

Menu Foods Income Fund announces 2004 first quarter results

/NOT FOR RELEASE OVER U.S. NEWSWIRE SERVICES./

TORONTO, May 14 /CNW/ - (TSX: MEW.UN): Menu Foods Income Fund (the "Fund") announced today its first quarter results for the period ended March 31, 2004.

The financial results for the quarter ended March 31, 2004 will be discussed during the Fund's annual meeting. The annual meeting is being held today, May 14, 2004 at 2:00pm at the Metro Toronto Convention Centre, located at 255 Front Street West, Toronto, Ontario. The meeting will be chaired by Robert Luba, Trustee of the Fund. Robert will be joined by Serge Darkazanli, Trustee, Menu's Chairman, President and Chief Executive Officer; Paul Henderson, Menu's Chief Operating Officer and Mark Wiens, Menu's Chief Financial Officer.

MESSAGE to UNITHOLDERS

We are pleased to present, to unitholders of Menu Foods Income Fund, our report for the first quarter ended March 31, 2004. The table below reports selected highlights of the quarter's results:

	Quarter Ended March 31,	
	2004 (\$millions)	2003 (\$millions)
Sales	90.6	82.2
Net Income	5.8	5.2
EBITDA	11.5	11.3
Distributable Cash	9.5	9.1
Distributions Declared	8.4	7.9
Distributions declared per Trust unit (\$)	0.3150	0.3079

Total distributions declared in the first quarter of 2004 represented a pay-out ratio of 89% (2003 – 87%). As of March 31, 2004, distributions since inception amount to 95% of distributable cash.

After the significant disruptions to the Fund's operations in the last seven months of 2003 caused by the Canadian and U.S. cases of BSE, the Fund has recovered to the level of performance demonstrated in the first five months of 2003. In fact, the Fund was able to completely overcome the effect of the strengthening of the Canadian dollar which appreciated by 17% versus the same quarter a year ago.

Sales during the first quarter of 2004 grew by 10.1% or \$8.3 million versus the first quarter of 2003. Volume growth would have translated into a sales increase of \$18.2 million were it not for the strengthening of the Canadian dollar which eroded this increase by \$9.9 million.

EBITDA grew modestly by 1.3% or \$0.2 million when compared to the same quarter in 2003. Increased sales volume contributed \$3.5 million which was almost entirely offset by the strengthening of the Canadian dollar and increases in the cost of raw materials.

Volume (expressed in cases of 24 cans or pouches) increased by 2.0 million cases or 21.4% driven by the co-manufacturing agreement negotiated last year with P&G/lams and the continued growth of the pouch program.

As previously reported, an industry-wide price increase, in the United States, was announced by our national brand competitors early in 2004. Menu followed this announcement by initiating a price increase to its United States customers during the first quarter of 2004.

In March 2004, the Fund successfully completed a private placement of 2.5 million Trust Units for net proceeds of \$36.0 million. These proceeds will finance certain capital projects being initiated or

contemplated by the Fund to support further growth in 2004 with the balance of the proceeds being used for general corporate purposes.

We continue to appreciate the support of investors, customers and suppliers and the ongoing dedication of our employees.

Serge K. Darkazanli
President & C.E.O.
Menu Foods GenPar Limited
Administrator of Menu Foods Income Fund

Robert W. Luba
Chairman, Board of Trustees
Menu Foods Income Fund

**Management's Discussion and Analysis of Financial Results
(For the quarter ended March 31, 2004)**

May 14, 2004

Presentation of Financial Information

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

Where applicable, financial information contained herein is prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP") and is reported in Canadian dollars.

Certain statements in this Management's Discussion and Analysis of Financial Results are "forward-looking statements" which reflect management's expectations regarding the Fund and Menu's future growth, results of operations, performance, business prospects and opportunities. Such forward-looking statements reflect management's current beliefs and are based on information currently available to management. Many factors could cause results to differ materially from the results discussed in the forward-looking statements, 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 upon what management believes to be reasonable assumptions, the Fund and Menu cannot assure investors that actual results will be consistent with these forward-looking statements. These forward-looking statements are made as of the date of this report, and neither the Fund nor Menu assumes any obligation to update or revise them to reflect new events or circumstances.

Overall Performance and Results of Operations

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

	For the quarter ended March 31,	
	2004	2003
Sales	90,560	82,241
Cost of sales	76,209	68,215
Gross profit	14,351	14,026
Selling, general & administrative expenses	6,253	5,913
Income before the undernoted	8,098	8,113
Financial expenses	1,315	863
Income before income taxes	6,783	7,250
Income taxes		
Current	667	1,083
Future	352	940
Total income taxes	1,019	2,023
Net Income	5,764	5,227

Net income per Trust Unit and Class B Exchangeable Unit

Basic	0.218	0.204
Diluted	0.214	0.199

Distributions per Trust Unit and Class B Exchangeable Unit

0.3150	0.3079
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Weighted average number of Trust Units and Class B Exchangeable Units outstanding

Basic ('000's)	26,464	25,676
Diluted ('000's)	26,901	26,305
Exchange rate – US\$ ⁽¹⁾	0.7588	0.6504

(1) Average 3 month rate per Bank of Canada

Operating Results for the Quarter Ended March 31, 2004

Sales for the quarter ended March 31, 2004, were \$90.6 million, up 10.1% or \$8.3 million compared to the same quarter last year. This increase is attributable to:

1. an increase in sales volume resulting in an increase of \$18.2 million, offset by;
2. the strengthening of the Canadian dollar relative to the United States dollar as compared to that relationship for the same period in the prior year. This change had the effect of reducing sales relative to the prior year, by \$9.9 million.

Overall, volume (expressed in cases of 24 cans or pouches) was up 21.4% from the quarter ended March 31, 2003. The bulk of this growth came from shipments to P&G/lams under the supply contract negotiated with this customer late in 2003. Established customers' volume (that is, volume to customers who were also supplied throughout the first quarter of 2003) declined by 0.2% in the quarter ended March 31, 2004. This decline, which is mainly the result of lost can sales to Menu's larger United States supermarket customers, is almost entirely mitigated by increased pouch sales. Management believes that these supermarket customers are losing wet pet food sales to Wal-Mart, Inc., pet-specialty retailers and to the discount or "dollar" stores operating throughout the United States. To a lesser extent this decline also reflects the recent strikes/lockouts between inside workers and certain United States supermarkets. These strikes/lockouts were finally settled in March, 2004.

The pouch product continues to perform well, with volume increasing 67.4% over the prior year's first quarter. This equates to an 8.3% increase in total volume for the quarter ended March 31, 2004 with the balance of the volume growth attributable to cans. For the quarter ended March 31, 2004, pouches accounted for 17.0% of Menu's volume compared to 12.4% in 2003.

Gross profit increased by \$0.3 million (or 2.3%) for the quarter ended March 31, 2004, compared to the prior year. This increase is attributable to:

1. *Increase in Sales Volume.* As previously noted, total volume for the first quarter increased by 21.4%. This increase in volume contributed \$18.2 million in sales and \$3.0 million in gross profit for the quarter (included in sales and gross profit is approximately \$0.5 million billed by Menu reflecting shortfalls under a "take or pay" arrangement with a customer);
2. *Foreign exchange affect on Sales.* The strengthening of the Canadian dollar relative to the United States dollar during the quarter had the affect of reducing sales by approximately \$9.9 million that translated into a reduction in gross profit of \$1.9 million for the quarter ended March 31, 2004;
3. *Cost Increases.* During the past year, the cost of certain inputs to production, including raw and packaging materials, labour and benefits, property insurance, utilities and freight increased and adversely impacted cost of sales, when compared to 2003. These additional costs, which are expected to continue to grow during 2004, reduced gross profit in the first quarter of 2004 versus 2003 by \$1.1 million. During the quarter, the Fund followed the national brands and initiated a price increase to its United States customers to recover cost increases it has absorbed over the past two years. This price increase is expected to restore the Fund's gross margin going forward.
4. *Efficiency Improvements.* The Fund continues to improve its production processes via capital expenditures and process improvements. This resulted in a \$0.5 million benefit during the first quarter versus a year ago.
5. *Increase in Amortization.* The amortization of the P&G/lams production facility in North Sioux City, South Dakota, acquired in October of 2003, together with the amortization of the other capital projects completed in calendar 2003 resulted in an increase in the amortization associated with the cost of goods sold of \$0.2 million versus the first quarter of 2003.

Selling, general and administrative expenses for the quarter ended March 31, 2004 increased by \$0.3 million (or 5.7%) compared to the prior year. This increase is mainly as a result of the increase in costs associated with the new facility in North Sioux City, South Dakota, together with general cost increases, partially offset by the strengthening of the Canadian dollar, relative to the United States dollar.

The foregoing resulted in EBITDA (See Note A) of \$11.5 million for the quarter ended March 31, 2004, an increase of \$0.2 million (or 1.3%) compared to the same period in 2003. The strengthening of the Canadian dollar, relative to the United States dollar, has reduced sales, gross margin, selling, general and administrative expenses, amortization, interest and EBITDA. The Fund estimates that each change of \$0.01 in the cost of the Canadian dollar changes EBITDA by approximately \$0.6 million and Distributable Cash (see Note A) by approximately \$0.46 million, on an annual basis. The Fund estimates that the strengthening of the Canadian dollar during the first quarter of 2004 versus the same period in 2003 reduced EBITDA by approximately \$1.6 million and Distributable Cash by approximately \$1.2 million.

Amortization (which is included in cost of sales and SG&A expense) was marginally higher than in 2003. This increase is directly attributable to the prior year's acquisition of the P&G/lams production facility in North Sioux City, South Dakota, the \$12.1 million of capital expenditures made during the twelve months ended March 31, 2004 and the full period amortization for the \$4.4 million of capital expenditures made during the quarter ended March 31, 2003. This increase was largely offset by the effects of the strengthening of the Canadian dollar, relative to the United States dollar.

Financial expenses were \$0.5 million higher during the quarter ended March 31, 2004, than in 2003. This increase includes the adoption by the Fund of the policy of recording the unrealized gains and losses on its outstanding interest rate swaps directly to the income statement commencing January 1, 2004. As at December 31, 2003, the Fund disclosed these unrealized gains/losses in the notes to its financial statements. In the first quarter of 2004, the Fund recorded an unrealized loss of \$0.2 million as interest expense. This, combined with the additional borrowings of the Fund in the first quarter of 2004 versus the same period in 2003, resulted in the additional financial expenses.

The overall effective tax rate of the Fund for the first quarter of 2004 was 15.0% of which 9.8% was current and 5.2% future. Total income taxes for the quarter ended March 31, 2004 amounted to \$1.0 million.

Net income for the quarter ended March 31, 2004, was \$5.8 million, compared to \$5.2 million for the quarter ended March 31, 2003.

Liquidity

During the quarter ended March 31, 2004, Menu generated cash flow from operations of \$9.7 million, offset by a reduction in cash flow of \$17.3 million as a result of changes in non-cash working capital items. The increase in non-cash working capital items related primarily to an increase in finished goods inventory and a reduction in accounts payable. The increase in inventory (\$10.4 million) can mainly be attributed to the growth in finished goods pouch inventory. In addition, during the first and second quarters of the year, the Fund typically builds its finished goods inventory in anticipation of the annual production shut downs which occur during the summer months. Accordingly, an inventory build-up, consistent with expected sales through to the completion of the production shut-downs is normal at this time of year.

During the quarter, accounts payable and accrued liabilities decreased by \$6.6 million almost entirely due to the timing of payments to suppliers together with the effects of changes in the exchange rate.

For the quarter ended March 31, 2004, the Fund announced distributions on the Trust Units of \$4.4 million (\$0.315 per unit) and paid \$4.2 million during the period, with the difference reflected in an increase in distributions payable. During this same period, the Fund announced distributions on the Class B Units of \$4.0 million (\$0.315 per unit) and paid \$4.8 million.

During the period from completion of its Initial Public Offering on May 22, 2002 until March 31, 2004, the Fund generated Distributable Cash (see Note A) of \$60.5 million and announced distributions of \$57.6 million. The pay-out ratio for this period of time is 95.2%. In the quarter ended March 31, 2004 the pay-out ratio (including the distributions declared on the Class B Units) was 89.0%.

Consolidated cash and cash equivalents as at March 31, 2004, increased by \$15.0 million, compared to the December 31, 2003 balance.

Cash flow from operations together with cash balances on hand and existing and anticipated unutilized term and operating credit facilities are expected to be sufficient to fund Menu's operating requirements, capital expenditures and expected distributions.

Capital Resources

During the quarter ended March 31, 2004, Menu spent \$1.7 million on capital assets. The single largest expenditure during this period reflected progress payments made to expand pouch capacity. Sales of pouches have steadily increased since they were first introduced in July 2001. Subsequent to the end of the first quarter, the Fund completed negotiations with a customer for the supply of pouches. This agreement, which is expected to increase the Fund's total volume by approximately 10%, has resulted in the Fund announcing a further expansion of its pouch capacity in Emporia, Kansas. This next phase of expansion, together with the expansion plan announced with the Fund's fourth quarter results of 2003, is expected to cost up to US\$16.5 million and is expected to increase production capacity by approximately 80%.

As previously reported, Menu has undertaken to ensure that it has 3oz production capability in both Canada and the United States in order to mitigate the effects of any ongoing or potentially new, cases of BSE. Accordingly, during the first quarter, Menu continued to invest in its 3oz canning capacity at its United States plants.

In March 2004, the Fund announced the closing of a private placement of 2,500,000 Trust Units for total net proceeds of \$36.0 million. Menu will use these funds to finance a number of growth oriented capital expenditures, including the above-noted pouch expansion in Emporia, can expansions at a number of production facilities and the acquisition of warehousing facilities in Emporia, Kansas and Pennsauken, New Jersey. The residual amount remaining from the private placement will be used for general corporate purposes. In April 2004, the Fund completed the purchases of the warehouses in Pennsauken, New Jersey and Emporia, Kansas for an aggregate total of \$12.8 million.

Outstanding Units

The following table highlights the number of units outstanding:

	Trust Units	Class B Exchangeable Units	Total Units
December 31, 2002	13,044,584	12,631,915	25,676,499
Options exercised during the year	215,239	--	215,239
December 31, 2003	13,259,823	12,631,915	25,891,738
Options exercised during the period	32,377	--	32,377
Issuance during the period	2,500,000	--	2,500,000
March 31, 2004	15,792,200	12,631,915	28,424,115

Menu Foods Corporation (the former parent company of Menu) had an executive stock option plan pursuant to which there were outstanding options issued to 61 of its directors, executive officers and key employees. In connection with the IPO and acquisition, these options were exchanged for Trust Unit options in the Fund having equivalent terms and conditions. As at March 31, 2004, 548,174 Trust Unit options, having a weighted average exercise price of \$2.977 per unit, were outstanding, of which 58,131 were vested, with 490,043 vesting in November and December, 2004. These Trust Unit options expire in November and December, 2006.

Outlook

Cost and Price Increases

Over the past two years and into the first quarter of 2004, the Fund has experienced increases in certain operating and administrative costs. Rising costs for steel and aluminum are driving the Fund's can costs higher. Utility and freights costs have steadily increased over the past years and new legislation on work hours for truck drivers in the United States is expected to further increase the cost of delivery. In addition, property insurance and medical benefit costs have both increased well beyond the rate of inflation.

For the contract manufacturing portion of Menu's business, most of these increases are automatically passed onto the customer. However, for Menu's private-label business, Menu's practice, with respect to price increases, has been to follow the brand leaders. While this practice at times squeezes Menu's margins (as it did in 2003), it none-the-less helps to ensure that Menu's products are competitively priced at retail. In the United States in early 2004, the leading national brands of wet pet food took price increases, which we understand to be in the order of 2¢ U.S. per container. Menu has experienced the same type and magnitude of cost increases as the national brands. Accordingly, early in 2004, Menu initiated a similar price increase with its United States customers on its private-label products.

Bovine Spongiform Encephalopathy ("BSE")

On May 20, 2003, a single case of BSE was discovered in Alberta, Canada. This incident resulted in the closure of the United States border to Canadian-made pet food. As discussed in previous releases, Menu's response to this closure adversely impacted the Fund's financial performance for its second, third and fourth quarters of 2003. On December 23, 2003, the USDA announced the discovery of a single case of BSE in Washington State, USA. On December 29, 2003, the Canadian Food Inspection Agency closed the Canadian border to United States-made pet food. Subsequently, this closure was modified to close the border only to pet food containing "beef". This closure, while disruptive, is less significant than the first incident, because Menu is the only major pet food company with a wet pet food plant in Canada, which may, in the long run, be a benefit to the Fund's operating results.

In addition to this Canadian border closure, Mexico closed its border to United States-made pet food and, while only about 1% of Menu's sales are transacted with customers in that country, continuation of the closure for a long period of time, could see that business disappear.

Subordination and Distribution

The Fund's equity is composed of two classes of units (a) publicly traded Trust Units and (b) privately held Class B Exchangeable Units. The Declaration of Trust defines that the Class B Exchangeable Units' rights to distributions are subordinated to those of the public Trust Units. This Declaration of Trust also states that the subordination shall stay in place until such time as certain financial tests, relating to the Fund's level of EBITDA and its payment of distributions, have been achieved. For 2003, those financial tests were not achieved and as such, the subordination will continue to be in place until at least February 2005, with the release of the Fund's 2004 financial results.

Management believes, given the continuation of this subordination, that during the balance of 2004 the owners of the public Trust Units will receive, absent unforeseen events, distributions on the Trust Units of at least \$1.26 per unit for the year. As with all forward-looking statements, caution must be exercised to ensure that appropriate interpretations are made.

Risks and Uncertainties

Menu is subject to numerous risk factors in its ongoing business. These include customer sales performance, governmental regulations and restrictions, reliance on key suppliers, reliance on key personnel among others. For a review of some of the risks affecting the business, we direct you to notes 19 and 20 to the accompanying consolidated financial statements. Additional information about the Fund is available at www.sedar.com.

Note A: EBITDA is not a recognized measure under Canadian generally accepted accounting principles (GAAP). Management believes that in addition to net income, EBITDA is a useful supplemental measure of operating performance as it provides investors with an indication of cash available for distribution prior to debt service, capital expenditures and income taxes.

Distributable Cash is not a recognized measure under 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.

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 the first quarter and since the inception of the Fund:

	For the Quarter Ended March 31		Since Inception (May 22, 2002) to March 31
	2004 \$'000's	2003 \$'000's	2004 \$'000's
Net income	5,764	5,227	31,935
Add:			
Amortization of property, plant and equipment	3,080	3,216	25,812
Amortization of supply contract	301	0	465
Future income taxes	352	940	6,279
Current income taxes	667	1,083	510
Interest	1,315	863	7,700
EBITDA	11,479	11,329	72,701

	For the Quarter Ended March 31		Since Inception (May 22, 2002) to March 31
	2004 \$'000's	2003 \$'000's	2004 \$'000's
Cash flow from operating activities	(7,605)	2,140	36,352
Adjust for:			
Change in non-cash working capital items	17,339	7,352	28,601
Maintenance capital expenditures	(236)	(397)	(4,220)
Principal repayments	(24)	(35)	(262)
Distributable Cash (1)	9,474	9,060	60,471

(1) The 2003 Distributable Cash has been adjusted to reflect the presentation adopted in the fourth quarter of 2003.

Menu is the leading North American private-label/contract manufacturer of wet pet food products sold by supermarket retailers, mass merchandisers, pet specialty retailers and other retail and wholesale outlets and currently produces more than one billion containers per year.

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

Menu Foods Income Fund

Consolidated Balance Sheet

(All figures, expressed in thousands of Canadian dollars)

	As at	
	March 31, 2004 (unaudited) \$	December 31, 2003 (audited) \$
Assets		
Current assets		
Cash	21,119	3,495
Accounts receivable		
Trade	19,312	18,715
Other	2,462	1,895
Inventories (note 4)	56,426	44,611
Prepaid expenses and sundry assets	2,047	1,915
Income taxes recoverable	3,569	3,508
Future income taxes (note 14)	1,183	1,494
Total Current Assets	106,118	75,633
Property, plant and equipment (note 5)	107,131	107,413
Goodwill	165,387	165,387
Other assets (note 6)	14,142	14,300
Total Assets	392,778	362,733
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	27,820	33,868
Distributions payable (note 11)	5,638	6,192
Current portion of long-term debt (note 8)	339	334
Total Current Liabilities	33,797	40,394
Long-term debt (note 8)	116,093	113,936
Future income taxes (note 14)	17,033	16,209
Total Liabilities	166,923	170,539
Unitholders' Equity		
Trust Units (note 9)	157,470	121,180
Class B Exchangeable Units (note 10)	97,394	97,394
Contributed surplus (note 12)	2,674	2,847
Deficit	(25,618)	(22,954)
Foreign currency translation adjustment	(6,065)	(6,273)
Total Unitholders' Equity	225,855	192,194
Total Liabilities and Unitholders' Equity	392,778	362,733

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

Menu Foods Income Fund

Consolidated Statement of Income and Deficit

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

	For the quarter ended March 31, 2004 (unaudited) \$	For the quarter ended March 31, 2003 (unaudited) \$
Sales	90,560	82,241
Cost of sales (note 15)	76,209	68,215
Gross profit	14,351	14,026
Selling, general and administrative expenses	6,253	5,913
Income before the undernoted	8,098	8,113
Financial expenses (note 13)	1,315	863
Income before income taxes	6,783	7,250
Current Income taxes	667	1,083
Future Income taxes	352	940
Total Income taxes (note 14)	1,019	2,023
Net income for the period	5,764	5,227
Deficit - beginning of period	(22,954)	(4,872)
Distributions (note 11)	(8,428)	(7,906)
Deficit - end of period	(25,618)	(7,551)
Deficit comprises:		
Accumulated net income	31,935	17,254
Accumulated distributions	(57,553)	(24,805)
	(25,618)	(7,551)
Basic net income per Unit	\$ 0.218	\$ 0.204
Diluted net income per Unit	\$ 0.214	\$ 0.199
Basic weighted average number of Units outstanding (note 9)	26,464,024	25,676,499
Diluted weighted average number of Units outstanding (note 9)	26,901,252	26,304,946

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

Menu Foods Income Fund

Consolidated Statement of Cash Flows

(All figures expressed in thousands of Canadian dollars)

	For the quarter ended March 31, 2004 (unaudited) \$	For the quarter ended March 31, 2003 (unaudited) \$
Cash provided by (used in)		
Operating activities		
Net income for the period	5,764	5,227
Adjustments for non-cash items		
Amortization of property, plant and equipment	3,080	3,216
Amortization of supply contract	301	-
Marked-to-market adjustment	125	-
Amortization of deferred financing costs	112	109
Future income taxes	352	940
	<u>9,734</u>	<u>9,492</u>
Change in non-cash working capital items		
Accounts receivable	(847)	788
Inventories	(10,382)	(8,129)
Prepaid expenses and sundry assets	(107)	118
Income taxes recoverable	618	937
Accounts payable and accrued liabilities	(6,621)	(1,066)
	<u>(7,605)</u>	<u>2,140</u>
Financing activities		
Repayment of bank indebtedness	-	(969)
Issuance of trust units, net	36,117	-
Long-term debt repayments	(172)	(3,277)
Proceeds from long-term debt	-	15,285
Distributions to unitholders	(8,982)	(7,630)
	<u>26,963</u>	<u>3,409</u>
Investing activities		
Purchase of property, plant and equipment	(1,737)	(5,006)
Other assets	3	(14)
	<u>(1,734)</u>	<u>(5,020)</u>
Increase in cash during the period	17,624	529
Cash - beginning of period	3,495	58
Cash - end of period	21,119	587
Supplementary information		
Income taxes paid	(53)	146
Interest paid	1,119	1,129

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

Menu Foods Income Fund

Notes to Consolidated Financial Statements

March 31, 2004

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

1. Description of the business

Menu Foods Income Fund (the "Fund") is an unincorporated open-ended trust, established under the laws of the Province of Ontario by Declaration of Trust dated March 25, 2002. The 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" or the "Company").

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

2. Summary of significant accounting policies

Basis of presentation

The Fund prepares its consolidated financial statements in accordance with Canadian generally accepted accounting principles.

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

These consolidated financial statements are based upon accounting principles consistent with those used and described in the annual consolidated financial statements. The disclosures contained in these unaudited interim consolidated financial statements may not include all requirements of generally accepted accounting principles for annual statements.

Accounting measurements at interim dates involve greater reliance on estimates than at year-end. In the opinion of management, the accompanying unaudited interim consolidated financial statements include all adjustments of a normal recurring nature to present fairly the financial position of the Fund as at March 31, 2004.

Certain comparative figures have been reclassified to conform to the presentation adopted during the period.

Use of estimates

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

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 cost, which approximates fair market value, due to the short term nature of these instruments.

Inventories

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

Property, plant and equipment

Property, plant and equipment are carried at the lower of cost, less accumulated amortization, and net recoverable amount. Cost represents the cost of acquisition or construction, including preparation and testing charges and financing costs incurred with respect to the assets 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. 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
Building under capital lease	40 years
Machinery and equipment	3 - 10 years
Equipment under capital lease	3 - 10 years
Other property and equipment	3 - 20 years

Menu Foods Income Fund

Notes to Consolidated Financial Statements

March 31, 2004

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

2. Summary of significant accounting policies (continued)

Future income taxes

The Fund follows the liability method of accounting for future 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. The repatriation of earnings from foreign subsidiaries is expected to occur regularly, therefore, applicable withholding taxes are accrued as the foreign sourced income is earned.

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.

Deferred financing charges

Costs associated with the arrangement of long-term financing are deferred and amortized on a straight-line basis over the term of the debt. The amortization is included in financial expenses.

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 would suggest an impairment of the carrying value. Impairment would be recognized when the estimated fair value of the goodwill is lower than the carrying value.

Supply contract

The supply contract (the "Contract") consists of an exclusive agreement to supply all the canned wet pet food requirements for Proctor & Gamble / Iams ("P&G/Iams") in the United States and Canada. The Contract is carried at the lower of cost less accumulative amortization, and net recoverable amount. Amortization, which is charged to cost of sales, is computed over the estimated useful life of the Contract, which is ten years. The Contract is evaluated for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable. An impairment loss is recognized when estimated undiscounted cash flows expected to result from the Contract are less than its carrying value. When an impairment loss is recognized, the carrying amount of the Contract would be reduced to its estimated fair value.

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 balance sheet date and non-monetary items are translated at historical exchange rates. Operating revenue and expenses are translated at average exchange rates prevailing during the period. Gains or losses arising from these translations are included in net income.

The assets and liabilities of all subsidiaries, which are considered to be self-sustaining operations, are translated at the exchange rate in effect at the balance sheet date. Revenues and expenses are translated at average exchange rates prevailing during the period. The Fund has designated its United States dollar loans as a hedge of its net investment in the United States. The loans are translated at the exchange rate in effect at the balance sheet date. The resulting gains or losses are included in the foreign currency translation adjustment in unitholders' equity.

Revenue recognition

The Fund recognizes revenue from the sale of manufactured goods at the time of product shipment. Volume rebates on purchases are recorded throughout the period as a reduction of cost of sales. 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, the Fund includes in sales the invoice price to the customer and includes in cost of sales the Fund's portion of costs incurred when the goods are shipped.

Menu Foods Income Fund

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March 31, 2004

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

2. Summary of significant accounting policies (continued)

Unit based compensation

The Fund expenses awards made under its long-term incentive plan in accordance with the fair value based method.

Derivative instruments

Any trading, speculative or non-qualifying hedging derivative financial instruments are recognized in the consolidated balance sheet and measured at fair value, with changes in fair value recognized in net income.

3. P&G/ Iams production assets

On October 31, 2003, Menu completed its acquisition of P&G/Iams production facility in North Sioux City, South Dakota. The Fund acquired inventory and property, plant and equipment and assumed all the employees of that facility. Concurrent with the acquisition, the Fund entered into an agreement to supply, on an exclusive basis, all of P&G/Iams' canned wet pet food requirement in the United States and Canada. The acquisition has been accounted for using the purchase method with the results of operations included in net income from November 1, 2003. The assets acquired and the consideration given were as follows:

	(audited)	
At fair value:	\$	US\$
Inventory	2,220	1,651
Supply contract	13,294	9,886
Property, plant and equipment	5,079	3,777
Accrued liabilities	(7,407)	(5,508)
Cash consideration	13,186	9,806

In certain circumstances, specific liabilities for involuntary termination could arise under the terms of the asset purchase agreement. The maximum incremental liabilities for such circumstances have been included in the acquisition equation. Should these accruals not be required, values attributed to property, plant and equipment and the supply contract will be reduced accordingly. The acquisition equation will be finalized when these matters are resolved, but no later than November 1, 2004.

4. Inventories

	March 31, 2004 (unaudited)	December 31, 2003 (audited)
	\$	\$
Raw materials and packaging	13,934	14,038
Finished goods	42,492	30,573
	56,426	44,611

5. Property, plant and equipment

	March 31, 2004 (unaudited)		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Land	3,728	-	3,728
Buildings	28,161	2,340	25,821
Building under capital lease	8,904	359	8,545
Machinery and equipment	74,512	16,470	58,042
Other property and equipment	12,953	5,159	7,794
Equipment under capital lease	809	395	414
Construction-in-progress	2,787	-	2,787
	131,854	24,723	107,131

Menu Foods Income Fund

Notes to Consolidated Financial Statements

March 31, 2004

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

5. Property, plant and equipment (continued)

	December 31, 2003 (audited)		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Land	3,643	-	3,643
Buildings	27,598	1,964	25,634
Building under capital lease	8,725	297	8,428
Machinery and equipment	72,145	13,710	58,435
Other property and equipment	13,293	4,395	8,898
Equipment under capital lease	809	335	474
Construction-in-progress	1,901	-	1,901
	128,114	20,701	107,413

6. Other assets

	March 31, 2004 (unaudited)		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Supply contract (note 3)	13,189	507	12,682
Deferred financing charges	1,628	168	1,460
	14,817	675	14,142

	December 31, 2003 (audited)		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Supply contract (note 3)	12,925	199	12,726
Deferred financing charges	1,631	57	1,574
	14,556	256	14,300

7. Credit facility

The banking agreement provides the Fund with a US\$30,000 operating facility of which none was drawn as at March 31, 2004. This operating facility bears interest at Canadian prime rate (4.0% as at March 31, 2004), US base rate (4.0% as at March 31, 2004) or Eurodollar rate plus 1.50% depending on the currency advanced. The Fund has pledged, as security for bank indebtedness, all moveable property and book debts and, in addition, has signed a general security agreement. The Fund must adhere to certain restrictive covenants and required financial ratios in order to satisfy its obligations under the terms of its financing agreements with both its bankers and senior secured noteholders (note 8).

8. Long-term debt

	March 31,	December 31,
	2004 (unaudited)	2003 (audited)
	\$	\$
Senior secured notes (a)	113,407	111,129
Obligation under capital lease		
Equipment - secured (b)	350	386
Building - secured (c)	2,270	2,358
Forgivable loan (d)	405	397
	116,432	114,270
Less: Current portion	339	334
	116,093	113,936

Menu Foods Income Fund
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March 31, 2004

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

8. Long-term debt (continued)

a) Senior secured notes

On October 31, 2003, the Fund closed a private placement offering for US\$85 million in floating rate (three month LIBOR plus 155 basis points; 2.68% as at March 31, 2004 and 2.72% as at December 31, 2003) senior secured notes. The notes are repayable on October 31, 2010 with interest payable quarterly commencing January 31, 2004. The Fund has pledged, as security for its senior secured notes, all moveable property and book debts and, in addition, has signed a general security agreement. The Fund must adhere to certain restrictive covenants and required financial ratios in order to satisfy its obligations under the terms of its financing arrangements with both its bankers (note 7) and senior secured noteholders. The Fund is in compliance with these covenants.

During the fourth quarter of 2002, the Fund fixed interest rates at 2.93% or 2.97% plus a stamping fee of 155 basis points on US\$22,500 through to December 2005.

b) Obligation under capital lease – equipment

The Fund entered into a capital lease, collateralized by certain computer equipment. The lease, which matures in 2006, provides for blended monthly payments of \$14.

Future minimum lease payments are as follows:	March 31, 2004 (unaudited) \$	December 31, 2003 (audited) \$
2004	126	168
2005	168	168
2006	84	84
Total minimum lease payments	378	420
Less: Amounts representing interest at 6.60%	28	34
Balance of obligation	350	386
Less: Current portion	149	147
	201	239

c) Obligation under capital lease – building

During the third quarter of 2002, Menu purchased the majority of the outstanding Industrial Revenue Bonds issued in 1997 by the City of Emporia to finance the construction of the Emporia, Kansas facility. Menu had operated the facility under an operating lease since inception. As a result of this purchase, and because of the virtual certainty of ownership by Menu at the end of the lease, the Fund commenced accounting for this arrangement as a capital lease. As at March 31, 2004 and December 31, 2003, a total face value of \$2,271 (US\$1,700) and \$2,358 (US\$1,800) respectively was owned by third parties while the remaining face value of \$5,370 (US\$4,025) was held by Menu. Principal and interest payments occur semi-annually, on February 1 and August 1.

Future minimum lease payments attributable to the bonds held by third parties are as follows:

Future minimum lease payments attributable to the bonds held by third parties are as follows:	March 31, 2004 (unaudited) \$	December 31, 2003 (audited) \$
2004	193	386
2005	386	385
2006	384	383
2007	384	384
2008	385	384
Thereafter	1,543	1,573
Total minimum lease payments	3,275	3,495
Less: Amounts representing interest at 8.83%	1,005	1,137
Balance of obligation	2,270	2,358
Less: Current portion	190	187
	2,080	2,171

Menu Foods Income Fund

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8. Long-term debt (continued)

d) Forgivable loan

During the third quarter of 2002, the Fund finalized an incentive agreement whereby the City of Emporia provided incentive money in the form of a non-interest bearing forgivable loan. As at March 31, 2004 \$405 (US \$303) was outstanding (\$397 (US\$303) as at December 31, 2003). This loan is forgivable providing the Fund maintains certain employment levels in its Emporia facility. One quarter of the original loan was forgiven on each of December 31, 2002 and December 31, 2003, with the balance forgivable over the next two years. The Fund only recognizes the forgiven amount upon the test being met and agreed to by the City of Emporia. The incentive arrangement was provided to assist in the construction of the building. The Fund reduces its property, plant and equipment by the amount forgiven, as it is forgiven.

9. Trust Units

Authorized

Unlimited number of Trust Units

Unlimited number of Special Trust Units

Issued

	Number of units	Gross proceeds \$	Issuance costs \$	Net proceeds \$
Trust Units				
December 31, 2002 (audited)	13,044,584	130,206	10,820	119,386
Exercise of options during quarter ended:				
March 31, 2003	-	-	-	-
June 30, 2003	23,735	198	-	198
September 30, 2003	11,037	92	-	92
December 31, 2003	180,467	1,504	-	1,504
December 31, 2003 (audited)	13,259,823	132,000	10,820	121,180
Issuance during the quarter	2,500,000	36,500	480	36,020
Exercise of options during the quarter (note 12)	32,377	270	-	270
March 31, 2004 (unaudited)	15,792,200	168,770	11,300	157,470

Special Trust Units

Special Trust Units are used solely for providing voting rights to holders of Class B Exchangeable Units ("Class B Units") (note 10) 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 which 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 (note 10).

Weighted average number of units outstanding

Basic net income per unit is computed by dividing net income for the period by the weighted average number of Trust Units and Class B Units (collectively the "units") outstanding during the period. Diluted net income per unit includes the effect of exercising unit options (note 12), only if dilutive.

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

	Quarter ended March 31, 2004 (unaudited)	Quarter ended March 31, 2003 (unaudited)
Weighted average number of		
Trust Units	13,832,109	13,044,584
Class B Units (note 10)	12,631,915	12,631,915
Weighted average number of units - basic	26,464,024	25,676,499
Dilutive effect of options (note 12)	437,228	628,447
Adjusted weighted average number of units outstanding - diluted	26,901,252	26,304,946

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10. Class B Exchangeable Units

	March 31, 2004 (unaudited)	December 31, 2003 (audited)
Number of units	\$	\$
Class B Exchangeable Units of MFLP	12,631,915	97,394
	\$	\$
	97,394	97,394

The Class B Units will be exchangeable on a one-for-one basis with the Fund for Trust Units at the option of the holder, at any time after the First Conversion Date as defined in the MFLP Limited Partnership Agreement (the "Partnership Agreement"). As a result, they are accounted for as part of equity. Generally, the Partnership Agreement states that the First Conversion Date is the date on which the Trustees have approved annual audited financial statements for the Fund in which monthly distributions have averaged \$0.0979 per unit (including Class B Units) and the Fund earned EBITDA (Earnings Before Interest Taxes Depreciation and Amortization) in excess of \$42,500. The Fund did not meet this requirement for Class B Units conversion during the year ended December 31, 2003.

The Class B Units have economic and voting rights equivalent, in all material respects, to the Trust Units. Distributions of up to an equivalent amount of distributions made to the Trust Units during the quarter, will be made quarterly to the Class B units. However, until the First Conversion Date, distributions will be subordinated to those on the Trust Units and only made if the monthly distributions of \$0.0979 per unit have been made to the Trust unitholders. Any excess distributable cash, determined annually, after payment of the monthly \$0.0979 distribution to the Trust unitholders and the \$0.2937 quarterly distribution to the Class B unitholders will be shared pro rata between the Trust Units and the Class B Units.

11. Distributions to unitholders

Distributions announced during the quarter ended March 31, 2004 were as follows:

Unitholder record date	Total \$	Per unit \$	Paid or payable
Trust Units			
January 30, 2004	1,395	0.1050	February 16, 2004
February 27, 2004	1,395	0.1050	March 15, 2004
March 31, 2004	1,659	0.1050	April 15, 2004
	4,449	0.3150	
Class B Units			
March 31, 2004	3,979	0.3150	May 14, 2004
All units	8,428		

During the quarter ended March 31, 2003, distributions to Trust Units amounted to \$4,016 (\$0.3079 per unit) and distributions to Class B Units amounted to \$3,890 (\$0.3079 per unit), for an aggregate total of \$7,906.

12. Unit based compensation

Unit option plan

Menu Foods Corporation (the former parent company of Menu) had an executive stock option plan pursuant to which there were outstanding options issued to 61 of its directors, executive officers and key employees. In connection with the IPO and acquisition, these options were exchanged for Trust Unit options in the Fund having equivalent terms and conditions. As at March 31, 2004, 548,174 Trust Unit options, having a weighted average exercise price of \$2.977 per unit, are outstanding, of which 58,131 are vested, with 490,043 vesting in November and December, 2004. The Trust Unit options will expire in November and December, 2006.

	March 31, 2004 (unaudited)	December 31, 2003 (audited)
Opening balance	580,551	798,008
Exercised	(32,377)	(215,239)
Forfeited	-	(2,218)
Ending balance	548,174	580,551

Menu Foods Income Fund

Notes to Consolidated Financial Statements

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12. Unit based compensation (continued)

The fair value of the stock options was determined as part of the cost of the acquisition of Menu Foods Limited Partnership ("MFLP") (note 3(a)) using the Black-Scholes model, incorporating a 4.25% risk free interest rate, at a 35% volatility factor and 11.75% expected distributions. On this basis, each stock option was valued at \$5.36. The valuation of total stock options, after allowing for expected forfeitures, aggregated to \$4,776, which was included as contributed surplus at the acquisition date.

Contributed surplus attributed to stock options

	March 31, 2004 (unaudited) \$	December 31, 2003 (audited) \$
Opening balance	2,847	4,001
Options exercised	(173)	(1,154)
Ending balance	2,674	2,847

As the unit options are exercised, the associated contributed surplus is reclassified to Trust Units (note 9). During the quarter, \$173 was reclassified to Trust Units.

Long-term incentive plan

Effective in 2003, the Fund adopted a long-term incentive plan (the "Incentive Plan") in which trustees, directors, officers and employees are all eligible to participate. Pursuant to the Incentive Plan, which runs until 2005, the Fund will contribute an amount, equal to 14.286% of the product of the amount by which distributable cash for a calendar year exceeds \$31,170, to a trust on behalf of the participants in the Incentive Plan. The trust will then purchase Units, on the open market, equal in value to the amount contributed to the trust. Units will be awarded to participants based upon determinations made by the Compensation and Corporate Governance committee of the Administrator (the "Committee"). Once purchased, the Committee will determine the number of Units acquired on behalf of each Participant based on the amount contributed to the trust on behalf of each Participant. Units awarded will vest over a three year period, subject to the provisions of the Incentive plan. If the employment of a Participant is terminated prior to the final vesting of the Units attributed to such Participants, such Participants unvested units shall be sold and the net proceeds returned to the Fund. No awards have been granted to date.

13. Financial expenses

	Quarter ended March 31, 2004 (unaudited) \$	Quarter ended March 31, 2003 (unaudited) \$
Interest on senior secured notes	979	-
Interest on term loans	150	785
Interest on capital leases	60	66
Amortization of deferred financing charges	112	-
Other	14	12
	1,315	863

Menu Foods Income Fund

Notes to Consolidated Financial Statements

March 31, 2004

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14. Income taxes

Income tax obligations relating to distributions from the Fund are obligations of the unitholders and, accordingly, no provision for income taxes has been made in respect of income of the Fund. A provision for income taxes is recognized for the Fund's subsidiaries that are subject to tax, including large corporations tax.

The provision for income taxes in the consolidated statement of income and deficit reflects an effective rate which differs from the combined Canadian federal and provincial rates for the following reasons:

	Quarter ended March 31, 2004 (unaudited)		Quarter ended March 31, 2003 (unaudited)	
	\$		\$	
Net income before taxes	6,783		7,250	
Net income of the Fund subject to tax in the hands of recipients	(3,218)		(2,694)	
Net income of subsidiary entities	3,565		4,556	
Income taxes at statutory rate	1,229	34.48%	1,488	32.66%
Increase (decrease) resulting from:				
Effect of foreign tax rate	(406)	(11.39%)	(124)	(2.72%)
Large corporations tax	53	1.49%	27	0.59%
Unused tax loss carry-forward	-	0.00%	416	9.13%
Other and permanent differences	143	4.01%	216	4.74%
	1,019	28.59%	2,023	44.40%

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

	March 31, 2004 (unaudited)	December 31, 2003 (audited)
	\$	\$
Current future income tax assets		
Accounts receivable, accounts payable and accrued liabilities	(609)	552
Inventory provisions	2,147	1,296
Less: share of net partnership income not yet subject to tax	(355)	(354)
	1,183	1,494
Long-term future income tax liabilities		
Property, plant and equipment	18,005	17,559
Withholding tax on foreign retained earnings	51	-
Tax benefits of loss carry-forwards	(3,373)	(3,648)
Less: Valuation allowance	2,153	2,153
Other	197	145
	17,033	16,209

The benefits of these future tax loss carry-forwards expire between 2008 and 2010.

15. Other expenses and income

Research and development expenses amounted to \$75 for the quarter ended March 31, 2004 (\$75 for the quarter ended March 31, 2003). These expenses are included in cost of sales.

16. Obligations under operating leases

Future minimum payments under operating leases at March 31, 2004 are as follows:

	(unaudited)
	\$
2004	1,482
2005	1,305
2006	1,052
2007	171
2008	57
Thereafter	-
	4,067

Menu Foods Income Fund

Notes to Consolidated Financial Statements

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17. 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 the above plan, contributions are made by plan members, with varying matching contributions from the Fund.

The total expense related to these plans was \$365 for the quarter ended March 31, 2004 (\$370 for the quarter ended March 31, 2003).

18. Segmented information

The Fund's operations fall into one reportable business segment. The Fund is principally engaged in the manufacture of private-label 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 which approximate those prevailing in the markets, less a distribution margin. The point of origin of revenues and the location of the assets determine the geographic areas.

	Quarter ended March 31, 2004 (unaudited) \$	Quarter ended March 31, 2003 (unaudited) \$
Sales		
Canada		
Domestic	13,146	11,086
Foreign	21,800	8,445
Intersegment transfers	5,138	4,325
	<hr/> 40,084	<hr/> 23,856
United States		
Domestic	59,537	66,048
Intersegment transfers	22,422	6,926
	<hr/> 81,959	<hr/> 72,974
	122,043	96,830
Elimination of intersegment transfers	(27,560)	(11,251)
Discounts	(3,923)	(3,338)
	<hr/> 90,560	<hr/> 82,241

	March 31, 2004 (unaudited) \$	December 31, 2003 (audited) \$
Property, plant and equipment		
Canada	31,558	31,188
United States	100,296	96,926
	<hr/> 131,854	<hr/> 128,114
Less: Accumulated amortization	24,723	20,701
	<hr/> 107,131	<hr/> 107,413

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

Menu Foods Income Fund

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19. Financial instruments

Credit risk

The Fund has approximately 21% of its sales to one customer. Other than this one customer, 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 financial statements before extending credit and performs regular reviews of its existing credit performance.

Foreign exchange and interest rate risks

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

As at March 31, 2004, the Canadian dollar amounts to be received under foreign currency forward contracts were \$27.6 million (December 2003 - \$16.4 million), the weighted average contractual exchange rate was \$1.3437 and the settlement dates of outstanding contracts were all less than one year. The exchange rate as at the quarter end was \$1.3105. The marked-to-market value of the contracts as at March 31, 2004 resulted in a gain of \$80 (December 31, 2003 - gain of \$476). These contracts do not qualify for hedge accounting and therefore the gain has been credited to administrative expenses during the period. The unrealized gain of \$556 at March 31, 2004 has been debited to accounts payable and accrued liabilities.

During the fourth quarter of 2002 the Fund fixed interest rates on a portion of its indebtedness (note 8). The marked-to-market value of the contracts as at March 31, 2004 results in a loss of \$148 which was charged to interest expense during the quarter. The unrealized loss of \$205 has been credited to accounts payable and accrued liabilities.

Fair value of financial instruments

The carrying values of cash, trade and other receivables, accounts payable and accrued liabilities, distributions payable and income taxes payable and recoverable approximates their fair values because of the near maturity 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.

The interest free loan referred to in note 8(d), if it attracted interest at the rate of the Fund's other comparable long-term debt, would have an approximate fair value of \$314 (\$360 as at December 31, 2003).

20. Economic dependence

The Fund relies on a single supplier for the majority of its can requirements. Should this supplier fail to deliver in a timely manner, delays and or shut downs of the Fund's operations could result.