cash provided by (used in)		
Operating activities		
Net (loss) income for the period	(21,723)	1,809
Adjustments for non-cash items		
Goodwill impairment loss	30,615	-
Non-controlling interest of Class B Exchangeable Units	(2,183)	939
Amortization of property, plant and equipment	2,676	3,790
Amortization of customer relationship	-	129
Interest accretion and amortization of deferred commitment fees	130	75
Unit-based compensation	48	86
Gain on sale of property, plant and equipment and contract settlement	(21,497)	-
Inventory write-off (notes 2 and 3)	8,103	-
Recall and restructuring costs not yet paid (notes 2 and 3)	(3,160)	-
Marked-to- market adjustment	989	(86)
Future income taxes	-	572
	(6,002)	7,314
Change in non-cash working capital items		
Accounts receivable	1,052	626
Inventories	(5,464)	1,339
Accounts payable and accrued liabilities	8,204	(4,337)
Prepaid expenses and sundry assets	(312)	(362)
Income taxes	270	917
	(2,252)	5,497
Financing activities		
Change in bank indebtedness	(13,032)	(2,651)
Issuance of Trust Units, net	-	182
Long-term debt repayments	(7)	(4,979)
Deferred commitment fees	(652)	-
	(13,691)	(7,448)
Investing activities		
Unearned deposit (note 3)	(7,958)	-
Purchase of property, plant and equipment	(1,022)	(862)
Proceeds from sale of property, plant and equipment and contract settlement	24,790	-
	15,810	(862)
Decrease in cash	(133)	(2,813)
Cash - beginning of period	158	-
Cash - end of period	25	(2,813)
Supplementary information		
Income taxes paid	59	135
Interest paid	2,822	2,240

Menu Foods Income Fund

Consolidated Statements of Cash Flows

(All figures expressed in thousands of Canadian dollars, unaudited)

	Year ended December 31,	
	2007	2006
	\$	\$
Cash provided by (used in)		
Operating activities		
Net (loss) income for the year	(62,129)	6,430
Adjustments for non-cash items		
Goodwill impairment loss	30,615	-
Non-controlling interest of Class B Exchangeable Units	(23,138)	3,699
Amortization of property, plant and equipment	11,765	15,058
Amortization of customer relationship	298	517
Interest accretion and amortization of deferred commitment fees	1,373	405
Unit-based compensation	396	572
Gain on sale of property, plant and equipment and contract settlement	(21,369)	(29)
Inventory write-off (notes 2 and 3)	38,726	-
Write-off of take-or-pay receivable (note 3)	1,001	-
Recall and restructuring costs not yet paid (notes 2 and 3)	12,619	-
Write-down of idle assets (note 3)	1,726	-
Write-down of customer relationship (note 3)	3,011	-
Marked-to- market adjustment (note 23)	1,415	133
Future income taxes	(14,337)	2,069
	(18,028)	28,854
Change in non-cash working capital items		
Accounts receivable	5,237	(2,693)
Inventories	(26,223)	246
Accounts payable and accrued liabilities	(665)	454
Prepaid expenses and sundry assets	(293)	(639)
Income taxes	345	1,105
	(39,627)	27,327
Financing activities		
Change in bank indebtedness	16,889	(13,682)
Issuance of Trust Units, net	44	222
Long-term debt repayments	(27)	(11,189)
Deferred commitment fees	(1,037)	(636)
	15,869	(25,285)
Investing activities		
Purchase of property, plant and equipment	(4,040)	(5,062)
Proceeds from sale of property, plant and equipment and contract settlement	25,010	43
	20,970	(5,019)
Decrease in cash	(2,788)	(2,977)
Cash - beginning of year	2,813	5,790
Cash - end of year	25	2,813
Supplementary information		
Income taxes paid	269	343
Interest paid	10,091	9,041

Menu Foods Income Fund
Notes to Consolidated Financial Statements
December 31, 2007

(All figures, except Unit and per Unit amounts, expressed in thousands of Canadian dollars, unaudited)

1. Description of the business

Menu Foods Income Fund (the "Fund") is an unincorporated open-ended trust, established under the laws of the Province of Ontario by Declaration of Trust dated March 25, 2002 (the "Declaration of Trust"). The Fund was created to hold directly or indirectly, investments in entities engaged in the manufacture and sale of pet food products, including the securities or assets of Menu Foods Limited ("Menu").

Menu was incorporated on May 17, 1971 under the laws of the Province of Ontario. Menu is mainly engaged in the manufacture of wet pet food products, which are sold primarily to retail and wholesale operations in Canada and the United States.

2. Product recall, litigation and going concern

On March 16, 2007, the Fund announced the recall of a portion of the dog and cat food it manufactured between December 3, 2006 and March 6, 2007. Other products and dates of manufacture were added to the recall on April 5, April 10, April 17, May 2 and May 22, 2007 and the Fund announced a voluntary withdrawal of certain products on March 24, 2007. The recalls and withdrawal related primarily to "cuts and gravy" style products manufactured by Menu, but included certain other products as well. These products were manufactured and sold under private-label and contract manufactured for some national brands.

Management originally estimated that the costs associated with the recalls and withdrawal noted above would amount to approximately \$45,000. On October 10, 2007 this estimate was increased to \$55,000. The costs associated with the recall, including the increase in the estimated cost, resulted in the Fund not being in compliance with certain financial covenants included in the loan agreements with its lenders. Accordingly, on May 15, 2007 and again on October 19, 2007, the Fund entered into amended agreements with its lenders, which among other things, defined the terms and conditions governing the Fund's US\$30,000 bank facility (expanded to US\$50,000 with a new US\$20,000 credit facility on May 15, 2007 and subsequently reduced to US\$45,000 on October 19, 2007) and US\$85,000 senior secured notes facility. The amendments to the senior secured notes facility on May 15, 2007 were such that under Canadian generally accepted accounting principles they resulted in a deemed settlement of the original facility, necessitating a write-off of \$1,101 in previously capitalized costs (note 11).

The estimated product recall costs are based on the best information currently available to the management of the Fund. The ultimate determination of these costs is dependant on the amount of product actually returned and certain other factors. Accordingly, actual amounts could differ from these estimates and the differences could be significant. Furthermore, even with the new credit facility the ongoing impact of the product recall, especially as it relates to returning to normalized business, could have a significant effect on the liquidity of the Fund.

The recall costs noted above include product collection, write-off and disposal costs of \$46,455, period costs associated with the recall of \$3,000, lost margin on returned product of \$2,885, \$2,400 to establish and operate a call centre to respond to consumer concerns and \$260 in professional and associated fees necessary to manage through this difficult process. As at December 31, 2007, the Fund has incurred \$44,057 of actual recall costs, including inventory write-offs, and has accrued a further \$11,660 in accrued liabilities for costs not yet incurred in connection with the recall.

Menu Foods Income Fund
Notes to Consolidated Financial Statements
December 31, 2007

(All figures, except Unit and per Unit amounts, expressed in thousands of Canadian dollars, unaudited)

2. Product recall, litigation and going concern (continued)

Lawsuits have been initiated against the Fund and certain of its subsidiaries in the United States and Canada, which seek to recover damages on behalf of the named plaintiffs and a purported class of affected pet owners. Furthermore, the U.S. Food and Drug Administration is conducting an investigation of the situation. In addition, the United States Attorney for the Western District of Missouri based in Kansas City has informed Menu that it is the target of a criminal investigation for possible violations of the U.S. Federal Food, Drug and Cosmetic Act. It is possible that additional actions or investigations may arise in the future. The Fund expects to expend significant amounts and to devote considerable management time to these matters. The Fund cannot predict the amount of such expenses, the resolution of any claims or investigations, possible fines or penalties that might result, or the extent to which these items will be paid by the Fund's insurers or whether the Fund will have sufficient resources to pay any of these claims. Costs to the Fund are being expensed as incurred or committed.

Given the restructuring activities (note 3) and based on current forecasts, management believes that the Fund will generate sufficient income and cash flows to discharge its obligations as they become due in the normal course of operations and that the Fund will not require any significant additional credit facilities. However, given the significant uncertainty of this situation and the legal and regulatory matters referred to above, there is no assurance that additional financing will not be required, nor that it will be available to the Fund, if needed.

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles on a going concern basis. The Fund's ability to continue as a going concern is dependent on the success of future operations, the continued support of the Fund's lenders and the outcome of litigation and investigations. If the going concern assumption was not appropriate for these consolidated financial statements, then adjustments would be necessary to the carrying values of assets, liabilities, the reported net loss and the balance sheet classifications used.

3. Restructuring and related expenses

As a consequence of the product recalls, the Fund had to restructure its operations to better align costs with its ongoing business. The restructuring initiatives will take several forms and under Canadian generally accepted accounting principles, depending upon their nature, must be recognized in 2007 or in future periods. While most of these initiatives were accounted for in 2007, some will not be completed until 2008. To date, in aggregate these activities resulted in a net restructuring expense of \$4,437 and have generated approximately \$22,192 in cash (net of \$1,142 in lenders' fees).

Specifically:

(a) Since March 16, 2007, the Fund has been advised that customers who represented approximately 37% of sales volume in 2006 will no longer be purchasing those products from Menu. This has caused the Fund to write-down certain assets associated with these customers and to write-down or sell other assets that are no longer required given the down-sizing of the business;

(b) On August 9, 2007, Menu entered into agreements to release a customer from certain contractual obligations and to sell it a production facility and certain other assets for aggregate cash proceeds of US\$26,300. However, since all conditions associated were not satisfied until later in the year, these transactions were not recognized until the fourth quarter of 2007; and

Menu Foods Income Fund
Notes to Consolidated Financial Statements
December 31, 2007

(All figures, except Unit and per Unit amounts, expressed in thousands of Canadian dollars, unaudited)

3. Restructuring and related expenses (continued)

(c) On October 10, 2007, the Fund announced a formal plan to restructure operations. This plan identified certain redundant assets as at September 30, 2007 and established formal severance arrangements for affected employees. Management continued to refine the plan during the fourth quarter of 2007, identifying additional restructuring initiatives and opportunities.

The approximate costs or gains associated with the restructuring have been or will be reflected in the consolidated financial statements as follows:

	Quarter ended September 30, 2007 \$	Quarter ended December 31, 2007 \$	Total \$
Write-off of redundant inventory	9,768	8,103	17,871
Write-off of customer relationship (note 9)	3,011	-	3,011
Write-off take-or-pay receivable	1,001	-	1,001
Write-down of idle assets	1,726	-	1,726
Gain on settlement of customer contracts and sale of assets	-	(21,497)	(21,497)
Severance and related costs	258	1,942	2,200
Professional fees	125	-	125
	15,889	(11,452)	4,437

4. Changes in accounting policies and new accounting pronouncements

On January 1, 2007, the Fund adopted Canadian Institute of Chartered Accountants (“CICA”) Handbook Section 1506, Accounting Changes; Section 1530, Comprehensive Income; Section 3855, Financial Instruments – Recognition and Measurement; Section 3861, Financial Instruments – Disclosure and Presentation; and Section 3865 – Hedges.

Section 1506 prescribes the criteria for changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and corrections of errors.

Section 1530 establishes standards for reporting and presenting comprehensive income, which is defined as the change in equity during a period from transactions and other events and circumstances from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income that are excluded from net income calculated in accordance with Canadian generally accepted accounting principles.

Menu Foods Income Fund
Notes to Consolidated Financial Statements
December 31, 2007

(All figures, except Unit and per Unit amounts, expressed in thousands of Canadian dollars, unaudited)

4. Changes in accounting policies and new accounting pronouncements (continued)

Section 3855 prescribes when a financial asset or liability or non-financial derivative is to be recognized on the balance sheet and at what amount, requiring fair value or cost-based measures under different circumstances. Under Section 3855, financial instruments must be classified into one of these five categories; held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments, including derivatives, are measured at fair value except for loans and receivables, held to maturity investments and other financial liabilities, which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification, as follows: held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net earnings; available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the investment is derecognized or impaired, at which time the amounts would be recorded in net earnings.

Section 3861 establishes standards for presentation of financial instruments and non-financial derivatives, and identifies the information that should be disclosed about them.

Section 3865 describes when and how hedge accounting can be applied as well as the disclosure requirements. Hedge accounting enables the recording of gains, losses, revenues and expenses from derivative financial instruments in the same period as for those related to the hedged item.

Under the new standards, policies followed for periods prior to the effective date generally are not changed and, therefore, the comparative figures have not been restated, except for the requirement in Section 1530 to include the currency translation adjustment as part of other comprehensive income, which is included in a separate statement in these consolidated financial statements.

Upon adoption of Section 3855, the Fund designated its cash as held-for-trading, which is measured at fair value. Accounts receivable are classified as loans and receivables, which are measured at amortized cost. Bank indebtedness, accounts payable and accrued liabilities and long-term debt are classified as other financial liabilities, which are recorded at amortized cost. Derivative instruments are recorded in the statement of operations at fair value except for contracts entered into for the purposes of the Fund's own usage requirements. The Fund uses interest rate swaps (the "Swaps") to fix interest rates on a portion of its indebtedness. Previously the Swaps were marked-to-market, and consequently are unaffected by this new standard. The Fund established January 1, 2003 as its transition date for the purpose of identifying embedded derivatives. Consequently, only contracts or financial instruments entered into or modified after the transition date were examined for embedded derivatives. As at December 31, 2007 and 2006 the Fund does not have any embedded derivatives.

There was no impact on the Fund as a result of adopting Sections 1506 and 3865.

Menu Foods Income Fund
Notes to Consolidated Financial Statements
December 31, 2007

(All figures, except Unit and per Unit amounts, expressed in thousands of Canadian dollars, unaudited)

4. Changes in accounting policies and new accounting pronouncements (continued)

Recent Canadian accounting pronouncements issued and not yet adopted

The CICA has issued four new accounting standards: Section 1535 - Capital Disclosures, Section 3031- Inventories, Section 3862 - Financial Instruments - Disclosures, and Section 3863 - Financial Instruments - Presentation. Section 1535 establishes disclosure requirements about an entity's capital and how it is managed. The purpose of this section is to enable users of the financial statements to evaluate objectives, policies and processes for managing capital. Section 3031 will replace Section 3030 - Inventories, revising and enhancing guidance on the determination of inventory costing. Sections 3862 and 3863 will replace Section 3861- Financial Instruments - Disclosure and Presentation, revising and enhancing its disclosure requirements while carrying forward its presentation requirements. These new sections will place increased emphasis on disclosure about the nature and extent of risks arising from financial instruments and how the entity manages those risks. The mandatory effective date is for annual and interim periods in fiscal years beginning on or after October 1, 2007 (January 1, 2008 for Section 3031).

The Fund is currently evaluating the impacts of these standards on its consolidated financial statements and will begin application of these sections effective January 1, 2008.

5. Summary of significant accounting policies

a) Basis of presentation

The Fund prepares its consolidated financial statements in accordance with Canadian generally accepted accounting principles. The disclosures contained in these unaudited interim consolidated financial statements may not include all requirements of Canadian generally accepted accounting principles for annual statements.

The consolidated financial statements include the accounts of the Fund and all of its subsidiaries. All inter-company transactions and accounts have been eliminated on consolidation.

b) Use of estimates

The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

c) Cash and cash equivalents

Deposits in banks and short-term investments with original maturities of three months or less are considered cash and cash equivalents. Cash equivalents are carried at fair value.

d) Inventories

Inventories are valued at the lower of cost, determined on a first-in, first-out basis, and net realizable value.

Menu Foods Income Fund
Notes to Consolidated Financial Statements
December 31, 2007

(All figures, except Unit and per Unit amounts, expressed in thousands of Canadian dollars, unaudited)

5. Summary of significant accounting policies (continued)

e) Property, plant and equipment

Property, plant and equipment are carried at cost less accumulated amortization. Cost represents the cost of acquisition or construction, including preparation and testing charges and direct financing costs incurred until the beginning of commercial production. An impairment loss is recognized when the asset's carrying value is no longer recoverable from estimated future undiscounted cash flows. When an impairment loss is recognized, the carrying value of the asset is reduced to its estimated fair value. Amortization is calculated using the straight-line method applied to the cost of the assets, at annual rates based on their estimated useful lives, as follows:

Buildings	20 - 40 years
Machinery and equipment	3 - 10 years
Equipment under capital lease	3 - 10 years
Other property and equipment	3 - 20 years

Construction-in-progress represents expenditures incurred for uncompleted projects. Upon completion, the related construction-in-progress balance is transferred to the appropriate asset class and amortization commences.

f) Income taxes

The Fund follows the liability method of accounting for income taxes. Under the liability method, future income tax assets and liabilities are determined based on temporary differences (differences between the accounting basis and the tax basis of the assets and liabilities) and are measured using the currently enacted, or substantively enacted tax rates and laws expected to apply when these differences reverse. A valuation allowance is recorded against any future income tax asset, if it is more likely than not that the asset will not be realized. Applicable withholding taxes are accrued as foreign sourced income is earned to the extent that the repatriation of earnings from foreign subsidiaries is expected to occur.

g) Research and development

Research expenditures are expensed as incurred. Development expenditures are written off as incurred unless, in the view of management, the expenditures are incurred in the development of products or processes, which are expected to be commercially viable for a period that exceeds one year and have a long-term commercial future. In these cases, development costs are deferred and amortized over the estimated commercial life of the product or process on a straight-line basis, not to exceed five years.

h) Other financial liabilities and transaction costs

The Fund classified long-term debt as other financial liabilities, which are measured at amortized cost. Transaction costs, which are netted against the carrying value of the long-term debt are amortized using the effective interest rate method, and are included in financial expenses.

i) Goodwill

Goodwill reflects the price paid for the Menu business in excess of the fair market value of net tangible assets and identifiable intangible assets acquired. Menu operates as one reporting unit for purposes of allocating and evaluating goodwill. The Fund reviews goodwill on an annual basis or at any other time when events or changes have occurred that suggest an impairment of the carrying value. Impairment is recognized when the estimated fair value of the goodwill is lower than the carrying value.

Menu Foods Income Fund
Notes to Consolidated Financial Statements
December 31, 2007

(All figures, except Unit and per Unit amounts, expressed in thousands of Canadian dollars, unaudited)

5 Summary of significant accounting policies (continued)

j) Customer relationship

The customer relationship consisted of an exclusive agreement to supply a portion of a customer's canned wet pet food requirements in the United States and Canada. The customer relationship was carried at cost less accumulated amortization. Amortization was being charged to cost of sales, on a straight-line basis, over a ten-year period. The customer relationship was impaired and fully written off during the quarter ended September 30, 2007 when the customer advised the Fund that it would no longer be purchasing the products covered by the exclusive agreement (notes 3 and 9).

k) Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies, except those of self-sustaining subsidiaries, are translated at the exchange rate in effect at the consolidated balance sheet date and non-monetary items are translated at historical exchange rates. Operating revenue and expenses are translated at average exchange rates prevailing during the period. Gains or losses arising from these translations are included in net income.

The assets and liabilities of all foreign subsidiaries, which are considered to be self-sustaining operations, are translated at the exchange rate in effect at the consolidated balance sheet date. Revenues and expenses are translated at average exchange rates prevailing during the period. The Fund has designated its United States' dollar indebtedness, to a maximum of US\$85 million, as a hedge of its net investment in the United States. The indebtedness is translated at the exchange rate in effect at the consolidated balance sheet date. The resulting gains or losses, together with the related income taxes, are included in the foreign currency translation adjustment in the consolidated statement of comprehensive income.

l) Revenue recognition

The Fund recognizes revenue from the sale of manufactured goods at the time of product shipment. From time to time the Fund enters into contracts with customers to manufacture products on their behalf. In some instances the customers provide a portion of the inventory to be used in the manufacturing process. Accordingly, when the goods are shipped, the Fund includes in sales the invoice price to the customer and includes in cost of sales the Fund's portion of costs incurred.

The Fund enters into "take-or-pay" arrangements with certain customers, which require the customer to make payments to Menu if their purchases do not meet or exceed contracted volumes. These arrangements are reflected in sales. As a consequence of the product recall (note 2), no revenue has been reflected from these arrangements during the quarter and year ended December 31, 2007 (2006 - \$477 and \$1,454, respectively) and any outstanding amounts receivable under these arrangements were written-off (note 3). As at December 31, 2007 the Fund has no such arrangements outstanding.

m) Supplier rebates

Volume rebates on supplier purchases are recorded throughout the period as a reduction of inventory and cost of sales based on management's best estimate of the amounts that will ultimately be received.

n) Unit-based compensation

The Fund expenses awards made under its unit-based compensation plans in accordance with the fair value based method.

Menu Foods Income Fund
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5 Summary of significant accounting policies (continued)

o) Asset retirement obligations

The fair value of any liability for an asset retirement obligation is recognized in the period in which it is incurred, if a reasonable estimate of fair value can be made. The associated retirement costs are capitalized as part of the carrying amount of the long-lived assets and amortized over the life of the asset. As at December 31, 2007, the Fund has concluded that there were no asset retirement obligations associated with its assets.

p) Transaction costs

Transaction costs related to other financial liabilities are netted against the carrying value of the liability and are amortized over the expected life of the instrument using the effective interest method.

6. Inventories

	As at December 31,	
	2007	2006
	\$	\$
Raw materials and packaging	8,488	13,498
Finished goods	22,673	36,078
	31,161	49,576

7. Property, plant and equipment

	As at December 31, 2007		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Land	4,044	-	4,044
Buildings	37,045	6,970	30,075
Machinery and equipment	79,429	48,079	31,350
Other property and equipment	16,201	13,475	2,726
Construction-in-progress	1,059	-	1,059
	137,778	68,524	69,254
Less:			
Building held for sale	3,609	270	3,339
	134,169	68,254	65,915

	As at December 31, 2006		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Land	5,255	-	5,255
Buildings	44,174	6,752	37,422
Machinery and equipment	93,681	43,749	49,932
Other property and equipment	15,300	11,973	3,327
Construction-in-progress	1,798	-	1,798
	160,208	62,474	97,734

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8. Goodwill

When the Fund purchased its interest in Menu Foods Limited Partnership, \$165,387 of the purchase price was assigned as goodwill in the consolidated financial statements. Under Canadian generally accepted accounting principles, goodwill is subject to an annual impairment test, which, for the Fund, takes place as at September 30th of each year, unless events indicate that an impairment has arisen at some other time. An assessment of the carrying value of goodwill was carried out in 2005, resulting in a writedown of \$93,415. The annual impairment test as at September 30, 2007 did not identify any further impairment. Since the Fund's units were trading at lower than their book value at December 31, 2007, another assessment of goodwill was carried out at that time. Following a fair value assessment of the Fund's assets and liabilities, goodwill was written down, for the quarter and year ended December 31, 2007 by \$30,615. This charge is a non-cash item and does not impact the Fund's credit facilities. The carrying value of goodwill is \$38,818 as at December 31, 2007 (\$71,972 - 2006).

9. Other assets

	As at December 31,	
	2007	2006
	\$	\$
Customer relationship		
Cost	5,157	5,846
Accumulated amortization	(2,146)	(2,212)
Write-off (note 3)	(3,011)	-
	-	3,634
Deferred commitment fees (note 10)		
Cost	1,037	1,871
Accumulated amortization	(197)	(695)
	840	1,176
	840	4,810

On August 14, 2007 the Fund received notice from the customer that the exclusive agreement to supply a portion of their canned wet pet food requirements in the United States and Canada would be terminated effective October 9, 2007. Accordingly, the carrying value of the customer relationship was written off during the quarter ended September 30, 2007.

10. Bank indebtedness

The banking agreement provides the Fund with a US\$45,000 operating facility of which \$33,770 (US\$34,066) was drawn upon as at December 31, 2007 (December 31, 2006 - \$15,627 (US\$13,409)). At December 31, 2007, the Fund had an outstanding letter of credit in the amount of \$818 (US\$825) (December 31, 2006 - \$991 (US\$850)) which further reduces the amount available under the facility.

The costs associated with the product recall first announced on March 16, 2007 (note 2) were significant and resulted in the Fund not being in compliance with certain financial covenants with its bank and senior secured noteholders (note 11) (the "Lenders") as at March 31, 2007. Accordingly, on May 15, 2007, the Fund entered into amended agreements (the "Agreements") with its Lenders that, among other things, defined the terms and conditions governing the Fund's US\$30,000 bank and US\$85,000 senior secured notes facilities (note 11) going forward. In addition, the agreement with the bank was extended to June 30, 2009 and expanded to include a new US\$20,000 credit facility.

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10. Bank indebtedness (continued)

Increases in the estimated costs associated with the product recall (note 2), together with the restructuring (note 3) necessary as a consequence of the product recall once again resulted in the Fund not being in compliance with certain financial covenants with its Lenders during the quarter ended September 30, 2007. On October 19, 2007 the Fund entered into amended agreements with its Lenders that, among other things, define the terms and conditions governing the Fund's bank operating and senior secured notes facilities going forward. Furthermore, on October 19, 2007 the new US\$20,000 credit facility was reduced to US\$15,000.

Pursuant to its amended banking agreement, this operating facility bears interest at Canadian prime rate (6.00% as at December 31, 2007) plus 3.5%, U.S. base rate (7.25% as at December 31, 2007) plus 3.5% or Euro rate (4.70% as at December 31, 2007) plus 4.75% (the "Base Rates") depending on the currency advanced. These interest rates will continue to apply until the additional US\$20,000 facility is extinguished and the balance owing under the US\$30,000 facility is less than US\$15,000 for five consecutive business days and the Fund achieves a total debt to EBITDA (a non-GAAP measure that is defined in the amended banking agreement) ratio (the "Leverage Ratio"), on a trailing twelve months basis, of 3 to 1 or less, at which time the interest rates will revert to those set out in the Fund's credit facilities prior to amendment, provided that there are no other defaults. The Fund is precluded from paying distributions to its Unitholders at any time the Leverage Ratio exceeds 3 to 1.

The pre-existing covenants have been suspended until such time as the recall costs no longer impact the Fund's Leverage Ratio and until the additional US\$20,000 facility is extinguished and the balance owing under the US\$30,000 facility is less than US\$15,000 for five consecutive business days and the Fund achieves a Leverage Ratio, on a trailing twelve months basis, of 3 to 1 or less. In addition, EBITDA before recall and restructuring costs and operating leases must be at least \$1,000 for the quarter ended December 31, 2007; \$5,000 for the quarter ending March 31, 2008; \$10,000 for the six months ending June 30, 2008; \$15,000 for the nine months ending September 30, 2008; and \$20,000 on a trailing twelve-months basis each quarter thereafter. Under the terms of the amended agreements, not more than \$55,000 and \$4,000 may be utilized by the Fund for recall-related costs and restructuring costs, respectively. The amended agreement of May 15, 2007 required the Fund to pay commitment fees to the bank of \$ 412 (US\$380), plus all associated professional costs.

The amended agreement of October 19, 2007 required the Fund to pay commitment fees to the bank of \$625, plus all associated professional costs. These fees are recorded in Other assets and are amortized on a straight-line basis over the life of the credit facility (note 9).

Certain bank indebtedness has been identified as priority indebtedness under an agreement between the bank and senior secured noteholders. Otherwise, the Fund has pledged, on a pari pasu basis with its senior secured noteholders, as security for bank indebtedness, all moveable property and book debts and, in addition, has signed a general security agreement.

11. Long-term debt

	As at December 31,	
	2007	2006
	\$	\$
Senior secured notes (a)	74,017	87,587
Obligation under capital lease (b)	30	58
	<hr/> 74,047	<hr/> 87,645
Less: Current portion	30	27
	<hr/> 74,017	<hr/> 87,618

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11. Long-term debt (continued)

a) Senior secured notes

	As at December 31,	
	2007	2006
	\$	\$
Senior secured notes obligation	74,504	87,587
Transaction costs	(487)	-
	74,017	87,587

On October 31, 2003, the Fund closed a private placement offering for US\$85,000 in floating rate senior secured notes (the "Notes Facility"). The notes, of which US\$75,157 was outstanding at December 31, 2007 and December 31, 2006, are repayable on October 31, 2010, with interest payable quarterly. Certain bank indebtedness has been identified as priority indebtedness under an agreement between the bank and senior secured noteholders. Otherwise, the Fund has pledged, on a pari pasu basis with its bank, as security for its senior secured notes, all moveable property and book debts and, in addition, has signed a general security agreement.

The costs associated with the product recall first announced on March 16, 2007 (note 2) are significant and resulted in the Fund not being in compliance with certain financial covenants with its Lenders as at March 31, 2007. Accordingly, on May 15, 2007, the Fund entered into Agreements with its Lenders, which among other things, defined the terms and conditions governing the Fund's US\$30,000 bank (note 10) and US\$85,000 senior secured notes facilities going forward. In addition, the agreement with the bank was extended to June 30, 2009 and expanded to include a new US\$20,000 credit facility.

Increases in the estimated costs associated with the product recall (note 2), together with the restructuring (note 3) necessary as a consequence of the product recall once again resulted in the Fund not being in compliance with certain financial covenants with its Lenders during the quarter ended September 30, 2007. On October 19, 2007 the Fund entered into amended agreements with its Lenders that, among other things, define the terms and conditions governing the Fund's bank operating and senior secured notes facilities going forward.

Pursuant to the terms of the Agreements, the Notes Facility now bears interest at floating rate, three-month LIBOR plus 580 basis points. This rate will continue to apply until the additional US\$20,000 bank facility is extinguished and the balance owing under the US\$30,000 bank facility is less than US\$15,000 for five consecutive business days and the Fund achieves a Leverage Ratio, on a trailing twelve months basis, of 3 to 1 or less, at which time the interest rates will revert to those set out in the Fund's existing Notes Facility, provided that there are no other defaults. The Fund is precluded from paying distributions to its Unitholders at any time the Leverage Ratio exceeds 3 to 1.

The pre-existing covenants have been suspended until such time as the recall costs no longer impact the Fund's Leverage Ratio and until the additional US\$20,000 facility is extinguished and the balance owing under the US\$30,000 facility is less than US\$15,000 for five consecutive business days and the Fund achieves a Leverage Ratio, on a trailing twelve months basis, of 3 to 1 or less. In addition, EBITDA before recall and restructuring costs and operating leases must be at least \$1,000 for the quarter ended December 31, 2007; \$5,000 for the quarter ending March 31, 2008; \$10,000 for the six months ending June 30, 2008; \$15,000 for the nine months ending September 30, 2008; and \$20,000, on a trailing twelve-months basis, each quarter thereafter. Under the terms of the amended agreements, not more than \$55,000 and \$4,000 may be utilized by the Fund for recall-related costs and restructuring costs, respectively.

The amendments to the Agreements with the Fund's Lenders completed on May 15, 2007 were such that under Canadian generally accepted accounting principles, they resulted in a deemed settlement of the original senior secured notes facility. As a consequence, it was necessary to write-off \$1,101 in costs associated with the establishment of the original facility that remained outstanding on March 31, 2007 (note 2).

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11. Long-term debt (continued)

During the quarter ended March 31, 2006, the Fund fixed interest rates at 5.35% plus the applicable spread on US\$50,000 through to October 2010 (note 23).

b) Obligation under capital lease

The Fund entered into a capital lease in December 2002, collateralized by certain computer equipment. The lease, which was modified in December 2005, provides for blended monthly payments of \$3 (2006 - \$14).

Minimum lease payments:

	As at December 31,	
	2007	2006
	\$	\$
2007	-	32
2008	31	31
Total minimum lease payments	31	63
Less: Amounts representing interest at 10.40 % (6.60% - 2006)	1	5
Balance of obligation	30	58
Less: Current portion	30	27
	-	31

12. Class B Exchangeable Units

	Number of units	Carrying value \$
Class B Exchangeable Units of MFLP		
December 31, 2005	11,133,655	27,268
Conversion of Class B Exchangeable Units to Trust Units (note 13)	(1,236,431)	(3,209)
Share of net income for the year		3,699
Share of net foreign currency translation adjustment for the year		65
December 31, 2006	9,897,224	27,823
Conversion of Class B Exchangeable Units to Trust Units (note 13)	(1,274,635)	(1,302)
Share of net loss for the period		(23,138)
Share of net foreign currency translation adjustment for the period		(3,383)
December 31, 2007	8,622,589	-

The Class B Exchangeable Units together with their related Special Trust Units (note 13) can be exchanged on a one-for-one basis with the Fund for Trust Units at the option of the holder.

A portion of the gains or losses arising from the translation of foreign subsidiaries is included in accumulated other comprehensive loss in unitholders' equity. The foreign currency translation adjustment is allocated between the Class B Exchangeable units and unitholders' equity on a pro-rata basis.

Under Canadian generally accepted accounting principles, when the losses applicable to the non-controlling interest exceed their investment in the Fund's units, the excess and any further losses applicable to the non-controlling interest are allocated to the Trust Unitholders. This process continues until such time as all previously absorbed losses are recovered by the Trust Unitholders. As at December 31, 2007 and for the quarter then ended these unabsorbed losses amount to \$4,084.

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12. Class B Exchangeable Units (continued)

During the second quarter of 2005, certain holders of Class B Exchangeable Units agreed to subordinate their entitlement to distributions for a ten-month period beginning with the distributions in respect of the month of May 2005 and ending with the distributions in respect of the month of February 2006. Distributions subordinated amounted to \$4,151. Such Unitholders are entitled to a reimbursement of such subordinated distributions before distributions can be increased above 9 cents per unit, per month. No obligation arises to the Fund in respect of these subordinated amounts until it has generated sufficient distributable cash and declares distributions in excess of 9 cents per unit, per month. Accordingly, no amount has been accrued in distributions payable at December 31, 2007 and December 31, 2006.

The Class B Units have economic and voting rights equivalent, in all material respects, to the Trust Units.

13. Trust Units

Authorized

Unlimited number of Trust Units

Unlimited number of Special Trust Units

Issued

	Number of units	Gross proceeds \$	Issuance costs \$	Net proceeds \$
Trust Units				
December 31, 2005	17,766,159	181,754	11,300	170,454
Conversion of Class B Exchangeable Units during the quarter ended (note 12)				
June 30, 2006	876,598	2,602	-	2,602
September 30, 2006	359,833	1,098	-	1,098
Exercise of options during quarter ended (note 15)				
March 31, 2006	2,575	17	-	17
September 30, 2006	11,037	73	-	73
December 31, 2006	61,071	404	-	404
December 31, 2006	19,077,273	185,948	11,300	174,648
Conversion of Class B Exchangeable Units during the quarter ended (note 12)				
December 31, 2007	1,274,635	1,302	-	1,302
Exercise of options during the quarter ended (note 15)				
March 31, 2007	9,746	54	-	54
December 31, 2007	20,361,654	187,304	11,300	176,004

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13. Trust Units (continued)

Special Trust Units

Special Trust Units are used solely for providing voting rights to the holders of Class B Exchangeable Units ("Class B Units") (note 12) and by their terms have voting rights of the Fund. Special Trust Units are not transferable separately from the Class B Units to which they relate. Conversely, the Special Trust Units will automatically be transferred upon a transfer of the associated Class B Units. Each Special Trust Unit entitles the holder thereof to a number of votes at any meeting of Unitholders and holders of Special Trust Units equal to the number of Units that may be obtained upon the exchange of the Class B Units to which the Special Trust Unit relates, but do not otherwise entitle the holder to any rights with respect to the Fund's property or income. The Fund issued 12,631,915 Special Trust Units relating to the Class B Units at the date of acquisition of Menu. There were 8,622,589 Special Trust Units outstanding as at December 31, 2007 (note 12).

Weighted average number of Units outstanding

Basic net income (loss) per Trust Unit is computed by dividing net income (loss) for the period by the weighted average number of Trust Units outstanding during the period. Diluted net income (loss) per Trust Unit includes the effect of exercising unit options (note 15), only if dilutive, and includes the Class B Exchangeable Units using the "if converted" method.

The following table reconciles the basic weighted average number of units outstanding to the diluted weighted average number of units outstanding:

	Quarter ended December 31,	
	2007	2006
Weighted average number of Trust Units outstanding - basic	19,515,708	19,039,539
Weighted average number of Class B Units outstanding - basic (note 12)	9,468,535	9,897,224
Dilutive effect of options (note 15)	-	226,142
Weighted average number of units outstanding - diluted	28,984,243	29,162,905

	Year ended December 31,	
	2007	2006
Weighted average number of Trust Units outstanding - basic	19,193,657	18,467,879
Weighted average number of Class B Units outstanding - basic (note 12)	9,789,171	10,444,172
Dilutive effect of options (note 15)	-	193,882
Weighted average number of units outstanding - diluted	28,982,828	29,105,933

14. Distributions

No distributions were declared on either the Trust Units or the Class B Units during the quarters and years ended December 31, 2007 and 2006.

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15. Unit-based compensation

Unit option plan

During the quarter ended March 31, 2006, 959,296 unit options with an exercise price of \$4.56 were granted to 41 employees and 6,000 unit options with an exercise price of \$5.25 were granted to one employee. During the quarter ended June 30, 2006, 21,000 unit options with an exercise price of \$5.00 were granted to one employee and 15,000 unit options with an exercise price of \$4.56 were forfeited. During the quarter ended December 31, 2006, 21,000 unit options with an exercise price of \$6.20 were granted to one employee, 6,000 unit options with an exercise price of \$6.55 were granted to one employee and 42,000 unit options with an exercise price of \$4.56 were forfeited. These options vest one-third annually over three years except for 238,148 which will vest after 36 months. All options will expire 39 months after the date of grant, if not exercised.

During the quarter ended March 31, 2007, 390,156 unit options with an exercise price of \$7.34 were granted to 47 employees and during the quarter ended September 30, 2007, 18,390 unit options with an exercise price of \$3.00 were granted to one employee. During the quarter ended December 31, 2007, 1,189,300 unit options with an exercise price of \$1.82 were granted to 70 employees and 21,000 unit options with an exercise price of \$0.92 were granted to one employee; and 219,416 unit options with an exercise price of \$4.56, 21,000 unit options with an exercise price of \$5.00, 21,000 unit options with an exercise price of \$6.20, 6,000 unit options with an exercise price of \$6.55, and 87,588 unit options with an exercise price of \$7.34, were forfeited. The fair value of the unit options granted during the quarter ended December 31, 2007 was estimated on the date of grant using the Black-Scholes fair value option pricing model. These options will vest one-third annually over three years. All options will expire 39 months after the date of grant, if not exercised.

The option plan under which these options were granted, which authorizes 2,815,000 units, was approved by the Unitholders at the Annual and Special Meeting of the Fund held on May 11, 2006. Compensation expense of \$48 and \$396 was recognized for the quarter and year ended December 31, 2007, respectively (2006 - \$80 and \$272) which was added to contributed surplus. Total compensation expense to be recognized under these awards is estimated to be \$2,236.

The fair value of the Trust Unit options issued in 2006 was determined using the Black-Scholes model, incorporating a 3.90% risk free interest rate, a 34% volatility factor, 3.33% expected distributions and expected life of 39 months. On this basis, each Trust Unit option was valued at \$1.02.

The fair value of the Trust Unit options issued in the quarter ended March 31, 2007 was determined using the Black-Scholes model, incorporating a 4.05% risk free interest rate, a 31% volatility factor, 4.2% expected distributions and expected life of 39 months. On this basis, each Trust Unit option was valued at \$1.40.

The fair value of the Trust Unit options issued in the quarter ended December 31, 2007 was determined using the Black-Scholes model, incorporating a 3.92% risk free interest rate, a 43% volatility factor, 0.0% expected distributions and expected life of 39 months. On this basis, each Trust Unit option was valued at \$0.63.

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15. Unit-based compensation (continued)

A summary of option activities since January 1, 2006 is as follows:

	Number of options	Range of exercise prices \$	Weighted average exercise prices \$
January 1, 2006	74,683	2.977	2.977
Options granted during quarter ended			
March 31, 2006	965,296	4.560-5.250	4.564
June 30, 2006	21,000	5.000	5.000
December 31, 2006	27,000	6.200-6.550	6.278
Options forfeited during quarter ended			
June 30, 2006	(15,000)	4.560	4.560
December 31, 2006	(42,000)	4.560	4.560
Exercise of options during quarter ended			
March 31, 2006	(2,575)	2.977	2.977
September 30, 2006	(11,037)	2.977	2.977
December 31, 2006	(61,071)	2.977	2.977
December 31, 2006	956,296	4.560-6.550	4.622
Options granted during quarter ended			
March 31, 2007	390,156	7.340	7.340
September 30, 2007	18,390	3.000	3.000
December 31, 2007	1,210,300	0.920-1.820	1.800
Options forfeited during quarter ended			
December 31, 2007	(355,004)	4.560-7.340	5.400
Exercise of options during quarter ended			
March 31, 2007	(9,746)	4.560	4.560
December 31, 2007	2,210,392	0.920-7.340	3.420

The outstanding options are summarized as follows:

Exercise price	Options outstanding		Vested options outstanding	
	Number	Weighted average remaining life	Number	Weighted average remaining life
4.56	673,134	17 months	221,383	17 months
5.25	6,000	17 months	2,000	17 months
7.34	302,568	29 months	-	-
3.00	18,390	34 months	-	-
1.82	1,189,300	38 months	-	-
0.92	21,000	39 months	-	-
	2,210,392	31.97 months	223,383	17.00 months

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15. Unit-based compensation (continued)

Contributed surplus attributed to Trust Unit options

	As at December 31,	
	2007	2006
	\$	\$
Opening balance	272	272
Compensation expense recognized for unit options during the year	396	272
Options exercised	(10)	(272)
Ending balance	658	272

As the Trust Unit options are exercised, the associated contributed surplus is reclassified to Trust Units (note 13).

Long-term incentive plan

In 2003, the Fund adopted a discretionary long-term incentive plan (the "Incentive Plan") for the 2003, 2004 and 2005 financial years in which trustees, directors, officers and employees (collectively the "Participants") were all eligible to participate.

Pursuant to the Incentive Plan, in February 2005, 36,390 Trust Units were purchased for \$518 for the benefit of 22 individuals of which 6,330 units had vested by December 31, 2005. The Compensation and Corporate Governance Committee determined that during the quarter ended March 31, 2006, all outstanding units vested to the participants and the Incentive Plan was replaced by the unit option plan discussed above. Consequently compensation expense of \$300 was recognized during the quarter ended March 31, 2006.

16. Accumulated other comprehensive loss

	As at December 31,	
	2007	2006
	\$	\$
Unrealized losses on translating financial statements of self-sustaining foreign operations	(39,403)	(15,930)
Gains on hedges of unrealized foreign currency translation, net of tax	26,399	8,576
	(13,004)	(7,354)

17. Financial expenses

	Quarter ended December 31,	
	2007	2006
	\$	\$
Interest and accretion on senior secured notes	2,010	1,745
Interest on bank indebtedness	886	421
Loss (gain) on interest rate swap	989	(86)
Other, net	2	8
	3,887	2,088

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17. Financial expenses (continued)

	Year ended December 31,	
	2007	2006
	\$	\$
Interest and accretion on senior secured notes	8,992	8,548
Interest on bank indebtedness	3,000	1,622
Net loss on interest rate swap	1,415	133
Other, net	8	24
	13,415	10,327

18. Income taxes

The provision for income taxes in the consolidated statement of operations and deficit reflects an effective rate that differs from the combined Canadian federal and provincial rates primarily as a result of lower taxes in foreign jurisdictions and valuation allowances taken against available tax losses.

The tax effects of temporary differences that give rise to the future tax assets and future tax liabilities are:

	As at December 31,	
	2007	2006
	\$	\$
Current future income tax assets:		
Accounts receivable, accounts payable and accrued liabilities	348	335
Inventory provisions	414	1,322
Valuation allowance	(762)	-
	-	1,657
Long-term future income tax liabilities:		
Property, plant and equipment	12,394	15,272
Withholding tax on foreign retained earnings	-	652
Tax benefits of loss carry-forwards	(27,765)	(3,831)
Valuation allowance	17,524	2,748
Other	(2,153)	1,244
	-	16,085

The benefits of these future tax loss carry-forwards expire between 2008 and 2027.

19. Other expenses and income

Research and development expenses amounted to \$56 and \$235 for the quarter and year ended December 31, 2007, respectively (2006 - \$64 and \$258). These expenses are included in cost of sales.

20. Obligations under operating leases

Future minimum payments under operating leases at December 31, 2007 are as follows:

	\$
2008	1,130
2009	860
2010	361
2011	119
2012	48
Thereafter	-
	2,518

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21. Employee benefit plans

The Fund sponsors a 401(K) retirement savings plan in the United States for all eligible employees and a registered defined contribution pension plan for all eligible Canadian employees. The Fund has no past service pension liabilities. Under these plans, contributions are made by plan members, with varying matching contributions from the Fund.

The total expense related to these plans was \$315 and \$1,525 for the quarter and year ended December 31, 2007, respectively (2006 - \$375 and \$1,579).

22. Segmented information

The Fund's operations fall into one reportable business segment. The Fund is principally engaged in the manufacture of wet pet food products, where it serves major customers on a North American basis. Geographic segment information is presented below.

Accounting policies relating to each geographic operating segment are identical to those used for the purposes of these consolidated financial statements. Intersegment sales are made at values that approximate those prevailing in the markets, less a distribution margin. The point of invoicing and the location of the assets determine the geographic areas.

	Quarter ended December 31,	
	2007	2006
	\$	\$
Sales		
Canada		
Domestic	11,849	13,315
Foreign	7,546	19,987
Intersegment transfers	2,670	3,297
	<hr/> 22,065	<hr/> 36,599
United States		
Domestic	37,225	57,131
Foreign	313	215
Intersegment transfers	11,074	25,256
	<hr/> 48,612	<hr/> 82,602
	70,677	119,201
Elimination of intersegment transfers	(13,744)	(28,553)
Discounts	(1,932)	(2,715)
	<hr/> 55,001	<hr/> 87,933

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22. Segmented information (continued)

	Year ended December 31,	
	2007	2006
	\$	\$
Sales		
Canada		
Domestic	41,087	48,403
Foreign	55,360	96,096
Intersegment transfers	10,116	13,486
	<hr/> 106,563	<hr/> 157,985
United States		
Domestic	155,030	222,433
Foreign	1,358	989
Intersegment transfers	66,709	118,870
	<hr/> 223,097	<hr/> 342,292
	329,660	500,277
Elimination of intersegment transfers	(76,825)	(132,356)
Discounts	(8,034)	(11,725)
	<hr/> 244,801	<hr/> 356,196

	As at December 31,	
	2007	2006
	\$	\$
Property, plant and equipment		
Canada	37,027	35,203
United States	97,142	125,005
	<hr/> 134,169	<hr/> 160,208
Less: Accumulated amortization	68,254	62,474
	<hr/> 65,915	<hr/> 97,734

Given the nature of the Fund's operations, goodwill relates to the Fund as a whole and cannot practicably be allocated on a geographic basis.

23. Financial instruments

Credit risk

The Fund, in the normal course of business, reviews significant new customers' credit history and financial statements before extending credit and performs regular reviews of its existing credit performance.

Foreign exchange and interest rate risks

The Fund generates significant cash flows in foreign currency and is therefore exposed to risks relating to foreign exchange fluctuations. It is also subject to risks relating to interest rate fluctuations. In order to reduce these risks, the Fund uses derivative financial instruments, which are not held or issued for speculative purposes.

As at December 31, 2007 and December 31, 2006 the Fund did not have any outstanding foreign currency forward contracts.

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23. Financial instruments (continued)

The Fund has fixed interest rates on a portion of its indebtedness (note 11). The marked-to-market value of the contract at December 31, 2007 resulted in an unrealized loss of \$1,415 (2006 - loss \$133), which is included in accounts payable and in interest expense during the period.

Fair value of financial instruments

The carrying values of cash, trade and other receivables, bank indebtedness, accounts payable and accrued liabilities and income taxes payable approximate their fair values because of the short-term nature of these instruments. The carrying value of long-term debt bearing interest at variable rates (note 11) approximates its fair value because effective rates represent the rates that would be used to calculate fair value.

24. Economic dependence

For the year December 31, 2007, the Fund has approximately 20.6%, 11.1% and 10.6% of its sales to its three largest customers. The largest of these customers discontinued purchasing products from the Fund effective October 9, 2007, while the third largest customer has indicated its intention to stop purchasing products from the Fund over the coming year. Other than these customers, the Fund does not have a significant exposure to any individual customer. The Fund relies on single suppliers for the majority of its can and pouch requirements. Should these suppliers fail to deliver in a timely manner, delays and/or shutdowns of the Fund's operations could result.