

Menu Foods Income Fund announces 2008 year end results

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Attention Business/Financial Editors:

Menu Foods Income Fund (TSX: MEW.UN) announced its financial results for the year ended December 31, 2008.

MESSAGE to UNITHOLDERS

We present, to unitholders of Menu Foods Income Fund, our report for the year ended December 31, 2008. The table below reports selected highlights of the year's results:

| | Year ended December 31, | |
|--|-------------------------|---------------|
| | 2008 | 2007 |
| | (\$ millions) | (\$ millions) |
| Sales | 260.6 | 244.8 |
| Loss before income taxes and the under noted: | (6.5) | (12.0) |
| Recall expenses | - | (52.1) |
| Goodwill impairment loss | - | (30.6) |
| Restructuring | (0.3) | (4.4) |
| Income tax recovery | - | 13.9 |
| Non-controlling interest | - | 23.1 |
| Net loss | <u>(6.8)</u> | <u>(62.1)</u> |

While the 2008 financial results for Menu still have room for significant improvement, I believe, in many respects, this has been a very successful year for the Fund, with adjusted EBITDA (see Note A) of \$23.1 million. Following the recall of 2007, we began 2008 uncertain as to whether or not consumers would once again purchase Menu-produced product. As each quarter passed throughout 2008, that uncertainty was diminished. During the final quarter of 2008 Menu enjoyed sales to its continuing customers that, in many instances, surpassed the volumes sold to those customers in the fourth quarter of 2006, the last year before the recall. Also during 2008 the Fund experienced input cost increases unlike anything we had experienced during the past 10 years or longer. In response Menu initiated three price increases to private-label customers, the first two following increases by the leading national brands, with the third increase in December 2008 initiated on our own. While margins were eroded during the periods of time between the cost increases and the effective dates of the price increases, Menu's ability to implement these price increases represents a major accomplishment for the Fund during very difficult times.

During 2008 Menu also saw substantive resolution of some of the lingering effects of the 2007 recall. Most importantly, Menu led the industry-wide global settlement of the Pet Food Multi-District litigation that received final court approval in Canada and the United States during the final quarter of the year. While currently in the process of appeal, Menu remains confident that the settlement will prevail and in doing so will allow pet owners affected by the 2007 pet food recalls to receive compensation for their losses. I look forward to final resolution of this matter, which will enable Menu to focus on continuing the significant progress that has been made on rebuilding our business.

Menu restructured its business, during 2008, in order to better match operations with the ongoing demands of our continuing customers. Today we operate from three plants rather than the four plants from which we operated prior to the recall. The continuing customers who were serviced from the location that was sold in 2007 were relocated to another of Menu's three plants. As a result of this restructuring, Menu's can capacity and the associated overhead were reduced, leaving Menu with an estimated 15% available capacity on cans, based upon sales mix in 2008. Menu also restructured its pouch capacity by decommissioning two of its five pouch fillers and reducing the running time of the remaining fillers. These changes were prompted by the dramatic decline in demand for the pouch product. In comparison to 2006, during 2008 the volume of pouches sold by Menu declined by 64.9%. More than two-thirds of this decline can be attributed to lost business, with the balance reflecting lower demand by consumers.

Late in 2008 the world was plunged into a global recession and credit crisis like none seen in the recent past. One study showed that during the 1982 recession the market share of private-label brands in the U.S. increased by three percentage points as compared to its 20-year average. While there can be no certainty that history will repeat itself, I believe that this current recession will again motivate consumers to increase their consumption of private-label products and that Menu's business, which is largely private-label, will be one of the beneficiaries of this change in purchasing patterns. In the fourth quarter of 2008, Menu witnessed a healthy increase in its volumes as compared to the prior three quarters, in part, we believe, because of a higher demand for private-label products. While January 2009 sales show a 14.8% increase in volume, as compared to January 2008, they were 4.5% less than the run rate during the fourth quarter of 2008, but still ahead of the average monthly rate for 2008. Only time can tell whether or not this increased demand for Menu's products will continue through the remainder of 2009.

As to the credit crisis, Menu continues to have the support of its lenders, as evidenced by the change in our lending agreements in December 2008. While Menu's Canadian dollar debt on a year-over-year basis shows an increase, most of this is due to the appreciation of the US dollar. Menu finished the year in compliance with its current lender agreements and, going forward, expects to be able to meet its ongoing obligations under these agreements. I believe that if we continue to meet these obligations, we will maintain the support of our lenders.

As noted above, one of the main challenges of 2008 was the significant escalation in the cost of raw materials, production and delivery costs. As we look into 2009 we note that certain of those costs have begun to retreat while many others continue to rise. It is impossible to predict with any accuracy how costs will react through the remainder of 2009. But based upon the first month of this year, we are optimistic that Menu's gross margin in 2009 will be less severely impacted by rising costs than it was in 2008.

We appreciate the continued support of our investors and I want to take this opportunity to thank our lenders, suppliers, customers and employees who are seeing us through these challenging times and who have already helped Menu to strengthen its business foundation. I look forward to reporting our first quarter results in May 2009.

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 year ended December 31, 2008

(All tabular amounts, except per unit amounts, expressed in thousands of Canadian dollars, unless otherwise noted)

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 18, 2009 and is supplementary to and should be read in conjunction with the audited consolidated financial statements for the years ended December 31, 2008 and 2007.

The Fund is the indirect owner of Menu Foods Limited ("Menu"), a 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.

The nature of the Fund's operations gives rise to only a few critical accounting estimates. The most significant accounts where such estimates might apply are accounts receivable, inventory, goodwill and recall costs. In the case of accounts receivable and inventory, required provisions and/or reserves are specific in nature. In the case of goodwill, impairment is assessed based on the estimated fair value of the business, determined by reference to the trading value of the Fund's units. Recall costs are estimated based upon the best information available to management at the time.

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, including risks related to dependence on key suppliers, economic conditions, competition, regulatory change, 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 Selected Annual Information

The following tables highlight selected comparative results:

| | For the year ended December 31, | | |
|---|---------------------------------|----------|---------|
| | 2008 | 2007 | 2006 |
| | \$ | \$ | \$ |
| Sales | 260,551 | 244,801 | 356,196 |
| (Loss) income before the under noted | (6,505) | (12,023) | 13,680 |
| Goodwill impairment loss | - | (30,615) | - |
| Product recall | - | (52,115) | - |
| Restructuring | (313) | (4,437) | - |
| Income taxes (recovery) | (6) | (13,923) | 3,551 |
| Net (loss) income before non-controlling interest | (6,812) | (85,267) | 10,129 |
| Net (loss) income | (6,812) | (62,129) | 6,430 |
| Basic net (loss) income per Trust Unit | (0.335) | (3.237) | 0.348 |
| Diluted net (loss) income per Unit | (0.335) | (3.237) | 0.348 |
| Total assets | 182,312 | 159,061 | 252,755 |
| Total long-term financial liabilities | 91,227 | 74,047 | 87,645 |
| Average US/Cdn exchange rate per Bank of Canada | 0.9371 | 0.9309 | 0.8816 |

Beginning on March 16, 2007, the Fund announced a series of recalls of a portion of the dog and cat food it manufactured between November 8, 2006 and March 7, 2007 (the "recall"). The recall primarily related to "cuts and gravy" style pet food in cans and pouches manufactured and sold under private-label and contract-manufactured for some national brands.

The Fund's investigation discovered that the timing of production associated with reported concerns and certain other events, coincided with the introduction of wheat gluten from a new supplier. Subsequent investigation has proved that the supplier's wheat gluten had in fact been adulterated with melamine and related compounds. Menu was the first of a number of companies within the pet food industry to recall product adulterated with melamine and related compounds in connection with one of the largest recalls in the industry's history. Menu, its competitors, its customers and consumers were all victims of a terrible fraud perpetuated on the pet food industry as a whole.

These recalls had a devastating effect on the Fund's performance during 2007. Direct costs attributed to the recall amounted to an estimated \$55 million. Immediately following the first recall announcement, many customers temporarily suspended purchases of certain of the Fund's products until they could determine an appropriate "back-to-market" strategy. Sales suffered, particularly in the second quarter, and only started to recover during the third quarter. In addition, by the third quarter of 2007, customers whose volume represented approximately 37% of sales in 2006 had advised the Fund that they would no longer be purchasing these products from Menu. As a consequence, the Fund needed to restructure to better align costs with its ongoing business operations and early in the fourth quarter announced a formal restructuring plan which had cost \$4.4 million by the end of 2007. Another by-product of the recall arose during the fourth quarter as the Fund wrote-down goodwill by \$30.6 million to reflect the value the marketplace was then ascribing to its units.

Against this back drop, it is virtually impossible to derive any meaningful trend analysis on a comparative basis. The performance in 2006 reflects a much different business than the one that operated during 2007 and 2008. Significant customers were lost in the interim, and important products, such as the pouch, diminished in importance. The specific sales lost as a result of the recalls will never be quantified. By late 2007 the Fund had begun the process of rebuilding its business. This continued in 2008 and, while some effects of the recall lingered, Menu has a much greater understanding of its ongoing business. This period of recovery is evaluated in more detail in the Summary of Quarterly Results which follows later in this Management's Discussion and Analysis.

Summary of Operations

The following table highlights selected comparative results:

| | For the year ended December 31, | |
|--|------------------------------------|----------|
| | 2008 | 2007 |
| | \$ | \$ |
| Sales | 260,551 | 244,801 |
| Cost of sales | 230,244 | 220,423 |
| Gross profit | 30,307 | 24,378 |
| Selling, general and administrative expenses | 22,266 | 22,986 |
| Income before the under noted | 8,041 | 1,392 |
| Product recall | - | 52,115 |
| Restructuring | 313 | 4,437 |
| Goodwill impairment loss | - | 30,615 |
| Financial expenses | 14,546 | 13,415 |
| Loss before income taxes and non-controlling interest | (6,818) | (99,190) |
| Current income taxes | (6) | 414 |
| Future income taxes | - | (14,337) |
| Total income taxes | (6) | (13,923) |
| Loss before non-controlling interest | (6,812) | (85,267) |
| Non-controlling interest of Class B Exchangeable Units | - | (23,138) |
| Net loss for the year | (6,812) | (62,129) |
| Average US/Cdn exchange rate per Bank of Canada | 0.9371 | 0.9309 |

Sales for the year ended December 31, 2008, were \$260.6 million, up 6.4% or \$15.8 million compared to last year. This increase is attributable to:

1. *Effect of Product Recall.* As a consequence of the product recall, sales returns were received or accrued during the quarter ended March 31, 2007. There were no such returns during the year ended December 31, 2008, resulting in increased sales on a comparative basis of \$14.3 million.
2. *Price and Cost Increases/Adjustments.* The impact of the price increases since the end of the first quarter of 2007 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 \$13.9 million.
3. *Effect of Change in Sales Volume.* A 5.4% decrease in volume resulting in a sales decrease of \$12.0 million primarily due to the business that was lost as a consequence of the recall.
4. *Foreign Exchange Effect on Sales.* While there were significant changes in the relative exchange rates of the Canadian dollar and the United States dollar during the year, on average the relationship was fairly consistent between 2008 and 2007, nominally reducing sales by approximately \$0.4 million.

Overall, excluding returns arising from the product recall, volume (expressed in cases of 24 cans or pouches) was down 5.4% compared to the year ended December 31, 2007. Can volume, which represented 87.2% of Menu's volume in the 2008 (85.6% in 2007), decreased by 3.7% (equating to a decrease in total volume of 3.2%). Similarly, in 2008, case sales of the pouch product, which represented 12.8% of total volume (14.4% in 2007), decreased by 15.9% (equating to a decrease in total volume of 2.2%) compared to 2007. As noted previously, the

pouch format, which is exclusively in the “cuts and gravy” style of product, was most significantly impacted by the recall.

During 2007, the Fund was advised that customers whose volume represented approximately 37% of sales in 2006 would no longer be purchasing these products from Menu. The largest portion of this loss of business occurred in 2007, while the balance was expected to be lost during 2008 and 2009. During the year ended December 31, 2008, volume to these customers decreased 75.7% as compared to the year ended December 31, 2007, which more than offset the 23.8% increase in volume to the Fund's continuing customers. Over this same period the significance of these lost customers has decreased as well, with their volumes accounting for only 7.5% of total volume in 2008 compared to 29.4% during 2007.

Gross profit increased by \$5.9 million (or 24.3%) for the year ended December 31, 2008, compared to the prior year. This increase 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 5.4%. This change in sales volume decreased gross profit by \$1.9 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. There were no recall related returns during 2008.
3. *Price and Cost Increases/Adjustments.* In February 2007, Menu followed a leading national brand manufacturer and announced a price increase on canned products sold to its United States private-label customers. This price increase was effective in the second quarter of 2007. During the first and third quarters of 2008, Menu followed the leading national brands and announced price increases to private-label customers that were implemented during the second and fourth quarters of 2008.

On a comparative basis to 2007, 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. However, during 2007 and particularly during the second quarter of 2007, lower sales translated to lower levels of production, which necessitated that the factory overhead associated with the Fund's production facilities had to be allocated over fewer cases, thereby increasing the cost of the Fund's inventory and, in turn, its cost of sales as that inventory was sold. During the fourth quarter of 2007, the Fund restructured its operations in order to better align its costs to its ongoing business. This restructuring had the effect of reducing production costs during 2008 as compared to 2007. These reduced costs of manufacturing, together with the selling price increases referred to above, as well as selling price increases to contract-manufacturing customers, more than offset the increases in input and other costs thereby increasing gross profit by \$5.5 million.

4. *Foreign Exchange Effect on Sales.* Changes in the relative exchange rates between the Canadian and United States dollar had the effect of reducing sales by approximately \$0.4 million and that translated into a reduction in gross profit of \$0.1 million for the year ended December 31, 2008.
5. *Increase in Amortization.* The additional amortization of capital projects completed in the past year, together with the impacts of changes in the relative exchange rates of the Canadian and United States dollars and \$0.2 million in depreciation on assets formerly classified as held for sale relating to 2007, was more than offset by the amortization associated with fully depreciated assets, the increase in finished goods inventory during 2008 and the amortization saved as a consequence of last year's restructuring by the Fund, resulting in approximately \$2.0 million less amortization associated with production assets than in 2007. However, this comparative decrease was more than offset by the fact that

during 2007 approximately \$2.5 million in amortization, that had been capitalized in inventory, was written off as part of the Fund's recall and restructuring initiatives and did not impact cost of sales, resulting in a net increase in amortization of \$0.5 million.

Selling, general and administrative expenses for the year ended December 31, 2008 decreased by \$0.7 million compared to the prior year. Foreign exchange losses on the United States dollar exposure in working capital in Menu's Canadian operations, most of which are unrealized, increased by about \$4.9 million compared to last year. Bonus expense, which was negligible in 2007 due to the recall, increased by \$1.0 million, compared to 2007. Amortization was \$1.2 million less than in 2007, largely as a result of the reduction in amortization associated with fully-amortized assets during the period and resulting from the sale of the South Dakota facility exceeding amortization associated with newly acquired assets being put into service. Savings resulting from the Fund's restructuring initiatives announced on October 10, 2007 (including the sale of its production facility in North Sioux City, South Dakota) accounted for the majority of the remaining \$5.6 million decrease in selling, general and administrative expenses, relative to 2007.

During 2007, management estimated that the total costs associated with the recall would approximate \$55 million. This estimate principally comprised product collection, write off and disposal costs of \$46.5 million, the lost margin on returned product of \$2.9 million discussed above, \$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 this difficult process.

As a result of the recalls and the accompanying loss of customers during 2007, the Fund had to restructure its operations to better align them with its ongoing business. This resulted in \$4.4 million in restructuring and related charges being expensed during 2007. Some of these initiatives continued into 2008, with a further \$0.3 million being expensed.

A further consequence of the recalls was that during the fourth quarter of 2007 and into 2008 the Fund's units were trading at lower than their book value. Accordingly, the application of GAAP identified 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 was a non-cash item and did 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. Similar application of GAAP in 2008 did not identify any further impairment in the carrying value of goodwill.

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 \$55.0 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 \$19.2 million for the year ended December 31, 2007. This compares to adjusted EBITDA of \$23.1 million (adjusted for restructuring and related expenses) for the year ended December 31, 2008, an increase of \$3.9 million (or 20.4%) over 2007.

Since the majority of the Fund's business is transacted in United States dollars, any change in the relationship between the Canadian dollar and the United States dollar impacts 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 \$0.44 million and Distributable Cash (see Note A) by approximately \$0.325 million, on an annual basis. Menu estimates that the strengthening of the Canadian dollar during 2008 versus 2007 reduced EBITDA by approximately \$0.3 million and Distributable Cash by approximately \$0.2 million.

Amortization (which is included in cost of sales and SG&A expense and in recall and restructuring expense) in 2008 was \$3.2 million less than in 2007. This decrease is directly attributable to the comparative impacts of the recall and restructuring initiatives, and fully amortized assets, offset by the additional amortization in 2008 on the \$3.0 million of capital expenditures made during the

year ended December 31, 2008 together with the full period amortization of the \$4.0 million of capital expenditures made during the year ended December 31, 2007.

Financial expenses were \$1.1 million more in 2008 than in 2007. The Fund recorded a loss of almost \$2.3 million on interest rate swaps during 2008 compared to a loss of \$1.4 million last year. Excluding the effect of accounting for the interest rate swaps, interest expense increased by \$0.7 million, reflecting both the higher interest rates and the higher amounts borrowed this year. Offsetting this comparative increase, the amendments to the Agreements with the Fund's Lenders were such that under GAAP, for accounting purposes, they resulted in a settlement of the original senior secured notes facility. As a consequence, during the first half of 2007 it was necessary to write off \$1.1 million in costs associated with the establishment of the original facility. The Fund amortized almost \$0.5 million more in deferred commitment fees during the year ended December 31, 2008, than during 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 year-to-year, depending on the taxing jurisdiction and the legal structure in which the income is earned. Since the Fund has approximately \$92.5 million in available tax losses it is not expecting to pay any current income taxes for the foreseeable future. A valuation allowance has been provided against the benefits of almost all of these losses.

Loss before non-controlling interest of Class B Units for the year ended December 31, 2008, was \$6.8 million, compared to a loss of \$85.3 million for the year ended December 31, 2007.

Summary of Quarterly Results

The following table highlights quarterly comparative results:

| | Dec 31, 2008 | Sep 30, 2008 | Jun 30, 2008 | For the Quarter Ended | | Sep 30, 2007 | Jun 30, 2007 | Mar 31, 2007 |
|---|-----------------|-----------------|-----------------|-----------------------|-----------------|-----------------|-----------------|-----------------|
| | | | | Mar 31, 2008 | Dec 31, 2007 | | | |
| Sales | \$83,015 | \$61,625 | \$60,330 | \$55,581 | \$55,001 | \$78,050 | \$47,244 | \$64,506 |
| Cost of sales | \$73,018 | \$55,533 | \$53,591 | \$48,102 | \$49,743 | \$70,472 | \$43,461 | \$56,747 |
| Gross profit | \$9,997 | \$6,092 | \$6,739 | \$7,479 | \$5,258 | \$7,578 | \$3,783 | \$7,759 |
| Selling, general and administrative expenses | \$7,735 | \$5,091 | \$4,582 | \$4,858 | \$6,029 | \$5,030 | \$5,561 | \$6,366 |
| Product recall | - | - | - | - | - | \$11,086 | \$1,914 | \$39,115 |
| Restructuring and related expenses | \$131 | \$10 | \$70 | \$102 | (\$11,452) | \$15,889 | - | - |
| Goodwill impairment | - | - | - | - | \$30,615 | - | - | - |
| Financial expenses | \$5,400 | \$3,100 | \$1,347 | \$4,699 | \$3,887 | \$4,393 | \$1,853 | \$3,282 |
| Income taxes | \$25 | (\$60) | \$5 | \$24 | \$85 | \$481 | (\$74) | (\$14,415) |
| Income (loss) before non-controlling interest | (\$3,294) | (\$2,049) | \$735 | (\$2,204) | (\$23,906) | (\$29,301) | (\$5,471) | (\$26,589) |
| Net income (loss) | (\$3,294) | (\$2,049) | \$735 | (\$2,204) | (\$21,723) | (\$19,295) | (\$3,602) | (\$17,509) |
| Net income (loss) per Trust Unit | | | | | | | | |
| Basic (\$) | (\$0.162) | (\$0.101) | \$0.036 | (\$0.108) | (\$1.113) | (\$1.011) | (\$0.189) | (\$0.918) |
| Diluted (\$) | (\$0.162) | (\$0.101) | \$0.036 | (\$0.108) | (\$1.113) | (\$1.011) | (\$0.189) | (\$0.918) |
| Weighted average number of Trust Units outstanding ('000's) | | | | | | | | |
| Basic | 20,362 | 20,362 | 20,362 | 20,362 | 19,516 | 19,087 | 19,087 | 19,081 |
| Diluted | 28,984 | 28,989 | 28,989 | 28,984 | 28,984 | 28,984 | 28,984 | 29,245 |
| Exchange rate – US\$ ⁽¹⁾ | \$0.8249 | \$0.9600 | \$0.9901 | \$0.9955 | \$1.0184 | \$0.9571 | \$0.9104 | \$0.8535 |

⁽¹⁾ Average 3-month rate per Bank of Canada

During the eight quarters ended December 31, 2008 it is important to note the following:

With respect to 2007:

1. The first product recall was announced on March 16, 2007. 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. During the quarter ended March 31, 2007 the recall reduced sales by \$14.3 million and costs associated with the recall reduced income before non-controlling interest by \$42.0 million.
2. By contrast, the Fund only expensed \$1.9 million in recall related expenses during the second quarter of 2007. However, 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.
3. During the second and third quarters of 2007, the Fund was advised that customers whose volume represented approximately 37% of sales in 2006 would no longer be purchasing these products from Menu. The effects of this lost business were 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 in 2008 or expected to be lost in 2009.
4. 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.
5. Management believes that a portion of the demand in the third quarter of 2007 was attributable 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.
6. By the third quarter of 2007, management revised their estimate of the total costs of the recall to \$55 million and, accordingly, expensed a further \$11.1 million in recall related costs.
7. As a consequence of the recall, the Fund had to restructure to better align costs with its ongoing business operations. The restructuring initiatives took several forms and under GAAP, depending upon their nature, would be recognized in 2007 or in 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 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 continued into 2008.

8. Another by-product of the recalls was the need to write-down goodwill by \$30.6 million to reflect the value the marketplace is ascribing to the Fund's units. This write-down was reflected in the fourth quarter of 2007.

With respect to 2008:

Sales in the fourth quarter of 2007 were considered to be more indicative of recurring volumes. Accordingly, management believes that the trend since that time is most relevant in evaluating how Menu has recovered from the impacts of the recall in 2007.

Quarter ended March 31, 2008 compared to the quarter ended December 31, 2007

Sales for the quarter ended March 31, 2008 were \$55.6 million, up \$0.6 million or 1.0% compared to the fourth quarter in 2007. This increase is attributable to:

1. *Effect of Change in Sales Volume.* A 3.4% decrease in volume resulting in a sales decrease of \$1.7 million. Most of this decrease results from a 59.2% decline in volume sold to customers who had advised the Fund during 2007 that they would no longer be purchasing from Menu. The remaining volume to these customers will be lost throughout 2008 and into 2009. Volume to continuing customers increased by 12.6%.
2. *Price and Cost Increases/Adjustments.* 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 \$1.3 million.
3. *Foreign Exchange Effect on Sales.* The strengthening of the United States dollar relative to the Canadian dollar had the effect of increasing sales by \$1.0 million relative to the fourth quarter in 2007.

Gross profit increased by \$2.2 million or 42.2% during the quarter ended March 31, 2008 compared to the fourth quarter of 2007. This increase is attributable to:

1. *Effect of Change in Sales Volume.* As previously noted, total volume during the first quarter of 2008 decreased by 3.4%. This change in sales volume decreased gross profit by \$0.3 million.
2. *Price and Cost Increases/Adjustments.* On a comparative basis to the fourth quarter in 2007, the increase in costs of certain inputs to production, including raw and packaging materials and labour and benefits, lead to higher cost of sales. However, as the Fund has returned to more normal levels of production during the quarter ended March 31, 2008 it began to realize more typical operating efficiencies and, accordingly, reduced factory overhead. The increased costs and other variables were more than offset by the selling price increases to contract-manufacturing customers and the improved operating efficiencies, increasing gross profit by \$2.1 million.
3. *Foreign Exchange Effect on Sales.* The strengthening of the United States dollar relative to the Canadian dollar during the quarter had the effect of increasing sales by approximately \$1.0 million and that translated into an increase in gross profit of \$0.2 million for the quarter ended March 31, 2008.
4. *Decrease in Amortization.* The amortization of capital projects completed in the past year was more than offset by the effect of fully amortized assets, resulting in a decrease in total amortization. Furthermore, higher finished goods inventory levels resulted in more

amortization being included in inventory as part of factory overhead costs rather than expensed as part of cost of sales. Taken together, this resulted in a decrease in amortization included in the cost of sales of \$0.2 million versus the fourth quarter in 2007.

Selling, general and administrative expenses for the quarter ended March 31, 2008 decreased by \$1.2 million compared to the fourth quarter in 2007. This improvement was largely attributed to savings resulting from the Fund's restructuring initiatives announced on October 10, 2007 (including the sale of its production facility in North Sioux City, South Dakota), which became fully effective during the first quarter of 2008.

Financial expenses were \$0.8 million higher during the quarter ended March 31, 2008 than in the fourth quarter of 2007. The Fund recorded a loss of \$1.7 million on interest rate swaps during the first quarter of 2008 compared to a loss of \$1.0 million in the fourth quarter last year. Excluding the effect of the accounting for the interest rate swaps, on a comparative basis, interest expense increased by \$0.1 million during the quarter.

Quarter ended June 30, 2008 compared to the quarter ended March 31, 2008

Sales for the quarter ended June 30, 2008 were \$60.3 million, up \$4.7 million or 8.5% compared to the first quarter in 2008. This increase is attributable to:

1. *Effect of Change in Sales Volume.* A 4.2% increase in volume resulting in a sales increase of \$2.7 million. Volume to continuing customers increased by 6.3% while volume sold to customers who had advised the Fund during 2007 that they would no longer be purchasing from Menu declined by 15.7%, continuing the trend noted in the first quarter of 2008.
2. *Price and Cost Increases/Adjustments.* The impact of the price increase to private-label customers that was implemented during the second quarter of 2008 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 \$1.7 million.
3. *Foreign Exchange Effect on Sales.* The strengthening of the United States dollar relative to the Canadian dollar during the quarter had the effect of increasing sales by \$0.3 million relative to the first quarter in 2008.

Gross profit decreased by \$0.7 million or 9.9% during the quarter ended June 30, 2008 compared to the first quarter of 2008. This decrease is attributable to:

1. *Effect of Change in Sales Volume.* As previously noted, total volume during the second quarter of 2008 increased by 4.2%. This change in sales volume increased gross profit by \$0.4 million.
2. *Price and Cost Increases/Adjustments.* On a comparative basis to the first quarter in 2008, the increase in costs of certain inputs to production, particularly raw and packaging materials, have led to higher cost of sales. Furthermore, in order to reduce inventories and bank indebtedness the Fund reduced production with a resultant impact on operating efficiencies and an increase in factory overhead per case. These increased costs and other variables were only partially offset by the price increase to private-label customers and the selling price increases to contract-manufacturing customers, decreasing gross profit by \$0.7 million.
3. *Foreign Exchange Effect on Sales.* The strengthening of the United States dollar relative to the Canadian dollar during the quarter had the effect of increasing sales by approximately \$0.3 million and that translated into a nominal increase in gross profit for the quarter ended June 30, 2008.

4. *Increase in Amortization.* The reduction in finished goods inventory levels during the quarter resulted in less amortization of capital assets being included in inventory as part of factory overhead costs, and more being expensed as part of cost of sales. This contrasts with the first quarter, during which finished goods inventory levels increased resulting in less amortization of capital assets being expensed to cost of sales and more being included in the cost of inventory. The net effect was an increase in the amortization associated with the cost of sales of \$0.4 million versus the first quarter in 2008.

Selling, general and administrative expenses for the quarter ended June 30, 2008 decreased by \$0.3 million compared to the first quarter in 2008. This decrease can be attributed to a number of small decreases across a variety of expense categories.

Financial expenses were \$3.4 million lower during the quarter ended June 30, 2008 than in the first quarter of 2008. The Fund recorded a gain of \$1.5 million on interest rate swaps during the second quarter of 2008 compared to a loss of \$1.7 million in the first quarter this year. Excluding the effect of the accounting for the interest rate swaps, on a comparative basis, interest expense decreased by \$0.2 million during the quarter.

Quarter ended September 30, 2008 compared to the quarter ended June 30, 2008

Sales for the quarter ended September 30, 2008 were \$61.6 million, up \$1.3 million or 2.1% compared to the second quarter in 2008. This increase is attributable to:

1. *Foreign Exchange Effect on Sales.* The strengthening of the United States dollar relative to the Canadian dollar during the quarter had the effect of increasing sales by \$1.5 million relative to the second quarter in 2008.
2. *Effect of Change in Sales Volume.* A 0.1% decrease in volume resulting in a sales decrease of \$0.1 million. Volume to continuing customers increased by 0.2% while volume sold to customers who had advised the Fund during 2007 that they would no longer be purchasing from Menu declined by 3.7%, continuing the trend noted in the first and second quarters of 2008.
3. *Price and Cost Increases/Adjustments.* The full quarter impact of the price increase to private-label customers that was implemented during the second quarter of 2008 and the effect of pricing adjustments to pass through cost increases to Menu's contract-manufacturing customers were offset by changes to sales mix and other variables, with the effect of decreasing sales by \$0.1 million.

Gross profit decreased by \$0.6 million or 9.6% during the quarter ended September 30, 2008 compared to the second quarter of 2008. This decrease is attributable to:

1. *Price and Cost Increases/Adjustments.* On a comparative basis to the second quarter in 2008, the continued increase in costs of certain inputs to production, particularly raw and packaging materials, has led to higher cost of sales. This ongoing trend has resulted in the Fund implementing a price increase effective during the fourth quarter of 2008. These increased input costs, together with other variables, more than offset the full quarter impact of the price increase to private-label customers and the selling price increases to contract-manufacturing customers, decreasing gross profit by \$1.0 million.
2. *Foreign Exchange Effect on Sales.* The strengthening of the United States dollar relative to the Canadian dollar during the quarter had the effect of increasing sales by approximately \$1.5 million and that translated into a \$0.2 million increase in gross profit for the quarter ended September 30, 2008.

3. *Decrease in Amortization.* Similar to the first quarter, the increase in finished goods inventory levels has resulted in less amortization of capital assets being expensed to cost of sales and more being included in the cost of inventory. The net effect was a decrease in the amortization associated with the cost of sales of \$0.2 million versus the second quarter in 2008.
4. *Effect of Change in Sales Volume.* As previously noted, total volume during the third quarter of 2008 decreased by 0.1%. This change in sales volume had a negligible impact on gross profit.

Selling, general and administrative expenses for the quarter ended September 30, 2008 increased by \$0.5 million compared to the second quarter in 2008, in large part due to additional costs associated with expanded public company disclosure requirements, together with an increase in foreign exchange losses on the United States dollar exposure in working capital in Menu's Canadian operations.

Financial expenses were \$1.8 million higher during the quarter ended September 30, 2008 than in the second quarter of 2008. The Fund recorded a loss of \$0.1 million on interest rate swaps during the third quarter compared to a gain of \$1.5 million during the second quarter of 2008. Excluding the effect of the accounting for the interest rate swaps, on a comparative basis, interest expense increased by \$0.2 million, due primarily to the strengthening of the United States dollar relative to the Canadian dollar during the quarter.

Quarter ended December 31, 2008 compared to the quarter ended September 30, 2008

Sales for the quarter ended December 31, 2008 were \$83.0 million, up \$21.4 million or 34.7% compared to the third quarter in 2008. This increase is attributable to:

1. *Foreign Exchange Effect on Sales.* The strengthening of the United States dollar relative to the Canadian dollar during the quarter had the effect of increasing sales by \$12.0 million relative to the third quarter in 2008.
2. *Effect of Change in Sales Volume.* A 10.6% increase in volume resulting in a sales increase of \$6.4 million. Volume to continuing customers increased by 12.2% while volume sold to customers who had advised the Fund during 2007 that they would no longer be purchasing from Menu declined by 8.5%, continuing the trend noted in the first three quarters of 2008.
3. *Price and Cost Increases/Adjustments.* The impact of the price increase to private-label customers that was implemented during the fourth quarter of 2008 and the effect of pricing adjustments to pass through cost increases to Menu's contract-manufacturing customers more than offset the changes to sales mix and other variables, having the net effect of increasing sales by \$3.0 million.

Gross profit increased by \$3.9 million or 64.1% during the quarter ended December 31, 2008 compared to the third quarter of 2008. This increase is attributable to:

1. *Effect of Change in Sales Volume.* As noted above, total volume during the fourth quarter of 2008 increased by 10.6%. This change in sales volume increased gross profit by \$1.1 million.
2. *Price and Cost Increases/Adjustments.* On a comparative basis to the third quarter in 2008, the continued increase in costs of certain inputs to production, particularly raw and packaging materials, has led to higher cost of sales. This ongoing trend resulted in the Fund implementing a price increase effective during the fourth quarter of 2008. This price increase and the selling price increases to contract-manufacturing customers, together with the benefit of higher volume leveraged against the fixed overhead and other

variables, more than offset the increased input costs, increasing gross profit by \$2.2 million.

3. *Foreign Exchange Effect on Sales.* The strengthening of the United States dollar relative to the Canadian dollar during the quarter had the effect of increasing sales by approximately \$12.0 million and that translated into a \$1.9 million increase in gross profit for the quarter ended December 31, 2008.
4. *Increase in Amortization.* The change in categorization of certain held-for-sale assets back into Property, Plant and Equipment resulted in an increase in amortization of \$1.2 million. In addition, the strengthening of the United States dollar relative to the Canadian dollar also increased the amount of amortization expensed. The net effect was an increase in the amortization associated with the cost of sales of \$1.3 million versus the third quarter in 2008.

Selling, general and administrative expenses for the quarter ended December 31, 2008 increased by \$2.6 million compared to the third quarter in 2008, in large part due to an increase of \$2.1 million in foreign exchange losses on the United States dollar exposure in working capital in Menu's Canadian operations, most of which is unrealized. In addition, as a consequence of the Fund's performance during the quarter, the bonus expense increased by \$0.6 million.

Financial expenses were \$2.3 million higher during the quarter ended December 31, 2008 than in the third quarter of 2008. The Fund recorded a loss of \$2.0 million on interest rate swaps during the fourth quarter compared to a loss of \$0.1 million during the third quarter of 2008. Excluding the effect of the accounting for the interest rate swaps, on a comparative basis, interest expense increased by \$0.4 million, due primarily to the strengthening of the United States dollar relative to the Canadian dollar during the quarter.

These summary comments should be read in conjunction with the Management's Discussion and Analysis filed for each of the indicated quarters.

Liquidity

During the year ended December 31, 2008, the Fund generated cash flow from operations of \$11.2 million. This amount was decreased by \$9.6 million as a result of changes in non-cash working capital items. Specifically, inventories increased by \$7.4 million, accounts receivable increased by \$1.9 million, accounts payable and accrued liabilities decreased by \$0.8 million and income taxes and prepaid expenses declined by \$0.6 million and increased by \$0.1 million respectively. The increase in accounts receivable reflects the increase in sales due to higher volumes, price increases taken during the year, the strengthening of the United States dollar relative to the Canadian dollar as well as the timing of sales near the end of the year. Inventories have been increased to improve service levels by better matching inventory to recent customer demand as well as to reflect management's decision to increase finished goods inventory in advance of scheduled maintenance that took down one plant for the first week of 2009. In addition, the change in inventory reflects the increased cost of raw and packaging materials as compared to costs at December 31, 2007 and the strengthening of the United States dollar relative to the Canadian dollar. The monitoring of inventory levels remains a priority for the Fund. The changes to accounts payable and accrued liabilities reflects the recall and restructuring related disbursements made during the year offset by the increase in the provision for interest rate swaps, the higher cost of raw and packaging inventory and other transactions recorded during the year. The changes in prepaid expenses and income taxes reflect the timing of transactions during the year.

No distributions were declared during 2008.

On May 14, 2007, the Fund reached an 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 the non-revolving US\$85 million senior secured notes facilities and increased the bank facility by US\$20 million (the "New Facility"). 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 was reduced by US\$2.5 million on each of September 30, 2007, October 19, 2007 and March 31, 2008 and was to be further reduced by US\$2.5 million on each of June 30, 2008, September 30, 2008, December 31, 2008, March 31, 2009 and June 30, 2009 at which time the additional US\$20 million facility would have been extinguished. During June 2008 the Fund agreed with its lenders to defer the reductions due on June 30, 2008 and September 30, 2008 until December 31, 2008, at which time the reductions in respect of the last three quarters of 2008 would have still aggregated to US\$7.5 million. In December 2008 the Fund agreed with its lenders to further modify this arrangement such that the facility was reduced by US\$0.5 million on December 31, 2008 (instead of the scheduled US\$7.5 million) and will be reduced by US\$3.0 million on each of March 31, 2009, June 30, 2009, September 30, 2009 and December 31, 2009, by which time the additional US\$20 million facility will have been extinguished. On December 31, 2008 the Fund had drawn or committed US\$31.0 (\$37.7) million of the US\$42.0 million bank facility.

As at December 31, 2008 the Fund had a working capital deficiency of \$7.8 million (December 31, 2007: \$18.3 million). This deficiency arose as a result of the \$55 million in recall related expenses incurred in 2007, which were funded by bank indebtedness and working capital management. Cash flow from operations, the expected proceeds from the sale of assets and working capital management, is expected to be sufficient to remedy the working capital deficiency over time.

Cash flow from operations, together with the remaining unutilized bank facilities, the expected proceeds from the sale of assets still available for sale and working capital management, is expected to be sufficient to fund Menu's normal, ongoing operating requirements and maintenance capital expenditures. The Fund's US\$30 million revolving operating facility expires on June 30, 2009. Management expects to be able to renew this facility at that time on terms and conditions acceptable to the Fund.

Various legal actions and investigations have been commenced against the Fund as a consequence of the product recall. A number of product liability class action lawsuits were commenced in the United States and Canada, over 100 of which were consolidated in what is known as the pet food multi-district litigation. On October 14, 2008, the United States District Court for the District of New Jersey (the "U.S. Court") issued an oral order giving final approval of the cross-border settlement agreement in the pet food multi-district litigation (the "Settlement Agreement"). On November 3, 2008 there was a simultaneous hearing for final approval in the various Canadian courts (the "Canadian courts"). Formal final approval of the U.S. Court was given on November 19, 2008, and final approval of the Canadian courts was provided on November 27, 2008. Two appeals have been filed from the order of the U.S. Court approving the Settlement Agreement. It is uncertain how long these appeals will take to resolve. No appeals have been filed in Canada and the time for filing an appeal has passed. However, the Settlement Agreement requires the appeals in the United States to be finally determined prior to any payments to claimants, and therefore settlement payments to pet owners in both the United States and Canada will be delayed until the appeals have been resolved. The Settlement Agreement would resolve more than 100 class action lawsuits filed in the U.S. and Canadian courts and is binding on all members of the settlement class, except for the 114 individuals who have validly opted out of the settlement and who thereby retain their individual claim against one or more of the defendants including Menu. Menu's contribution to the settlement fund is within the \$55 million estimate of recall costs.

Other actions and investigations remain outstanding, and it is possible that additional actions or investigations may arise in the future. The Fund may be required to expend significant amounts and to devote considerable management time to these matters. It is not possible to predict the amount of such expenses, the resolution of such 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 exceed management's estimates of \$55 million and \$5.4 million, respectively, the Fund may need to obtain consent from its lenders and/or additional credit facilities, although there can be no assurances that such consents or facilities would be provided or available.

In common with most other companies, recent events in the world credit markets and the world economy could have a significant impact on the Fund going forward. Due to changes in credit markets, terms and conditions and interest rates applicable to the renewal of the Fund's revolving operating facility may change from the existing facility, but it is not possible to predict the nature or extent of such changes. Conditions in credit markets and the economy generally could adversely affect Menu's customers. To date management believes these developments have not had a significant adverse impact on either sales volumes or the creditworthiness of Menu's customers, but it is possible that adverse effects could arise in the future. In addition, if the strengthening of the United States dollar relative to the Canadian dollar which occurred during the fourth quarter of 2008, continues, it would have a positive impact on EBITDA, Distributable Cash and net assets. The Fund estimates that on an annual basis, each change of \$0.01 in the cost of the Canadian dollar changes EBITDA by \$0.44 million and Distributable Cash by \$0.325 million.

The following table highlights the Fund's contractual obligations as at December 31, 2008:

| Contractual Obligations | Payments Due by Period | | | | |
|-------------------------------|------------------------|---------------------|-----------------|----------------|------------------|
| | Total | Less than 1 year | 1 to 3 years | 4 to 5years | After 5 years |
| | \$ | \$ | \$ | \$ | \$ |
| Senior secured notes | 108,189 | 9,109 | 99,080 | -- | -- |
| Bank indebtedness | 38,026 | 38,026 | -- | -- | -- |
| Letter of credit | 895 | 895 | -- | -- | -- |
| Operating leases | 1,426 | 758 | 609 | 59 | -- |
| Purchase obligations | 3,106 | 3,106 | -- | -- | -- |
| Total contractual obligations | 151,642 | 51,894 | 99,689 | 59 | -- |

The senior secured notes and bank indebtedness obligations also reflect interest arising at the currently prevailing rates. Purchase obligations reflect contractual commitments to suppliers of a portion of the gas and electricity needs of the Fund's manufacturing facilities.

Capital Resources

During the twelve months ended December 31, 2008, Menu spent \$2.7 million, net of the proceeds of sale, 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, 2008, were financed from the cash flow of the business. These maintenance capital expenditures were over and above the \$9.9 million (2007 - \$11.9 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. Management estimates that maintenance capital expenditures between \$2.0 million and \$3.0 million are necessary to maintain Menu's current production capacity. Capital expenditures of a growth nature totalled \$1.3 million for the year.

Off-Balance Sheet Arrangements

The Fund is not party to any contractual arrangements under which an unconsolidated entity may have any obligation under certain guaranteed contracts, a retained or contingent interest in assets transferred to an unconsolidated entity or similar arrangement that serves as credit, liquidity or market risk support to that entity for such assets. Except as discussed under Financial Instruments, the Fund has no obligations under derivative instruments, or a material variable interest in an unconsolidated entity that provides financing, liquidity, market risk or credit risk support or engages in leasing, hedging or research and development services with the Fund.

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 and that information required under securities legislation is recorded, processed, summarized and reported in a timely manner. Furthermore, they must also certify that they have evaluated, or caused them to be evaluated under their supervision, the operating effectiveness of the Fund's disclosure controls and procedures.

As at December 31, 2008, the Fund's management, under the supervision of, and with the participation of, the CEO and CFO evaluated the effectiveness of the design and operation of the disclosure controls and procedures. Based on this evaluation, the CEO and CFO have concluded that as at December 31, 2008, the Fund's disclosure controls and procedures were operating effectively.

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.

As at December 31, 2008, the Fund's management, under the supervision of, and with the participation of, the CEO and CFO evaluated the effectiveness of the design and operation of the controls over financial reporting. No material weaknesses in these controls over financial reporting were identified. Based on this evaluation, the CEO and CFO have concluded that as at December 31, 2008, the Fund's controls over financial reporting were operating effectively.

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.

During the third quarter of 2008, management enacted a change to internal controls that could materially affect, or could be reasonably considered to materially affect, the internal controls over financial reporting. Specifically, the Fund is undertaking, on a company-wide basis, a software conversion to a new inventory tracking system which better integrates with the Fund's existing enterprise system. Eventually this system will be used to track both finished goods and raw materials and packaging inventories. During the third and fourth quarters of 2008 this system was implemented, in respect of finished goods, in the Fund's Canadian and one United States plant, respectively. During the first quarter of 2009 this system will be implemented, in respect of finished goods, in the Fund's remaining United States plant. Once this conversion is successfully

completed it is expected that a similar staged implementation will be undertaken with respect to raw materials and packaging inventories. This change arises from the Fund's ongoing efforts to improve the efficiency and effectiveness of its internal controls.

Critical Accounting Estimates

In preparing the Fund's consolidated financial statements, management is required to make estimates and assumptions based on information available as of the date of the consolidated financial statements that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities as of the date of the consolidated financial statements, and revenues and expenses for the periods reported. Notwithstanding that management applies judgement based on assumptions believed to be reasonable in the circumstances, actual results can vary from these assumptions. It is possible that materially different results could be reported if different assumptions were used.

The most significant of these estimates relate to the collectibility of accounts receivable; the valuation of inventory and goodwill; and the final costs of the product recall.

Accounts Receivable

Credit worthiness is assessed both at the commencement of the business relationship and on a regular basis thereafter. Should management consider, based upon historical trends or current developments, the recoverability of any account to be in doubt, appropriate reserves are established and the ongoing business relationship monitored closely.

Inventory

Inventory is valued at the lower of cost and net realizable value. Inventory reserves are established whenever management believes the recoverability of the carrying value of the inventory to be in doubt.

Goodwill

Goodwill is valued at the lower of cost and net realizable value and is not amortized. The Fund reviews goodwill on an annual basis or at any other time when events or changes arise that suggests an impairment of the carrying value. Impairment is recognized when the estimated fair value of the goodwill is lower than its carrying value. Since the Fund operates as one reporting unit, the trading value of the Fund's units is used to establish the fair value of the Fund, which is then compared to the fair value of the other net assets to derive a residual value for goodwill.

Product recall

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.

Lawsuits have been initiated against the Fund and certain of its subsidiaries in the United States and in Canada relating to the recall, some of which remain outstanding in the United States as they are not resolved by the Settlement Agreement. 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.

Financial Instruments and Other Instruments

Credit Risk

No single customer accounts for more than 10% of sales, so the Fund does not have a significant exposure to any individual customer. The Fund, in the normal course of business, reviews each new customer's credit history and available financial information before extending credit and performs regular reviews of its existing credit performance.

Foreign Exchange Risks

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

As at December 31, 2008 and 2007, the Fund did not have any outstanding foreign currency forward contracts.

Interest Rate Risks

During the first quarter of 2006, the Fund fixed interest rates at 5.35% plus the applicable spread, at the time, of 1.55% on US\$50 million through to October 2010. The marked-to-market value of the contract as at December 31, 2008 resulted in an unrealized loss of \$2,320 (2007 – \$426), which was charged to financial expenses during the year. The cumulative unrealized loss on the interest rate swap is \$3,868 (2007 - \$1,548) and is included in accounts payable and accrued liabilities.

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 near term nature of these instruments. The carrying value of long-term debt bearing interest at variable rates approximates its fair value because effective rates represent the rates that should be used to calculate fair value.

The carrying value of long-term debt bearing interest at a fixed rate approximates its fair value.

Outstanding Units

The following table highlights the number of Units outstanding:

| | Trust Units | Class B Exchangeable Units |
|---|-------------|----------------------------------|
| 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 31, 2007 and 2008 | 20,361,654 | 8,622,589 |

During the year ended December 31, 2007, 390,156 unit options with an exercise price of \$7.34 were granted to 47 employees; 18,390 unit options with an exercise price of \$3.00 were granted to one employee; 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 year 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 year ended December 31, 2007, 9,746 options with an exercise price of \$4.56 were exercised by one employee.

During the year ended December 31, 2008; 27,900 unit options, with an exercise price of \$1.35 were granted to five employees, 21,000 unit options with an exercise price of \$1.10 were granted to one employee, 15,300 unit options, with an exercise price of \$1.37 were granted to three employees. All options granted during 2008 vest in equal annual amounts over three years and will expire 39 months after the day they were granted. During the year ended December 31, 2008, 63,000 unit options with an exercise price of \$4.56; 37,200 unit options with an exercise price of \$7.34; and 71,100 unit options with an exercise price of \$1.82 were forfeited.

On June 30, 2008, as part of the settlement of certain claims against the Fund relating to the recall, the Fund agreed to issue 1 million five-year Trust Unit warrants in the Fund. The Trust Unit warrants were issued on August 22, 2008 and are exercisable at \$1.33, the fair market value on that date.

Recent Canadian accounting pronouncements issued and not yet adopted

The Accounting Standards Board has adopted a strategic plan that will have GAAP converge with International Financial Reporting Standards ("IFRS") effective January 2011. During the third quarter of 2008, the Fund began the process of assessing the major differences between its current accounting policies and those expected to apply under IFRS as a first step in preparing for its transition from GAAP to IFRS.

Outlook

Product Recall and Litigation

Between March 16, 2007 and May 22, 2007 the Fund instituted a series of recalls of certain products, manufactured between November 8, 2006 and March 6, 2007, which were suspected of containing an adulterated ingredient. In addition, the Fund instituted a withdrawal of all varieties of recalled product, regardless of its date of manufacture, in order to reduce the risk that any recalled product might remain on the retailer's shelves.

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 adulterated ingredient was wheat gluten adulterated with melamine and related compounds. This ingredient was imported from China by a 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, proceeds from asset sales and bank credit facilities, will approximate \$55 million, which had a significant impact on the results for the year ended December 31, 2007.

On May 14, 2007 the Fund reached an agreement with its lenders to increase the amount available under the bank facility and on May 14, 2007 and again on October 19, 2007 to modify the terms of its existing facility in order to provide funding for the direct and indirect costs of the recall. The amended agreements increase the rates of interest paid by the Fund. Both of these

changes have increased the Fund's financial expenses and are expected to continue to do so 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. On October 14, 2008, the U.S. Court issued an oral order giving final approval of the Settlement Agreement which consolidated over 100 of the class action product liability civil suits commenced. On November 3, 2008 there was a simultaneous hearing for final approval in the various Canadian courts. Formal final approval of the U.S. Court was given on November 19, 2008 and final approval of the Canadian courts was provided on November 27, 2008. Two appeals have been filed from the order of the U.S. Court approving the Settlement Agreement. It is uncertain how long these appeals will take to resolve. No appeals have been filed in Canada and the time for filing an appeal has passed. However, the Settlement Agreement requires the appeals in the United States to be finally determined prior to any payments to claimants, and therefore settlement payments to pet owners in both the United States and Canada will be delayed until the appeals have been resolved. The Settlement Agreement would resolve more than 100 class action lawsuits filed in the U.S. and Canadian courts and is binding on all members of the settlement class, except for the 114 individuals who have validly opted out of the settlement and who thereby retain their claims against one or more of the defendants, including Menu.

The Settlement Agreement created a settlement fund of US\$24 million that will allow a potential recovery of up to 100% of all economic damages incurred by pet owners, subject to certain limitations. The settlement fund, administered by a neutral claims administrator, will be available to persons in the United States and Canada who purchased or obtained, or whose pets used or consumed, recalled pet food. Pursuant to the Settlement Agreement, the settlement fund is funded by the defendants, including the Fund and its product liability insurer. The Fund's corporate contribution to the settlement is within its previously recorded recall provision of \$55 million.

Other actions and investigations remain outstanding, and it is possible that additional actions or investigations may arise in the future. 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 may be required to expend significant amounts and to devote considerable management time to these matters. It is not possible to predict the amount of such expenses, the resolution of such claims or investigations, or the extent to which these items will be paid by insurance.

Customers

During 2007, the Fund was advised that customers whose volume represented approximately 37% of sales in 2006 would no longer be purchasing these products from Menu. Much of this business was lost during 2007 and by the fourth quarter of 2008 these customers were only accounting for about 7.5% of the Fund's total volume. This remaining business will be lost during 2009. Business with our remaining customers continues to be re-established. 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

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. Rising costs for meats and grain products also increase the cost of products. Such cost increases have occurred routinely over the past number of years and continued to occur in 2008. Regular price increases are essential to mitigate the effect rising costs have on margins.

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, although in some instances, such as during the fourth quarter of 2008, Menu has initiated price increases independent of the national brands. Typically these increases follow a period of rising costs and consequently are preceded by a time of compressed margins. In some instances, as has been the case in the past, 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 from time-to-time.

In January 2008 and again in August 2008, Menu followed the leading national brand manufacturers and increased prices to its private-label customers. Taken together, these two price increases are expected to increase Menu's sales by more than 8% and should enable Menu to recover some of the cost increases absorbed during the time since the previous price increase. Subsequent to these increases, the costs of such inputs as meat, labour, certain utilities and medical benefits have continued to escalate. Most significantly, the cost of tinplate used in the manufacture of steel cans increased, resulting in a 48.2% increase in the cost of steel cans in early 2009. During the fourth quarter of 2008 Menu announced a price increase on steel cans to recover the increase. Shortly after Menu's announcement several leading national brand manufacturers announced similar increases of their own. As in the past, these continued increases are expected to adversely impact the Fund's margin until such time as national brand price increases permit the Fund to once again increase prices.

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.

Bovine Spongiform Encephalopathy ("BSE")

The US and Canada have been categorized by OIE, the World Organization for Animal Health, as having minimal risk for BSE. Both countries, however, continue to enhance their feed safety systems to further reduce this risk. Effective July 12, 2007, Canada announced an enhanced feed rule whereby specified risk materials (i.e. those components of the animal thought to have the highest level of infectivity when consumed) are banned in all animal feed, including pet food. This rule includes the elimination of tissues from animals that did not pass both pre- and post-mortem inspection. While having immediate impact on some pet food raw materials, the impact on finished pet food will not be felt until Part IV of the Canadian Food Inspection Agency's ("CFIA") Health of Animals Regulations is revised. This implementation date for these changes could be as early as October 2008, with publication in the Canada Gazette a pre-requisite. On April 27, 2008, the US announced a revised BSE Feed Rule, which becomes effective in 2009, that has the same objective but allows for some tissues to be recovered from animals which did not pass the inspections noted above.

Since 2003, import permits have been required to allow the transport of some raw materials and all finished pet foods from Canada to the United States. These permits preclude the use of Canadian beef in Menu's Streetsville facility. As a consequence, it is expected that import permits will soon be required in order to ship product from the US to Canada. The regulations appear to preclude the presence of any specified risk materials in the facility (using the CFIA definition of such materials, which is more restrictive than the US definition). This does not

present an issue to Menu since our US facilities have already been inspected in anticipation of these regulation changes.

The equivalence regarding BSE status may ultimately allow some relaxation of existing requirements. Until that time Menu Foods is well placed, having facilities on both sides of the border and having a long-standing policy of specifying absence of specified risk materials in its plants.

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, and since that 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 unitholders are entitled to a reimbursement of such foregone distributions, which at December 31, 2008 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, 2008, the Fund had \$36.8 million drawn on its bank facility and \$91.5 million of senior secured notes outstanding. Each of these facilities has financial covenants and cross-default provisions that must be met. The terms of these facilities are described above under "Liquidity".

The costs associated with the product recalls and restructuring were significant and resulted in the Fund not being in compliance with certain financial covenants with its bank and senior secured noteholders as at March 31, 2007 and during the quarter ended September 30, 2007. Accordingly, on May 14, 2007 and again on October 19, 2007, the Fund entered into amended agreements with its lenders that, among other things, defined the terms and conditions governing the Fund's facilities going forward. Until the New Credit Facility is extinguished and the balance owed under the bank facility is less than US\$15 million 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-month basis of 3 to 1 or less (the "Threshold Conditions"), and until such time as the recall costs no longer impact the Fund's Leverage Ratio, certain of the covenants forming part of the agreements governing the facilities have been suspended. Under covenants presently effective (under both the bank facility and senior secured notes facility) the Fund's EBITDA before recall and restructuring costs and operating leases must be at least \$20 million on a trailing twelve-month basis each quarter. Additionally, under the terms of the amended agreements, not more than \$55 million may be utilized by the Fund for recall-related costs and restructuring costs should approximate \$4 million, upon completion of the restructuring.

The Fund is precluded from paying distributions to its unitholders at any time the Leverage Ratio exceeds 3 to 1.

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 is taxable 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 their ongoing business. These risk factors include adequacy of credit facilities, the ability to obtain price increases in the face of rising costs, 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 25 and 26 to the accompanying consolidated financial statements. Additional information about the Fund is available at www.sedar.com.

Many of the risks and uncertainties facing the Fund result from the product recall, including its ultimate final cost, the extent of any fines or penalties that may be assessed, the cost of any resulting litigation or investigations, including the extent to which these costs will be covered by insurance, and the impacts of the foregoing on liquidity.

The 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 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 absorbs 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 generally 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 substantively enacted under GAAP. The Fund is considering the possible impact of the new rules. 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.

Various legal actions and investigations have been commenced against the Fund as a consequence of the product recall. A number of product liability class action lawsuits were commenced in the United States and Canada, over 100 of which were consolidated in what is known as the pet food multi-district litigation. On October 14, 2008, the U.S. Court issued an oral order giving final approval of the cross-border settlement agreement in the pet food multi-district litigation (the "Settlement Agreement"). On November 3, 2008 there was a simultaneous hearing for final approval in the various Canadian courts (the "Canadian courts"). Formal final approval of the U.S. Court was given on November 19, 2008, and final approval of the Canadian courts was provided on November 27, 2008. Two appeals have been filed from the order of the U.S. Court approving the Settlement Agreement. It is uncertain how long these appeals will take to resolve. No appeals have been filed in Canada and the time for filing an appeal has passed. However, the Settlement Agreement requires the appeals in the United States to be finally determined prior to any payments to claimants, and therefore settlement payments to pet owners in both the United States and Canada will be delayed until the appeals have been resolved. The Settlement Agreement would resolve more than 100 class action lawsuits filed in the U.S. and Canadian courts and is binding on all members of the settlement class, except for the 114 individuals who have validly opted out of the settlement and who thereby retain their individual claim against one or more of the defendants including Menu. Menu's contribution to the settlement fund is within the \$55 million estimate of recall costs.

Other actions and investigations remain outstanding, and it is possible that additional actions or investigations may arise in the future. The Fund may be required expend significant amounts and to devote considerable management time to these matters. It is not possible to predict the amount of such expenses, the resolution of such claims or investigations, or the extent to which these items will be paid by insurance.

In addition to the matters noted above, the Fund is involved in various claims and litigation both as plaintiff and defendant. In the opinion of management, the resolution of claims against the Fund will not result in a material effect on the consolidated financial position of the Fund. Any settlements or awards will be reflected in the consolidated statement of operations as the matters are resolved.

Additional Information

Additional information regarding the Fund, including its Annual Information Form and all public filings, can be found on SEDAR at www.sedar.com.

Note A: EBITDA is not a recognized measure under 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. Adjusted EBITDA restates EBITDA by removing the effects of non-recurring items.

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 and disclosure 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 "Distributable Cash in Income Trusts and Other Flow-Through Entities – Guidance on Preparation and Disclosure in Management's Discussion and Analysis – Draft Interpretive Release."

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 Cash Flow from Operating Activities to Distributable Cash for year-to-date and since the inception of the Fund:

| | For the Year ended December 31, | | Since Inception (May 22, 2002) to December 31, |
|--|------------------------------------|----------|--|
| | 2008 | 2007 | 2008 |
| | \$'000's | \$'000's | \$'000's |
| Net loss | (6,812) | (62,129) | (91,152) |
| Adjust for: | | | |
| Goodwill impairment loss | - | 30,615 | 124,030 |
| Unrealized foreign exchange | 3,144 | - | 3,144 |
| Non-controlling interest of Class B Exchangeable Units | - | (23,138) | (30,210) |
| Amortization of property, plant and equipment | 11,354 | 14,235 | 92,937 |
| Amortization of customer relationship | - | 298 | 2,789 |
| Unit based compensation | 593 | 396 | 1,236 |
| Future income taxes | - | (14,337) | (7,370) |
| Current income taxes | (6) | 414 | 2,996 |
| Interest and financial expenses | 14,546 | 13,415 | 55,857 |
| EBITDA | 22,819 | (40,231) | 154,257 |
| Adjust for: | | | |
| Product recall | - | 55,000 | 55,000 |
| Restructuring and related expenses | 313 | 4,437 | 4,750 |
| Adjusted EBITDA | 23,132 | 19,206 | 214,007 |

| | For the Year ended December 31, | | Since Inception (May 22, 2002) to December 31, |
|-------------------------------------|------------------------------------|----------|--|
| | 2008 | 2007 | 2008 |
| | \$'000's | \$'000's | \$'000's |
| Cash flow from operating activities | 1,611 | (39,112) | 77,943 |
| Adjust for: | | | |
| Maintenance capital expenditures | (1,998) | (1,660) | (15,745) |
| Principal repayments (*) | (30) | (27) | (624) |
| Distributable Cash | (417) | (40,799) | 61,574 |

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

Menu Foods Income Fund
Consolidated Balance Sheets

(All figures expressed in thousands of Canadian dollars)

| | As at December 31, | |
|--|-----------------------|------------------|
| | 2008 | 2007 |
| | \$ | \$ |
| Assets | | |
| Current assets | | |
| Cash | 210 | 25 |
| Accounts receivable | | |
| Trade | 16,093 | 13,458 |
| Other | 2,439 | 772 |
| Inventories (note 6) | 46,426 | 31,161 |
| Prepaid expenses and sundry assets | 2,447 | 2,194 |
| Total Current Assets | 67,615 | 47,610 |
| Property, plant and equipment (note 7) | 73,034 | 65,915 |
| Assets held for sale (note 7) | - | 3,339 |
| Goodwill (note 8) | 41,357 | 41,357 |
| Other assets (note 9) | 306 | 840 |
| Total Assets | 182,312 | 159,061 |
| Liabilities | | |
| Current liabilities | | |
| Bank indebtedness (note 10) | 36,839 | 33,770 |
| Accounts payable and accrued liabilities (notes 2 and 3) | 37,284 | 31,339 |
| Income taxes payable | 1,362 | 776 |
| Current portion of long-term debt (note 11) | - | 30 |
| Total Current Liabilities | 75,485 | 65,915 |
| Long-term debt (note 11) | 91,227 | 74,017 |
| Total Liabilities | 166,712 | 139,932 |
| Class B Exchangeable Units (note 12) | - | - |
| Unitholders' Equity | | |
| Trust Units (note 13) | 176,004 | 176,004 |
| Warrants (note 13) | 648 | - |
| Contributed surplus (note 15) | 1,251 | 658 |
| Deficit | (150,635) | (144,529) |
| Accumulated other comprehensive loss (note 17) | (11,668) | (13,004) |
| Total Unitholders' Equity | 15,600 | 19,129 |
| Total Liabilities, Class B Exchangeable Units and Unitholders' Equity | 182,312 | 159,061 |

(Going Concern, Contingencies and Commitments - notes 2, 3 and 22)

The accompanying notes are an integral part of these consolidated financial statements.

Menu Foods Income Fund
Consolidated Statements of Operations and Deficit

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

| | Year ended December 31, | |
|---|-------------------------|------------------|
| | 2008 | 2007 |
| | \$ | \$ |
| Sales | 260,551 | 244,801 |
| Cost of sales (note 20) | 230,244 | 220,423 |
| Gross profit | 30,307 | 24,378 |
| Selling, general and administrative expenses (note 21) | 22,266 | 22,986 |
| Income before the undernoted | 8,041 | 1,392 |
| Product recall (note 2) | - | 52,115 |
| Restructuring and related expenses (note 3) | 313 | 4,437 |
| Goodwill impairment (note 8) | - | 30,615 |
| Financial expenses (note 18) | 14,546 | 13,415 |
| Loss before income taxes and non-controlling interest | (6,818) | (99,190) |
| Current income taxes | (6) | 414 |
| Future income taxes | - | (14,337) |
| Total income taxes (note 19) | (6) | (13,923) |
| Loss before non-controlling interest | (6,812) | (85,267) |
| Non-controlling interest of Class B Exchangeable Units (note 12) | - | (23,138) |
| Net loss for the year | (6,812) | (62,129) |
| Deficit - beginning of year, as previously reported | (144,529) | (82,400) |
| Impact of change in accounting policies (note 4) | 706 | - |
| Deficit - end of year | (150,635) | (144,529) |
| Deficit comprises: | | |
| Accumulated net loss | (90,446) | (84,340) |
| Accumulated distributions | (60,189) | (60,189) |
| | (150,635) | (144,529) |
| Basic net loss per Trust Unit | \$ (0.335) | \$ (3.237) |
| Diluted net loss per Trust Unit | \$ (0.335) | \$ (3.237) |
| Basic weighted average number of Trust Units outstanding (note 13) | 20,361,654 | 19,193,657 |
| Diluted weighted average number of Trust Units outstanding (note 13) | 28,984,243 | 28,982,828 |

Consolidated Statements of Comprehensive Loss

(All figures expressed in thousands of Canadian dollars)

| | Year ended December 31, | |
|---|-------------------------|-----------------|
| | 2008 | 2007 |
| | \$ | \$ |
| Net loss for the year | (6,812) | (62,129) |
| Other comprehensive (loss) income, net of tax of \$nil (2007 - \$nil) | | |
| Unrealized gains (losses) on translating financial statements of self-sustaining foreign operations | 18,374 | (21,619) |
| Gains (losses) on hedges of unrealized foreign currency translation | (17,038) | 15,997 |
| Comprehensive loss for the year | (5,476) | (67,751) |

Menu Foods Income Fund
Consolidated Statements of Cash Flows
(All figures expressed in thousands of Canadian dollars)

| | Year ended December 31, | |
|--|--------------------------------|-----------------|
| | 2008 | 2007 |
| | \$ | \$ |
| Cash provided by (used in) | | |
| Operating activities | | |
| Net loss for the year | (6,812) | (62,129) |
| Adjustments for non-cash items | | |
| Goodwill impairment loss | - | 30,615 |
| Non-controlling interest of Class B Exchangeable Units | - | (23,138) |
| Unrealized foreign exchange loss | 3,144 | - |
| Amortization of property, plant and equipment | 11,354 | 14,235 |
| Amortization of customer relationship | - | 298 |
| Amortization of deferred financing fees | 751 | 1,373 |
| Unit-based compensation | 593 | 396 |
| Gain on sale of property, plant and equipment | (116) | (21,369) |
| Inventory write-off | - | 36,342 |
| Write-off of take-or-pay receivable | - | 1,001 |
| Write-down of idle assets | - | 1,726 |
| Write-down of customer relationship | - | 3,011 |
| Marked-to-market adjustment (note 25) | 2,320 | 1,415 |
| Future income taxes | - | (14,337) |
| | 11,234 | (30,561) |
| Change in non-cash working capital items | | |
| Accounts receivable | (1,854) | 5,237 |
| Inventories | (7,379) | (26,309) |
| Accounts payable and accrued liabilities (notes 2 and 3) | (790) | 12,469 |
| Prepaid expenses and sundry assets | (152) | (293) |
| Income taxes | 552 | 345 |
| | 1,611 | (39,112) |
| Financing activities | | |
| Change in bank indebtedness | 1,363 | 16,889 |
| Issuance of Trust Units, net | - | 44 |
| Long-term debt repayments | (30) | (27) |
| Deferred commitment fees | (45) | (1,037) |
| Transaction costs | - | (515) |
| | 1,288 | 15,354 |
| Investing activities | | |
| Purchase of property, plant and equipment | (2,988) | (4,040) |
| Proceeds from sale of property, plant and equipment | 274 | 25,010 |
| | (2,714) | 20,970 |
| Increase (decrease) in cash | 185 | (2,788) |
| Cash - beginning of year | 25 | 2,813 |
| Cash - end of year | 210 | 25 |
| Supplementary information | | |
| Income taxes (refunded) paid | (439) | 269 |
| Interest paid | 11,892 | 10,091 |

Menu Foods Income Fund
Notes to Consolidated Financial Statements
December 31, 2008 and 2007

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

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 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 the United States and Canada.

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.

During 2007 management estimated that the costs associated with the recalls and withdrawal noted above would amount to approximately \$55,000. The costs associated with the recall resulted in the Fund not being in compliance with certain financial covenants included in the loan agreements with its lenders.

During 2007, and again in 2008, the Fund entered into amended agreements with its lenders, which among other things, defined the terms and conditions governing the Fund's revolving bank facility (note 10) and non-revolving senior secured notes facility (note 11). Certain amendments to the senior secured notes facility were such that under Canadian generally accepted accounting principles ("GAAP") they resulted in a deemed settlement of the original facility, necessitating a write off of \$1,101 in previously capitalized costs.

The estimated product recall costs are based on the best information currently available to the management of the Fund. The above-noted estimate of \$55,000 remains unchanged as at December 31, 2008. The ultimate determination of these costs is dependent on a number of factors, some of which remain unresolved. Accordingly, actual amounts could differ from these estimates and the differences could be material. The ongoing impact of the product recall could have a material effect on the liquidity of the Fund.

The recall costs of \$55,000 noted above include product collection, customer fines and penalties, write off and disposal costs, professional and associated fees necessary to manage through this difficult process and costs to establish and operate a call centre to respond to consumer concerns, together with lost margin on returned product of \$2,885. As at December 31, 2008, \$7,100 (December 31, 2007 - \$11,660) remains in accrued liabilities for recall related costs not yet paid.

Menu Foods Income Fund
Notes to Consolidated Financial Statements
December 31, 2008 and 2007

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

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 in Canada, which seek to recover damages on behalf of the named plaintiffs and a purported class of pet owners. On November 19, 2008 and on November 27, 2008, the U.S. Court and various Canadian courts, respectively, gave final approval of the comprehensive settlement agreement in the pet food multi-district litigation. Two appeals have been filed from the order of the U.S. Court approving the settlement agreement. It is uncertain how long these appeals will take to resolve. No appeals have been filed in Canada, and the time for filing an appeal has passed. However, the settlement agreement requires the appeals in the United States to be finally determined prior to any payments to claimants, and therefore settlement payments to pet owners in both the United States and Canada will be delayed until the appeals have been resolved.

The settlement agreement would resolve more than 100 class action lawsuits filed in the U.S. and Canadian courts and is binding on all members of the settlement class, except for 114 individuals who have validly opted out of the settlement and who thereby retain their claims against one or more of the defendants, including Menu.

The settlement agreement would create a settlement fund of US\$24,000 that allows a potential recovery of up to 100% of all economic damages incurred by pet owners, subject to certain limitations. The settlement fund, administered by a neutral claims administrator, will be available to persons in the United States and Canada who purchased or obtained, or whose pets used or consumed, recalled pet food. Pursuant to the settlement agreement, the settlement fund would be funded by the defendants, including Menu Foods Income Fund and its product liability insurer. The Fund's corporate contribution to the settlement is reflected in the \$55,000 estimate of recall costs.

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. Furthermore, it is possible that additional actions or investigations may arise in the future. The Fund may be required to expend significant amounts and to devote considerable management time to these matters. It is not possible to predict the amount of such expenses, the resolution of such claims or investigations, or the extent to which these items will be paid by insurance.

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. The agreement with the Fund's bank expires on June 30, 2009 (note 10) and its senior secured notes are due on October 31, 2010 (note 11). Management has had preliminary discussions with its bank and believes that the Fund will be able to renew this facility. 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, or that it will be available to the Fund, if needed. As a result of this uncertainty there may be significant doubt as to the ability of the Fund to continue as a going concern.

These consolidated financial statements have been prepared in accordance with GAAP on a going concern basis. The Fund's ability to continue as a going concern is dependent on the success of future operations, being able to timely dispose of assets held for sale, 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, which could be material, would be necessary to the carrying values of assets, liabilities, the reported net loss and the balance sheet classifications used.

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3. Restructuring and related expenses

As a consequence of the product recalls, during 2007 the Fund had to restructure its operations to better align costs with its ongoing business. The initiatives took several forms, including the sale of surplus assets and the formal restructuring of the remaining operations, and under GAAP, depending upon their nature, were recognized in 2007 or 2008 or will be recognized in future periods. While most of these initiatives have already been accounted for, some will not be completed until later in 2009 or thereafter. To date, in aggregate these activities resulted in a net restructuring expense of \$4,750, of which \$313 was expensed during the year ended December 31, 2008, and, principally as a result of sales of assets, have generated approximately \$22,020 in cash (net of \$1,142 in lenders' fees). As at December 31, 2008, the accrual for restructuring, which primarily comprises costs associated with inventory disposal together with severance costs, amounted to \$895 (December 31, 2007 - \$1,666).

4. Changes in accounting policies and new accounting pronouncements

On January 1, 2008, the Fund adopted The Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1400, General Standards of Financial Statement Presentation; Section 1535, Capital Disclosures; Section 3031, Inventories; Section 3064, Goodwill and Intangible Assets; Section 3862, Financial Instruments – Disclosures; and Section 3863, Financial Instruments – Presentation.

Section 1400 provides revised guidance related to management's responsibility to assess and disclose the ability of an entity to continue as a going concern. Management's assessment of these matters is included in note 2.

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. These disclosures are made in note 16.

Section 3031 replaces Section 3030, Inventories, revising and enhancing guidance on the measurement of inventories, including the determination of inventory costing, impairment testing and disclosure requirements. The effect of implementing this section was to increase inventory and decrease deficit by \$706. This adjustment resulted from the inclusion of fixed production overhead costs, based on the normal capacity of the production facilities, into opening inventory.

Section 3064 replaces Section 3062, Goodwill and Other Intangible Assets; and Section 3450, Research and Development Costs. This new section establishes standards for the recognition, measurement and disclosure of goodwill and other intangible assets. The implementation of this new section did not affect the financial results of the Fund.

Sections 3862 and 3863 replace Section 3861, Financial Instruments - Disclosure and Presentation, revising and enhancing its disclosure requirements while carrying forward its presentation requirements. These new sections place increased emphasis on disclosure about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

These new standards have generally enhanced the disclosures in these financial statements when compared to the disclosures in the financial statements for the year ended December 31, 2007.

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

Recent Canadian accounting pronouncements issued and not yet adopted

The Accounting Standards Board (the “AcSB”) has adopted a strategic plan that will have Canadian GAAP converge with International Financial Reporting Standards (“IFRS”) effective January 2011. The Fund will commence its planning and transition from Canadian GAAP to IFRS during 2008.

The CICA has issued three new accounting standards: Section 1582 - Business Combinations; Section 1601 - Consolidated Financial Statements and Section 1602 - Non-controlling Interest. These sections replace the former Section 1581 - Business Combinations and Section 1600 - Consolidated Financial Statements and establish a new section for accounting for non-controlling interest in a subsidiary.

Section 1582 is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period commencing on or after January 1, 2011. Sections 1601 and 1602 apply to interim and annual consolidated financial statements relating to years beginning on or after January 1, 2011.

The Fund is currently evaluating the impacts of these developments on its consolidated financial statements and will begin application of these standards effective January 1, 2011.

5. Summary of significant accounting policies

a) Basis of presentation

The Fund prepares its consolidated financial statements in accordance with GAAP.

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 GAAP 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.

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5. Summary of significant accounting policies (continued)

d) Inventories

Inventories are valued at the lower of cost, determined on a first-in, first-out basis, and net realizable value. The cost of inventory includes costs directly attributable to the acquisition of raw materials, direct labour, variable production costs and a systematic allocation of fixed production overhead incurred, based on the normal capacity of the production facilities.

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.

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5 Summary of significant accounting policies (continued)

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 tested by comparing the Fund's carrying value of goodwill to its fair value. If the carrying value exceeds the fair value, then there is a potential impairment of goodwill. Any impairment in goodwill is measured by allocating the fair value of the reporting unit, in a manner similar to a purchase price allocation, and comparing the notional goodwill from the fair value allocation to the carrying value of the goodwill. The impairment loss represents the excess of notional goodwill from the fair value allocation over its carrying value.

j) 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. Revenues and expenses are translated at average exchange rates prevailing during the period. Gains or losses arising from these translations are included in net comprehensive income (loss).

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 dates. 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 dates. The resulting gains or losses, together with the related income taxes, are included in the foreign currency translation adjustment in the consolidated statement of other comprehensive income.

k) 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.

l) Supplier rebates

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

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5 Summary of significant accounting policies (continued)

m) Unit-based compensation

The fair value of unit-based compensation granted to the Fund's employees is recognized as compensation expense and a credit to contributed surplus over the applicable vesting period.

n) 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, 2008, the Fund has concluded that there were no asset retirement obligations associated with its assets.

o) Assets held for sale

Assets held for sale are carried at the lower of fair value less the costs to sell, and carrying value. Assets classified as held for sale are not amortized.

p) Financial instruments

The Fund designates 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 consolidated statements 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 to fix interest rates on a portion of its indebtedness. These interest rate swaps are marked to market each reporting period, with changes included in financial expenses in the consolidated statements of operations.

6. Inventories

| | As at December 31, | |
|-----------------------------|--------------------|---------------|
| | 2008 | 2007 |
| | \$ | \$ |
| Raw materials and packaging | 14,383 | 8,488 |
| Finished goods | 32,043 | 22,673 |
| | 46,426 | 31,161 |

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7. Property, plant and equipment

| | As at December 31, 2008 | | |
|------------------------------|-------------------------|-----------------------------|---------------|
| | Cost | Accumulated amortization | Net |
| | \$ | \$ | \$ |
| Land | 4,462 | - | 4,462 |
| Buildings | 44,037 | 9,759 | 34,278 |
| Machinery and equipment | 98,355 | 66,897 | 31,458 |
| Other property and equipment | 16,330 | 14,310 | 2,020 |
| Construction-in-progress | 816 | - | 816 |
| | 164,000 | 90,966 | 73,034 |

| | 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 |

During 2008, certain held-for-sale assets no longer met the requirements under GAAP for this classification and, accordingly, were reclassified to property, plant and equipment. As a result of this reclassification, during the fourth quarter of 2008, the Fund recognized an amortization charge of \$1,154 reflecting amortization for the period the assets were classified as held for sale. Approximately \$1,118 in machinery and equipment were not in service at December 31, 2008.

8. Goodwill

When the Fund purchased its interest in Menu Foods Limited Partnership ("MFLP"), \$165,387 of the purchase price was assigned as goodwill in the consolidated financial statements. Under GAAP, 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. In 2005 and again during the fourth quarter of 2007, fair value assessment of the Fund's assets and liabilities resulted in write-downs of goodwill of \$93,415 and \$30,615 respectively. These charges were non-cash items and did not impact the Fund's credit facilities. The annual impairment test as at September 30, 2008 did not identify any further impairment. The carrying value of goodwill is \$41,357 as at December 31, 2008 and December 31, 2007.

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9. Other assets

| | As at December 31, | |
|------------------------------------|--------------------|------------|
| | 2008 | 2007 |
| | \$ | \$ |
| Deferred commitment fees (note 10) | | |
| Cost | 1,053 | 1,037 |
| Accumulated amortization | (747) | (197) |
| | 306 | 840 |

10. Bank indebtedness

The banking agreement provides the Fund with a US\$42,000 (December 31, 2007 - US\$45,000) operating facility of which \$36,839 (equivalent to US\$30,245) was drawn upon as at December 31, 2008 (December 31, 2007 - \$33,770 (equivalent to US\$34,066)). At December 31, 2008, the Fund had an outstanding irrevocable letter of credit in the amount of \$895 (US\$735) (December 31, 2007 - \$818 (US\$825)), which further reduces the amount available under the facility.

10. Bank indebtedness (continued)

The costs associated with the product recalls (note 2) and restructuring (note 3) 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 and during the quarter ended September 30, 2007. Accordingly, on May 14, 2007 and again on October 19, 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 (note 25) and expanded to include a new US\$20,000 credit facility (the "New Credit Facility").

The New Credit Facility was reduced to US\$15,000 and to US\$12,500 on October 19, 2007 and on March 31, 2008, respectively. It was to be further reduced by US\$2,500 on each calendar quarter end thereafter until it was extinguished. In June 2008 the bank agreed to defer the US\$2,500 reductions in the facility due to occur in each of June and September of 2008 until the earlier of December 31, 2008 or until the sale of certain assets was completed. In December 2008 the terms of the facility were again revised such that on December 31, 2008, the New Credit Facility was reduced by \$500 and the facility is to be further reduced by \$3,000 at the end of each calendar quarter of 2009, by which time the New Credit Facility will be extinguished.

Pursuant to its amended banking agreement, this operating facility bears interest at Canadian prime rate (3.25% as at December 31, 2008) plus 3.5%, US base rate (3.25% as at December 31, 2008) plus 3.5% or Euro rate (1.43% as at December 31, 2008) plus 4.75% (the "Base Rates") depending on the currency advanced. These interest rates will continue to apply until the New Credit 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-month basis, of 3 to 1 or less (the "Threshold Conditions"), 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.

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10. Bank indebtedness (continued)

Certain of 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 Threshold Conditions are satisfied. Specifically, EBITDA before recall and restructuring costs and operating leases must be at least \$5,000 for the quarter ended March 31, 2008; \$10,000 for the six months ended June 30, 2008; \$15,000 for the nine months ended September 30, 2008; and \$20,000 on a trailing twelve-month basis each quarter thereafter. Under the terms of the amended agreements, not more than \$55,000 may be utilized by the Fund for recall-related costs and restructuring costs should approximate \$4,000, upon completion of the restructuring. These changes are consistent with the terms and conditions governing the senior secured notes (note 11).

Certain of the amendments required the Fund to pay commitment fees to the bank aggregating to \$1,053, 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 passu 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, | |
|--------------------------------|---------------------------|---------------|
| | 2008 | 2007 |
| | \$ | \$ |
| Senior secured notes | 91,542 | 74,504 |
| Transaction costs | (315) | (487) |
| | 91,227 | 74,017 |
| Obligation under capital lease | - | 30 |
| | 91,227 | 74,047 |
| Less: Current portion | - | 30 |
| | 91,227 | 74,017 |

On October 31, 2003, the Fund closed a private placement offering for US\$85,000 in non-revolving floating rate senior secured notes (the "Notes Facility"). The notes, of which US\$75,157 were outstanding at December 31, 2008 and December 31, 2007, 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 passu 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.

On two occasions during 2007, the Fund was not in compliance with certain financial covenants with its Lenders and accordingly, entered into amended agreements with its Lenders that, among other things, define the terms and conditions governing the Fund's bank operating and senior notes facilities going forward. The amendments are more fully described in note 10.

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11. Long-term debt (continued)

Pursuant to the terms of the agreements, the Notes Facility now bears interest at floating rate, three-month LIBOR (1.43% as at December 31, 2008) plus 580 basis points. This rate will continue to apply until the Threshold Conditions (note 10) are satisfied, 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.

Certain of the pre-existing covenants have been suspended on an identical basis with those of the bank, as described in note 10. In addition, the noteholders have acknowledged and consented to the amendments to the bank agreement during 2008, as described in note 10. Furthermore, under the terms of the amended agreements, not more than \$55,000 may be utilized by the Fund for recall-related costs and restructuring costs should approximate \$4,000 upon completion of the restructuring. The amended agreement of October 19, 2007 required the Fund to pay fees and expenses to the senior secured noteholders of \$515 (US\$517). These transaction costs were netted against the senior secured notes and are being amortized until October 31, 2010 using the effective interest method.

The amendments to the Agreements with the Fund's Lenders completed on May 14, 2007 were such that under GAAP, they resulted in a deemed settlement of the original senior secured notes facility. As a consequence, it was necessary to write off the remaining \$1,101 in costs associated with the establishment of the original facility (note 2).

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 25).

12. Class B Exchangeable Units

| | Number of units | Carrying value \$ |
|---|--------------------|-------------------------|
| Class B Exchangeable Units of MFLP | | |
| January 1, 2007 | 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 year | | (23,138) |
| Share of net foreign currency translation adjustment for the year | | (3,383) |
| December 31, 2007 and 2008 | 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 GAAP, 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 once the Fund becomes profitable again until such time as all previously absorbed losses are recovered by the Trust Unitholders. As at December 31, 2008 these absorbed losses, still to be recovered by the Trust Unitholders, amount to \$5,713 (December 31, 2007 - \$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, 2008 and December 31, 2007.

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 | | | | |
| January 1, 2007 | 19,077,273 | 185,948 | 11,300 | 174,648 |
| Conversion of Class B Exchangeable Units during 2007 (note 12) | 1,274,635 | 1,302 | - | 1,302 |
| Exercise of options during 2007 (note 15) | 9,746 | 54 | - | 54 |
| December 31, 2007 and 2008 | 20,361,654 | 187,304 | 11,300 | 176,004 |

On August 22, 2008, the Fund issued 1 million five-year Trust Unit warrants in the Fund as part of the settlement of certain claims against the Fund relating to the recall. The fair value of the Trust Unit warrants, which amounted to \$648, has been determined using the Black-Scholes model, incorporating a 3.17% risk free interest rate, a 53% volatility factor, 0.0% expected distributions and expected life of 60 months. On this basis, each Trust Unit warrant was valued at \$0.648. The cost is included in the Fund's \$55,000 estimate for the overall recall costs (note 2). The Trust Unit warrants are exercisable for \$1.33, in minimum quantities of 10,000 warrants, at any time during the five-year period subsequent to issuance.

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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 and December 31, 2008 (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) and warrants, 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:

| | Year ended December 31, | |
|--|--------------------------------|-------------------|
| | 2008 | 2007 |
| Weighted average number of Trust Units outstanding - basic | 20,361,654 | 19,193,657 |
| Weighted average number of Class B Units outstanding - basic (note 12) | 8,622,589 | 9,789,171 |
| Dilutive effect of warrants | - | - |
| Dilutive effect of options (note 15) | - | - |
| Weighted average number of units outstanding - diluted | 28,984,243 | 28,982,828 |

14. Distributions

No distributions were declared on either the Trust Units or the Class B Units during the years ended December 31, 2008 and 2007.

15. Unit-based compensation

Unit option plan

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 \$593 was recognized for the year ended December 31, 2008 (2007 - \$396), respectively, which was added to contributed surplus. Total compensation expense to be recognized under these awards is estimated to be \$2,236. All options expire 39 months after the date of grant, if not exercised.

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15. Unit-based compensation (continued)

The fair value of the 390,156 Trust Unit options issued in the quarter ended March 31, 2007 was determined using the Black-Scholes option pricing model ("Black-Scholes"), 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 1,210,300 Trust Unit options issued in the quarter ended December 31, 2007 was determined using Black-Scholes, 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.

The fair value of the 48,900 Trust Unit options issued in the quarter ended June 30, 2008 was determined using Black-Scholes, incorporating a 2.97% risk free interest rate, a 60% volatility factor, 0.0% expected distributions and expected life of 39 months. On this basis, each Trust Unit option was valued at \$0.54.

The fair value of the 15,300 Trust Unit options issued in the quarter ended September 30, 2008 was determined using Black-Scholes, incorporating a 2.94% risk free interest rate, a 63% volatility factor, 0.0% expected distributions and expected life of 39 months. On this basis, each Trust Unit option was valued at \$0.62.

A summary of option activities since January 1, 2007 is as follows:

| | Number of options | Range of exercise prices \$ | Weighted average exercise prices \$ |
|----------------------------|----------------------|-----------------------------------|---|
| January 1, 2007 | 956,296 | 4.56-6.55 | 4.62 |
| Activities during the year | | | |
| Options granted | 1,618,846 | 0.92-7.34 | 3.15 |
| Options forfeited | (355,004) | 4.56-7.34 | 5.40 |
| Options exercised | (9,746) | 4.56 | 4.56 |
| December 31, 2007 | 2,210,392 | 0.92-7.34 | 3.42 |
| Activities during the year | | | |
| Options granted | 64,200 | 1.10-137 | 1.27 |
| Options forfeited | (171,300) | 1.82-7.34 | 4.03 |
| December 31, 2008 | 2,103,292 | 0.92-7.34 | 3.34 |

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15. Unit-based compensation (continued)

The outstanding options are summarized as follows:

| | Options outstanding | | Vested options outstanding | |
|----------------|---------------------|---------------------------------|----------------------------|---------------------------------|
| | Number | Weighted average remaining life | Number | Weighted average remaining life |
| Exercise price | | | | |
| 4.56 | 610,134 | 5 months | 406,756 | 5 months |
| 5.25 | 6,000 | 5 months | 4,000 | 5 months |
| 7.34 | 265,368 | 17 months | 88,456 | 17 months |
| 3.00 | 18,390 | 22 months | 6,130 | 22 months |
| 1.82 | 1,118,200 | 26 months | - | - |
| 0.92 | 21,000 | 27 months | - | - |
| 1.35 | 27,900 | 32 months | - | - |
| 1.10 | 21,000 | 32 months | - | - |
| 1.37 | 15,300 | 35 months | - | - |
| | 2,103,292 | 19 months | 505,342 | 7 months |

Contributed surplus attributed to Trust Unit options

| | As at December 31, | |
|--|--------------------|------------|
| | 2008 | 2007 |
| | \$ | \$ |
| Opening balance | 658 | 272 |
| Compensation expense recognized for unit options during the year | 593 | 396 |
| Options exercised | - | (10) |
| Ending balance | 1,251 | 658 |

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

16. Capital management

The Fund views its capital as the combination of its bank indebtedness and senior secured notes (“Indebtedness”), Class B Exchangeable Units and equity balances. In general, the overall capital of the Fund is determined and evaluated in the context of its financial objectives and its strategic plan.

The appropriate level of Indebtedness is assessed with reference to expected cash flows and the Fund’s overall business needs and risks. In addition, the Fund’s Indebtedness is subject to a number of covenants and restrictions. The Fund is precluded from paying distributions to its Unitholders at any time the Leverage Ratio (as defined in the Agreement with the Fund’s Lenders), on a trailing twelve-month basis, exceeds 3 to 1. The \$55,000 in recall related costs expensed in 2007, together with the impact of the recalls on the operations for the year, significantly increased the Fund’s Indebtedness.

The Leverage Ratio for the twelve months ended December 31, 2008 was 5.52 (December 31, 2007 – 3.50). Furthermore, as described more fully in note 10, the Fund is required to have EBITDA before recall and restructuring costs and operating leases of: \$5,000 for the quarter ended March 31, 2008; \$10,000 for the six months ended June 30, 2008; \$15,000 for the nine months ended September 30, 2008; and \$20,000 on a trailing twelve-months basis each quarter thereafter.

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16. Capital Management (continued)

In common with other income trusts, the Fund uses its cash flow from operations to invest in capital projects, repay Indebtedness and pay distributions to its Unitholders. For the foreseeable future, cash flow will primarily be used to reduce Indebtedness and finance maintenance capital expenditures until such time as the Leverage Ratio, on a trailing twelve-month basis, is less than 3 to 1.

For the time being, the equity component of capital, which was seriously depleted as a consequence of the events in 2007, will only increase by the amount of income earned and retained by the business. Since cash flow from operations generated by the Fund will be used to reduce the Indebtedness component of capital, the Fund's overall capital is expected to decrease, but the Leverage Ratio should, subject to foreign exchange fluctuations, improve. The Fund will review its level of equity in light of its ongoing performance and future needs and opportunities and additional equity may be issued if deemed appropriate or necessary.

17. Accumulated other comprehensive loss

| | As at December 31, | |
|---|--------------------|-----------------|
| | 2008 | 2007 |
| | \$ | \$ |
| Unrealized losses on translating financial statements of self-sustaining foreign operations | (21,029) | (39,403) |
| Gains on hedges of unrealized foreign currency translation, net of tax | 9,361 | 26,399 |
| | (11,668) | (13,004) |

18. Financial expenses

| | Year ended December 31, | |
|--|-------------------------|---------------|
| | 2008 | 2007 |
| | \$ | \$ |
| Interest and accretion on senior secured notes | 8,683 | 8,992 |
| Interest on bank indebtedness and other | 3,543 | 3,008 |
| Loss on interest rate swap | 2,320 | 1,415 |
| | 14,546 | 13,415 |

19. Income taxes

On October 31, 2006, the Department of Finance (Canada) announced tax proposals pertaining to the taxation of income distributed by publicly listed trusts and the tax treatment of trust distributions to their unitholders. On June 12, 2007 the draft legislation, which had been issued on December 31, 2006 passed fourth reading in the House of Commons, and is therefore considered substantively enacted under GAAP. The new legislation will apply to the Fund effective January 1, 2011 and will result in a portion of the Fund's income being subject to tax at the trust level.

Until 2011, income tax obligations relating to distributions from the Fund are obligations of the Unitholders and, accordingly, no provision for income taxes is made in respect of distributed income of the Fund. A provision for income taxes is recognized for the Fund's subsidiaries that are subject to tax.

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19. Income taxes (continued)

The provision for income taxes in the consolidated statements 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.

| | Year ended December 31, | |
|---|-------------------------|-----------------|
| | 2008 | 2007 |
| | \$ | \$ |
| Loss before income taxes and non-controlling interest | (6,818) | (99,190) |
| Goodwill impairment loss | - | 30,615 |
| Loss of subsidiary entities subject to tax | (6,818) | (68,575) |
| Income taxes at statutory rate | (2,174) | (23,645) |
| Increase (decrease) resulting from: | | |
| Effect of foreign tax rate | (632) | (4,828) |
| Valuation allowance | 3,587 | 17,632 |
| Other and permanent differences | (787) | (3,082) |
| | (6) | (13,923) |

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

| | As at December 31, | |
|---|--------------------|----------|
| | 2008 | 2007 |
| | \$ | \$ |
| Current future income tax assets: | | |
| Accounts receivable, accounts payable and accrued liabilities | 331 | 348 |
| Inventory provisions | 537 | 372 |
| Valuation allowance | (868) | (720) |
| | - | - |
| Long-term future income tax (assets) and liabilities: | | |
| Property, plant and equipment | 10,249 | 11,681 |
| Tax benefits of loss carry-forwards | (34,121) | (27,848) |
| Valuation allowance | 30,820 | 21,254 |
| Other | (6,948) | (5,087) |
| | - | - |

The benefits of these future tax loss carry-forwards, which aggregate to approximately \$92,450, expire between 2022 and 2028.

20. Other expenses and income

Research and development expenses amounted to \$205 for the year ended December 31, 2008 (2007 - \$235), respectively. These expenses are included in cost of sales.

21. Selling, general and administrative expenses

Selling, general and administrative expenses include an unrealized foreign exchange loss of \$3,144.

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22. Commitments

Future minimum payments under operating leases at December 31, 2008 are as follows:

| | \$ |
|------------|--------------------|
| 2009 | 758 |
| 2010 | 450 |
| 2011 | 159 |
| 2012 | 59 |
| 2013 | - |
| Thereafter | - |
| | <hr/> 1,426 |

In addition, the Fund contracts for a portion of its gas and electricity needs for the upcoming calendar year. As at December 31, 2008 commitments under such contracts amounted to \$3,106.

23. 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 \$334 for the year ended December 31, 2008 (2007 - \$1,525).

24. 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.

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24. Segmented information (continued)

| | Year ended December 31, | |
|---------------------------------------|-------------------------|----------------------|
| | 2008 | 2007 |
| | \$ | \$ |
| Sales | | |
| Canada | | |
| Domestic | 45,915 | 41,087 |
| Foreign | 31,215 | 55,360 |
| Intersegment transfers | 13,317 | 10,116 |
| | <hr/> 90,447 | <hr/> 106,563 |
| United States | | |
| Domestic | 191,688 | 155,030 |
| Foreign | 1,404 | 1,358 |
| Intersegment transfers | 49,594 | 66,709 |
| | <hr/> 242,686 | <hr/> 223,097 |
| | 333,133 | 329,660 |
| Elimination of intersegment transfers | (62,911) | (76,825) |
| Discounts | (9,671) | (8,034) |
| | <hr/> 260,551 | <hr/> 244,801 |

| | As at December 31, | |
|--------------------------------|---------------------|---------------------|
| | 2008 | 2007 |
| | \$ | \$ |
| Property, plant and equipment | | |
| Canada | 38,925 | 37,027 |
| United States | 125,075 | 97,142 |
| | <hr/> 164,000 | <hr/> 134,169 |
| Less: Accumulated amortization | 90,966 | 68,254 |
| | <hr/> 73,034 | <hr/> 65,915 |

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.

25. Financial instruments

The Fund has the following categories of financial instruments:

| | As at December 31, | |
|--|--------------------|----------|
| | 2008 | 2007 |
| | \$ | \$ |
| Measured at fair value: | | |
| Cash | 210 | 25 |
| Interest rate swap | (3,868) | (1,548) |
| Measured at amortized cost: | | |
| Accounts receivable | 18,532 | 14,230 |
| Bank indebtedness | (36,839) | (33,770) |
| Accounts payable and accrued liabilities | (33,416) | (29,791) |
| Long-term debt | (91,227) | (74,047) |

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25. Financial instruments (continued)

The fair value of the interest rate swap, which is included in accounts payable and accrued liabilities, is calculated by discounting the anticipated cash flows at the period-end forward rates at the time the fair value is calculated.

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. Since the Fund's market is primarily in North America, credit risk is considered similar over all of the customer base.

more than 30 days past due. This allowance for doubtful accounts amounted to \$285 at December 31, 2008 (December 31, 2007 - \$591) which management believes adequately addresses the Fund's credit risk. The net change during the year ended December 31, 2008 of \$306, has been included in selling, general and administrative expenses. The remaining balance of trade accounts receivable includes \$1,879 that is 1 to 30 days past due and not impaired. Notwithstanding recent events in the international credit markets, management believes that its products, distribution channels and customers are such that these developments are not expected to have a significant effect on credit risk.

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. The Fund's United States dollar denominated long-term senior secured notes have been designated as a hedge of the United States operations and act to reduce exposure to foreign exchange fluctuations. It is also subject to risks relating to interest rate fluctuations. In order to reduce these risks, the Fund may use derivative financial instruments, which are not held or issued for speculative purposes.

As at December 31, 2008 and December 31, 2007, the Fund did not have any outstanding foreign currency forward contracts.

The Fund has fixed interest rates on a portion of its indebtedness (note 11). The mark-to-market value of the contract at December 31, 2008 resulted in an unrealized loss of \$2,320 (2007 - \$426), which is included in financial expense during the year. The cumulative unrealized loss on the interest rate swap is \$3,868 (December 31, 2007 - \$1,548) and is included in accounts payable and accrued liabilities.

Liquidity risk

The Fund's banking agreement (\$36,839 (US\$30,245) outstanding as at December 31, 2008) expires on June 30, 2009 (note 10) and its Notes Facility (\$91,227 (US\$75,157) outstanding as at December 31, 2008) expires on October 31, 2010 (note 11). The Fund expects to be in a position at that time to renew or replace these arrangements on their maturity at the prevailing market conditions then in place, which management expects to be similar to those contained in the existing Agreements.

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25. Financial instruments (continued)

Liquidity risk (continued)

The following is a maturity analysis of the Fund's principal liquidity risks:

| | Total | Payments Due By Period | | |
|--|----------------|------------------------|---------------|------------|
| | | Less than 1 year | 1 to 2 years | Thereafter |
| Senior secured notes, including interest | 108,189 | 9,109 | 99,080 | - |
| Bank indebtedness, including interest | 38,026 | 38,026 | - | - |
| Letter of credit | 895 | 895 | | |
| Accounts payable and accrued liabilities | 37,284 | 37,284 | - | - |
| | 184,394 | 85,314 | 99,080 | - |

Market risk

The principal market risks of the Fund's financial instruments relate to fluctuations in exchange rates between Canada and the United States and interest rates on floating rate debt. Market risks are best assessed in relation to the budgeted or expected performance of the Fund. On an annualized basis, for the current year, a one cent change in the exchange rate between Canada and the United States dollars will impact other comprehensive income and earnings by approximately \$1,119 and \$71, respectively, and a fifty basis point change in interest rates will impact earnings by approximately \$15, net of fair value adjustments to the interest rate swap.

Fair value of financial instruments

The carrying values of cash, trade and other receivables, bank indebtedness and accounts payable and accrued liabilities 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.

26. Economic dependence

For the year ended December 31, 2008, no single customer accounted for more than 10% of sales. 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.

27. Comparative figures

Certain comparative figures have been reclassified to reflect the presentation adopted during the current year.