

## Menu Foods Income Fund announces positive third quarter results

/Not for release over U.S. Newswire services./

TORONTO, Nov. 14 /CNW/ - (TSX: MEW.UN): Menu Foods Income Fund (the "Fund") announced today its third quarter and year-to-date results for the period ended October 5, 2002. A conference call to review those results will take place on Friday, November 15, 2002 at 8:30 a.m. EST (Toronto time). The local number to use for this call is 416-695-5806 and the toll free number is 1-800-273-9672. The conference call will be chaired by Serge Darkazanli, Menu's President and Chief Executive Officer. Serge will be joined on the call by Paul Henderson, Menu's Chief Operating Officer and Mark Wiens, Menu's Chief Financial Officer.

For anyone unable to listen to the scheduled call, the local rebroadcast number will be 416-695-5800 and the toll free number will be 1-800-408-3053, with the passcode number 1302254. The rebroadcast will be available until November 29, 2002.

### Report to Unitholders

The Fund, launched on May 22, 2002, is the 50.8% owner of Menu Foods Limited, the leading manufacturer of private-label wet pet food in North America. The Fund's results include those of Menu Foods Limited, its subsidiaries and affiliated companies and the partnerships which conduct our day-to-day business.

The accompanying consolidated financial statements report on the 39 day period from May 22, 2002 to June 29, 2002 and the following 14 week quarter (the third quarter of 2002) ended October 5, 2002. The year-to-date results are for the 137 day period from May 22, 2002 to October 5, 2002. The table below reports selected highlights of those results.

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	39 Days		3rd Quarter		137 Days	
	\$Millions	cents Unit	\$Millions	cents Unit	\$Millions	cents Unit
Sales	35.3		91.3		126.6	
Net Income	1.6		5.5		7.1	
EBITDA (see Note A)	4.3		12.3		16.6	
Distributable						
Cash	3.4	13.15	9.1	35.50	12.5	48.64
Distributions						
Trust Units	1.7	12.95	3.8	29.37	5.5	42.32
Class B Units	0.0	0.00	5.3	42.32	5.3	42.32

Over the first 137 days of the Fund's existence, Menu achieved Sales, EBITDA and Distributions well within the representations made during the recent IPO process. Specifically, sales grew by 16.4% and EBITDA by 55% over the corresponding prior year period. On an annualized basis, based upon the operating results for the 137 day period, the current run rate for sales is

\$337 million, \$44 million for EBITDA and over \$33 million for Distributable Cash. (See Note C below)

On September 5, 2002, the Trustees announced with sadness that Robert Bras, then President and Chief Executive Officer of the Menu Foods business operated by the Fund, had died after a lengthy battle with cancer. He was an outstanding leader and will be greatly missed. The Fund also announced, at that time, the appointment of Serge Darkazanli as Chairman, President and Chief Executive Officer of the Menu Foods business operated by the Fund. Mr. Darkazanli brings 25 years of experience in the retailing industry and most recently was Chairman and President of Westfair Foods. We have appreciated the confidence of investors, customers and suppliers through our recent and successful transition to a public entity and thanks to the ongoing commitment of our employees, we remain confident about the future. (See Note B below)

Serge K. Darkazanli  
Chairman, 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 14 week third quarter and 137 days ended October 5, 2002)

#### PRESENTATION OF FINANCIAL INFORMATION

On May 22, 2002, the Fund acquired a 50.5% interest in the business of Menu Foods Limited ("Menu"). This acquisition has been accounted for using the purchase method of accounting and accordingly Menu's operating results have been included in the consolidated financial statements of the Fund from the date of that purchase. Where appropriate the following discussion and analysis compares the current period's performance to a corresponding period in the prior year. While the prior year's results occurred before the Fund's acquisition of Menu, the comparison is none-the-less provided with the objective of enhancing the usefulness of the analysis.

#### OPERATING RESULTS FOR THE 14 WEEKS ENDED OCTOBER 5, 2002

For the 14 weeks ended October 5, 2002, Menu recorded sales of \$91.3 million, an increase of approximately 12.1% over the corresponding period of the prior year. Physical volume (expressed in cases of 24 cans or pouches, hereinafter referred to as "volume") grew at a somewhat slower rate of 10.5%. The net effect was an increase in the average selling price per case, primarily due to:

1. the full year impact of a price increase initiated by Menu during the third quarter last year, which followed a price increase by most of the national brand pet food manufacturers; and
2. the impact of a weaker Canadian dollar relative to the US dollar compared to that relationship for the same period in the prior year; partially offset by
3. the impact of increased pouch volume (as described below), which carry a lower average case value.

The 10.5% growth in volume represents increased sales to new and existing customers, driven primarily by the sale of pouches. This pouch product, which

was first sold by Menu in July 2001, did not contribute significantly to Menu's volume during the third quarter of fiscal 2001.

Gross profit increased by \$6.0 million (or 60.5%) for the 14 week third quarter ended October 5, 2002, compared to the 14 week third quarter ended October 6, 2001. This increase primarily results from the 12.1% increase in sales and an improved gross profit margin, compared to the same period in the prior year. The gross profit margin increased to 17.5% for the third quarter ended October 5, 2002 compared to 12.2% for the same quarter of 2001. This improvement reflects the elimination in the current year of certain negative elements in the prior year's performance, including costs associated with the start up of the new pouch line and integration expenses associated with the acquisition of certain assets of a competitor during the second quarter of fiscal 2001. These start up costs, while anticipated, none-the-less adversely impacted the gross profit margin of the third quarter ended October 6, 2001. Furthermore, the current year's gross profit margin benefits from the full-year effect of the aforementioned price increase as well as a more favorable sales mix.

Selling, general and administrative expenses for the third quarter ended October 5, 2002 increased by \$1.9 million (or 35.4%) compared to the previous year. This increase in spending is largely due to expenditures made to support the 10.5% growth in sales volume and increased public company costs, as well as the increased amortization of Menu's new ERP computer system.

The forgoing resulted in EBITDA (See Note A below) of \$12.3 million for the third quarter ended October 5, 2002, which represents an increase of 69.4% compared to the third quarter ended October 6, 2001.

Amortization (which is included in cost of sales and SG&A expenses) increased by \$1.0 million (or 34.6%) compared to the third quarter ended October 6, 2001. This increase reflects the impact of the \$24.5 million of capital expenditures made during the 12 month period ended October 5, 2002, together with the full year impact of the \$16.2 million of capital expenditures made during the third quarter ended October 6, 2001, as well as the amortization of Menu's new ERP computer system, which was commissioned during the third quarter of the prior year.

Interest expense decreased by \$0.5 million (or 37.9%) for the third quarter ended October 5, 2002 compared to the third quarter ended October 6, 2001. This decrease is due to the decline in interest rates coupled with a reduction in Menu's long-term debt and bank indebtedness.

For the third quarter ended October 5, 2002, the combined basic Canadian tax rate of 38.5% was reduced to reflect the changes in the legal structure of the Canadian business, which, together with manufacturing and processing deductions, foreign tax rates and timing, permanent and other adjustments, resulted in a net effective tax rate of 29.3%.

Net income for the third quarter ended October 5, 2002, was \$5.5 million, up \$3.5 million or 175% compared to the third quarter ended October 6, 2001.

#### OPERATING RESULTS FOR THE 137 DAY YEAR-TO-DATE PERIOD ENDED OCTOBER 5, 2002

For the 137 day year-to-date period ended October 5, 2002 (being the last 39 days of the second quarter and the 14 weeks of the third quarter), Menu recorded sales of \$126.6 million, up 16.4% compared to the same period last year. Volume increased by 14.3% compared to the 137 day period ended October 6, 2001, with the difference between the dollar and volume increases representing an increase in the average selling price per case.

Similar to the third quarter, this increase in average selling price per case, is attributable to:

- 1) the full year impact of a price increase initiated by Menu during the third quarter last year, which followed a price increase by most of the national brand pet food manufacturers; and
- 2) the impact of a weaker Canadian dollar relative to the US dollar compared to that relationship for the same period in the prior year; partially offset by
- 3) the impact of increased pouch volume (as described below), which carry a lower average case value.

The growth in volume primarily represents increased sales to new and existing customers, driven primarily by the sale of pouches. This pouch product, which was first sold by Menu in July 2001, did not contribute significantly to Menu's volume during the corresponding period in 2001.

Gross profit increased by \$6.9 million (or 48.5%) for the 137 day period ended October 5, 2002, compared to the 137 day period ended October 6, 2001. This increase primarily results from the 16.4% increase in sales and an improved gross profit margin compared to the same period in the prior year. The gross profit margin increased to 16.8% for the 137 day period ended October 5, 2002 compared to 13.2% for the same period in 2001. Similar to the third quarter, this improvement reflects the elimination in the current year of certain negative elements in the prior year's performance including costs associated with the start up of the new pouch line and integration expenses associated with the acquisition of part of a competitor during the second quarter of fiscal 2001. These start up costs, while anticipated, none-the-less adversely impacted the gross profit margin of the 137 day period ended October 6, 2001. Furthermore, the current year's gross profit margin benefits from the full-year effect of the aforementioned price increase as well as a more favorable sales mix.

Selling, general and administrative expenses for 137 day period ended October 5, 2002 increased by \$2.6 million (or 36.7%) compared to the previous year. This increase in spending is largely due to expenditures made to support the 14.3% growth in volume, increased public company costs as well as the increased amortization of Menu's new ERP computer system.

The foregoing resulted in EBITDA (See Note A below) of \$16.6 million for the 137 day period ended October 5, 2002, which represents an increase of 55% compared to the 137 day period ended October 6, 2001.

Amortization (which is included in cost of sales and SG&A expenses) increased by \$1.6 million (or 43.8%) for the 137 day period ended October 5, 2002 compared to the 137 day period ended October 6, 2001. This increase reflects the impact of the \$24.5 million of capital expenditures made during the 12 month period ended October 5, 2002, as well as the full year amortization of the \$18.9 million of capital expenditures made during the 137 day period ended October 6, 2001. This increase in amortization also reflects the full year amortization of various projects which were completed during the 2001 comparative period, including the start up of the new pouch line, the new ERP computer system and the acquisition of certain assets from a competitor.

Interest expense decreased by \$0.8 million (or 39.8%) for the 137 day period ended October 5, 2002 compared to the 137 day period ended October 6, 2001. This decrease is due to the decline in interest rates coupled with a reduction in Menu's long-term debt and bank indebtedness.

For the 137 day period ended October 5, 2002, the combined basic Canadian tax rate of 38.5% was reduced to reflect the changes in the legal structure of the Canadian business which, together with manufacturing and processing deductions, foreign tax rates and timing, permanent and other adjustments, resulted in a net effective income tax rate of 29.9%.

Net income for the 137 day period ended October 5, 2002, was \$7.1 million, up \$4.0 million or 126% compared to the 137 day period ended October 6, 2001.

#### LIQUIDITY AND CAPITAL RESOURCES

The Fund completed an IPO on May 22, 2002, and sold 12.9 million units to the public for net proceeds of \$118.0 million. These proceeds were used to purchase a 50.5% indirect interest in Menu Foods Limited Partnership, as well as to repay \$16.9 million of Menu's long-term bank debt.

During the 137 day period ended October 5, 2002, Menu generated cash flow from operations of \$13.2 million and additional cash flow of \$1.9 million from a reduction in non-cash working capital items. The increased cash flow from the reduction in non-cash working capital items related primarily to a reduction in inventory caused by Menu's annual shutdowns in June, July and August (2 weeks in each plant) and an increase in distributions payable, offset by a decrease in accounts payable and accrued liabilities. With respect to the decline in inventory, the shutdowns are scheduled to enable preventative maintenance projects to be completed and, since no production is underway for the shutdown period, Menu's inventory levels decline. Prior to these shutdowns, Menu builds inventory to enable it to maintain its customer service levels during the period when production is "off line". The decline in accounts payable and accrued liabilities is primarily the result of the Fund settling amounts owing for the IPO and acquisition of Menu, as well as accelerated payments to a major supplier to take advantage of favourable cash discounts.

During its 14 week third quarter, Menu spent \$12.6 million on capital expenditures and \$13.5 million during the 137 day year-to-date period ended October 5, 2002. The single largest expenditure during this period related to the \$11.0 million acquisition of its production facility in Emporia, Kansas - previously leased under an operating lease from the City of Emporia (the "City"). The facility was constructed by the City during 1997 and 1998, in accordance with Menu's specifications and under its direction. On August 6, 2002, Menu purchased \$7.1 million of the Industrial Revenue Bonds (which bear interest at the rate of 8.83%), which were issued by the City to finance this project. As a result of this purchase and because of the virtual certainty of ownership by Menu at the conclusion of the lease, this lease is now treated as a capital lease. Menu acquired the bonds using a standby credit facility negotiated at the time of its IPO. The net effect of this transaction is to replace 8.83% fixed rate financing with lower costing variable rate financing from Menu's Canadian bankers. Other individually significant capital expenditures during the 137 day year-to-date period included amounts spent for the installation of Menu's new enterprise resource planning computer system.

Growth capital expenditures made during these periods were financed from Menu's credit facilities while expenditures of a maintenance nature were financed from the cash flow of the business.

For the 137 day year-to-date period ended October 5, 2002, the Fund recorded distributions paid or payable of \$9.4 million (\$0.4232 per unit) of which \$4.2 million were paid.

Consolidated cash and cash equivalents as at October 5, 2002, increased to \$0.5 million, compared to the May 22, 2002 opening 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. (See Note B below)

#### OUTLOOK

Over the first 137 days of the Fund's existence, Menu continued its historic trend of growing sales. This growth in sales translated to an increase in net income, which in turn, enabled the Fund to make distributions in line with the amounts quoted during its IPO process. Management expects growth in sales to persist as its products continue to service the needs of Menu's customers. As with all forward-looking statements, caution must be exercised to ensure that appropriate interpretations are made. (See Note B below for clarification.)

#### RISKS AND UNCERTAINTIES

For a review of the risks affecting the business, we direct you to the Risk Factors section of the Fund's May 10, 2002 prospectus, as well as notes 20 and 21 to the accompanying consolidated financial statements.

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 as it provides investors with an indication of cash available for distribution prior to debt service, capital expenditures and income taxes. Investors should be cautioned, however, that EBITDA should not 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 may differ from other companies and, accordingly, EBITDA may not be comparable to measures used by other companies.

Note B: Certain statements in the Report to Unitholders and in this Management's Discussion and Analysis are "forward-looking statements" which reflect management's expectations regarding the Fund and Menu's future growth, results of operations, performance and 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, 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.

Note C: Although management believes that the annualization referred to in the Report to Unitholders is a fair indication of its results, it is included for illustrative purposes only and is not, and should not be construed as being, necessarily indicative of future results.

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

	October 5, 2002 \$	June 29, 2002 \$
Assets		
Current assets		
Cash and cash equivalents	503	1,516
Accounts receivable		
Trade	22,054	21,952
Other	3,759	948
Inventories (note 4)	39,637	45,425
Prepaid expenses and sundry assets	949	1,640
Income taxes recoverable	-	1,489
Future income taxes (note 15)	1,993	2,017
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Total Current Assets	68,895	74,987
Property, plant and equipment (note 5)	115,786	104,523
Goodwill and other assets (note 6)	166,167	166,260
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Total Assets	350,848	345,770
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Liabilities		
Current liabilities		
Bank indebtedness (note 7)	6,964	10,552
Accounts payable and accrued liabilities	24,323	29,587
Income taxes payable	542	-
Distributions payable (note 12)	5,123	1,685
Current portion of long-term debt (note 8)	7,684	122
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Total Current Liabilities	44,636	41,946
Long-term debt (note 8)	73,809	70,292
Future income taxes (note 15)	13,126	13,143
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Total Liabilities	131,571	125,381
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Unitholders' Equity		
Trust Units (note 9)	119,199	118,911
Class B Exchangeable Units (note 10)	97,394	97,394
Contributed surplus (note 13)	4,001	4,190
Deficit	(2,236)	(19)
Foreign currency translation adjustment	919	(87)
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Total Unitholders' Equity	219,277	220,389
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Total Liabilities and Equity	350,848	345,770
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The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statement of Income and Deficit  
 (All figures, except per unit amounts,  
 expressed in thousands of  
 Canadian dollars, unaudited)

	May 22, 2002 to October 5, 2002 \$	For the period June 30, 2002 to October 5, 2002 \$	May 22, 2002 to June 29, 2002 \$
Sales	126,587	91,297	35,290
Cost of sales	105,360	75,366	29,994
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Gross profit	21,227	15,931	5,296
Selling, general and Administrative expenses (note 16)	9,864	7,343	2,521
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Income before the undernoted Financial expenses (note 14)	11,363 1,197	8,588 870	2,775 327
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Income before income taxes	10,166	7,718	2,448
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Income taxes (note 15)			
Current	1,827	1,545	282
Future	1,214	714	500
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	3,041	2,259	782
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Net income for the period	7,125	5,459	1,666
Deficit - beginning of period	-	(19)	-
Distributions (note 12)	(9,361)	(7,676)	(1,685)
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Deficit - end of period	(2,236)	(2,236)	(19)
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Net income per Trust Unit and Class B Exchangeable Unit			
Basic	0.278	0.213	0.065
Diluted	0.271	0.208	0.063
Weighted average number of Trust Units, and Class B Exchangeable Units outstanding (note 9)			
Basic	25,632,698	25,655,055	25,575,045
Diluted	26,296,049	26,294,898	26,298,102

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

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

Cash provided by (used in)

	May 22, 2002 to October 5, 2002 \$	For the Period June 30, 2002 to October 5, 2002 \$	May 22, 2002 to June 29, 2002 \$
Operating activities			
Net income for the period	7,125	5,459	1,666
Adjustments for non-cash items			
Amortization of property, plant and equipment	5,079	3,622	1,457
Amortization of deferred financing costs	155	93	62
Future income taxes	835	918	(83)
	-----	-----	-----
	13,194	10,092	3,102
Change in non-cash working capital			
(Increase) decrease in accounts receivable	(1,832)	(2,772)	940
(Increase) decrease in inventories	4,112	6,035	(1,923)
Decrease in prepaid expenses and sundry assets	3,050	721	2,329
Decrease in income taxes recoverable	1,399	1,155	244
Decrease in accounts payable and accrued liabilities	(10,182)	(5,035)	(5,147)
Increase in distributions payable	5,123	3,438	1,685
Increase in future income taxes	240	82	158
	-----	-----	-----
	15,104	13,716	1,388
Financing activities			
Repayment of bank indebtedness	(6,520)	(3,429)	(3,091)
Issuance of trust units, net	118,424	99	118,325
Long-term debt repayments	(24,731)	(7,827)	(16,904)
Proceeds from long-term debt	22,569	16,735	5,834
Distributions to unitholders (note 12)	(9,361)	(7,676)	(1,685)
	-----	-----	-----
	100,381	(2,098)	102,479
Investing activities			
Purchase of property, plant and equipment	(13,486)	(12,631)	(855)

Increase in other assets	(400)	-	(400)
Acquisitions (note 3)	(101,096)	-	(101,096)
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	(114,982)	(12,631)	(102,351)
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Increase (decrease) in cash during the period	503	(1,013)	1,516
Cash - Beginning of period	-	1,516	-
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Cash - End of period	503	503	1,516
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Supplementary information

Income taxes paid (recovered)	528	707	(179)
Interest paid	1,310	985	325

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

Notes Consolidated Financial Statements  
For the period June 30, 2002 to October 5, 2002

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").

On May 22, 2002, the Fund completed an Initial Public Offering ("the IPO") of 12,900,000 units, at a price of \$10 per unit, for aggregate gross proceeds of \$129,000. Concurrent with the closing of the IPO, the Fund acquired a 50.5% indirect interest in Menu (note 3).

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

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Since the Fund commenced operations on May 22, 2002 with the acquisition of Menu, no comparative information is provided.

2. Summary of significant accounting policies

Basis of presentation

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.

The Fund prepares its financial statements in accordance with accounting principles generally accepted in Canada. 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 inherently 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 October 5, 2002.

#### 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.

#### 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 cost, less accumulated amortization. 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. 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
Other property and equipment	3 - 20 years
Equipment under capital lease	3 - 5 years
Building under capital lease	40 years

#### Future income taxes

The Company 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, so 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 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.

#### 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 ongoing basis to evaluate whether 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.

#### Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies 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 earnings.

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 based on estimated annualized volumes. 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.

#### Fiscal periods

The Fund's year end is December 31. However, during the year the Fund has fiscal periods that end on a Saturday.

### 3. Issue of Fund units and acquisition

The Fund was created to indirectly hold a majority of the partnership units of Menu Foods Limited Partnership ("MFLP"), with the remaining interest being retained by former shareholders of Menu and its associated companies, in the form of exchangeable units in a subsidiary partnership (note 10). On May 22, 2002, the Fund completed its IPO for aggregate gross proceeds of \$129,000. The costs of issuance of the units were \$11,000, resulting in unitholders' equity of \$118,000. In conjunction with the IPO, the Fund then acquired an indirect 50.5% interest in MFLP, which, through a series of transactions with corporations and limited partnerships, acquired 100% of Menu. The difference between the aggregate net proceeds and the cash cost of the Menu acquisition was used to repay existing long-term debt of Menu. The acquisition has been accounted for using the purchase method, with the results of operations included in earnings from May 22, 2002. The assets acquired and consideration given were as follows:

At fair value:	\$
Net working capital assets	23,119
Property, plant and equipment	105,099
Other assets	344
Future income taxes	(9,319)
Long-term debt	(81,444)
Goodwill (non-deductible)	165,467
Class B Exchangeable Units (note 10)	(97,394)
Contributed surplus (note 13)	(4,776)
	-----
	101,096
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The total cash consideration paid for 50.5% of MFLP arose as follows:

	\$
Net proceeds from initial public offering	118,000
Repayment of long-term debt	16,904
	-----
	101,096
	-----

4. Inventories

	October 5, 2002 \$	June 29, 2002 \$
Raw materials and packaging	9,654	9,749
Finished goods	29,807	35,519
Returnable containers	176	157
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	39,637	45,425
	-----	-----

5. Property, plant and equipment

	Cost \$	October 5, 2002 Accumulated amortization \$	Net \$
Land	2,839	-	2,839
Buildings	28,431	540	27,891
Machinery and equipment	67,449	3,789	63,660
Other property and equipment	10,843	847	9,996
Equipment under capital lease	484	80	404
Building under capital lease	11,033	37	10,996
	-----	-----	-----
	121,079	5,293	115,786
	-----	-----	-----

	Cost \$	June 29, 2002 Accumulated amortization	Net \$
Land	2,836	-	2,836
Buildings	27,979	119	27,860
Machinery and equipment	64,198	674	63,524
Other property and equipment	10,473	604	9,869
Equipment under capital lease	488	54	434
	-----	-----	-----
	105,974	1,451	104,523
	-----	-----	-----

6. Goodwill and other assets

	Cost \$	October 5, 2002 Accumulated amortization	Net \$
Goodwill	165,467	-	165,467
Deferred financing charges	855	155	700
	-----	-----	-----
	166,322	155	166,167
	-----	-----	-----

	Cost \$	June 29, 2002 Accumulated amortization	Net \$
Goodwill	165,467	-	165,467
Deferred financing charges	855	62	793
	-----	-----	-----
	166,322	62	166,260
	-----	-----	-----

#### 7. Bank indebtedness

All of the Fund's assets have been pledged as security for the bank indebtedness. The financing agreement provides the Fund with a \$22,000 operating facility of which \$2,250 was drawn as at October 5, 2002 (\$3,371 - June 29, 2002). This operating facility bears interest at prime rate to prime rate plus 1/4% depending on certain financial tests.

#### 8. Long-term debt

	October 5, 2002 \$	June 29, 2002 \$
Revolving loans - secured (a)	77,118	70,000
Obligation under capital lease equipment - secured (b)	373	414
building - secured (c)	3,035	-
Forgivable loan (d)	967	-
	-----	-----
	81,493	70,414
Less: Current portion	7,684	122
	-----	-----
	73,809	70,292

#### a) Revolving facilities

On May 22, 2002, the Fund negotiated a financing agreement (the "Agreement") with its lenders. The Agreement is a joint facility with two Canadian commercial banks. Under the Agreement, the Fund may borrow \$70,000 on a two-year, revolving term, extended annually, requiring no principal repayments with the ability to select the currency in which the facility is advanced. The amounts denominated in U.S. dollars amounted to approximately U.S. \$44,000 and U.S. \$45,000 at October 5, 2002 and June 29, 2002, respectively.

Also under the Agreement, the Fund may borrow \$10,000 until May 21, 2003 but extendable at the discretion of the lenders, upon the request of the Fund. As at October 5, 2002 the Fund had borrowed \$7,118 to repurchase the bonds described below in (c).

The Fund has pledged, as security for these loans, all moveable property

and book debts and, in addition, has signed a general security agreement. Certain restrictive covenants and financial ratios required to be maintained are set out for the purpose of measuring the Fund's ability to meet its obligations under the terms of the loans.

Each of these facilities bears interest at rates ranging from prime rate to prime rate plus 0.25%, depending upon the financial performance of the Fund and the amount of debt outstanding. The Fund may, at its option, convert this debt into bankers' acceptances or LIBOR loans, for terms of up to one year, at a rate ranging from 1.5% to 1.75% over the applicable bankers' acceptance or LIBOR rate, depending upon the financial performance and outstanding debt of the Fund. Subsequent to October 5, 2002 the Fund fixed interest rates at 2.93% plus a stamping fee of 1.5% to 1.75%, depending upon financial performance on \$35,000 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 2005, provides for blended monthly payments of \$12 including interest at 6.5%.

Future minimum lease payments are as follows:

	October 5, 2002 \$	June 29, 2002 \$
2002	24	73
2003	144	144
2004	144	144
2005	98	98
<hr/>		
Total minimum lease payments	410	459
Less: Amounts representing interest	37	45
<hr/>		
Balance of obligation	373	414
Less: Current portion	124	122
<hr/>		
	249	292
<hr/>		
<hr/>		

c) Obligation under capital lease - building

During the quarter, ended October 5, 2002, the Fund repurchased 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 has operated the facility under an operating lease since that time. As a result of this repurchase, and because of the virtual certainty of ownership by the Fund at the end of the lease, the Fund commenced accounting for this arrangement as a capital lease. These sinking fund bonds bear interest at 8.83%. As at October 5, 2002, a total face value of \$3,035 (U.S. \$1,905) was owned by third parties while the remaining face value of \$7,118 (U.S. \$4,465) was held by the Fund.

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

	October 5, 2002 \$	June 29, 2002 \$
2002	-	-
2003	463	-
2004	464	-
2005	464	-
2006	461	-
Thereafter	2,780	-
-----		
Total minimum lease payments	4,632	-
Less: Amounts representing interest	1,597	-
-----		
Balance of obligation	3,035	-
Less: Current portion	200	-
-----		
	2,835	-
-----		
-----		

d) Forgivable loan

During the quarter ended October 5, 2002, the Fund entered into an incentive agreement with the City of Emporia (the "City") whereby the City provided incentive money in the form of a forgivable loan for \$967 (U.S. \$607). This loan is forgivable evenly over the next four years as at December 31st of each year, providing the Fund maintains certain employment levels in its Emporia facility. It is anticipated that one quarter of this loan will be forgiven as of December 31, 2002, however, the Fund will only recognize the forgiven amount upon the test being met and agreed to by the City. The incentive arrangement was provided to assist in the construction of the building. The Fund will reduce its capital assets 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				
Initial issuance	12,900,000	129,000	11,000	118,000
Exercise of options	109,265	911	-	911
-----				
Balance June 29, 2002	13,009,265	129,911	11,000	118,911
Exercise of options	35,319	288	-	288

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Balance October 5, 2002	13,044,584	130,199	11,000	119,199
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#### Special Trust Units

Special Trust Units are used solely for providing voting rights to persons holding 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.

#### Income per trust unit

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 stock options, only if dilutive.

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

	May 22, 2002 to October 5, 2002	For the period June 30, 2002 to October 5, 2002	May 22, 2002 to June 29, 2002
Weighted average number of Trust Units	13,000,783	13,023,140	12,943,130
Class B Units (note 10)	12,631,915	12,631,915	12,631,915
<hr/>			
Weighted average number of units - basic	25,632,698	25,655,055	25,575,045
Dilutive effect of options (note 13)	663,351	639,843	723,057
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Adjusted weighted average number of units outstanding - diluted	26,296,049	26,294,898	26,298,102

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#### 10. Class B Exchangeable Units

Number of Units	October 5, 2002 \$	June 29, 2002 \$
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Class B Exchangeable Units of			
MFLP	12,631,915	97,394	97,394

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The Class B Exchangeable Units ("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"). 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 \$42.5 million.

The Class B Units have economic and voting rights equivalent, in all material respects to the Trust Units. Distributions of up to \$0.2937 per Class B Unit will be made quarterly. 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.

#### 11. Distributable cash

The Fund distributes all of its distributable cash each month, net of any reserves deemed prudent by the Trustees of the Fund and by the Board of Directors of Menu Foods GenPar Limited (the Administrator of the Fund). Distributable cash is not a defined term under Canadian generally accepted accounting principles, but is determined as net income for the period, adjusted for non-cash items including amortization and future income taxes and further reduced by maintenance capital expenditures and certain principal repayments. Distributable cash for the period ended October 5, 2002 was as follows:

	May 22, 2002 to October 5, 2002	For the Period June 30, 2002 to October 5, 2002	May 22, 2002 to June 29, 2002
	\$	\$	\$
Net income	7,125	5,459	1,666
Add:			
Amortization	5,234	3,715	1,519
Future income taxes	1,214	714	500
Less:			
Maintenance capital expenditures	(1,047)	(740)	(307)
Principal repayments	(57)	(41)	(16)
Distributable cash	12,469	9,107	3,362

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Distributable cash per Trust

Unit and Class B Unit	0.4864	0.3550	0.1315
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## 12. Distributions to unitholders

Distributions announced during the period May 22, 2002 to October 5, 2002 were as follows:

Unitholder record date	Total \$	Per Unit \$	Paid or Payable
Trust Units			
June 28, 2002 (39 days)	1,685	0.1295	July 15, 2002
July 31, 2002	1,276	0.0979	August 15, 2002
August 30, 2002	1,277	0.0979	September 16, 2002
September 30, 2002	1,277	0.0979	October 15, 2002
	5,515	0.4232	

## Class B Units

September 30, 2002	5,346	0.4232	October 15, 2002
Distributions waived	(1,500)		
	3,846		
All units	9,361		

## 13. Stock option plan

Menu Foods Corporation (the former parent company of Menu) had an executive stock option plan (the "Plan") pursuant to which there were outstanding options issued to 69 of its directors, executive officers and key employees. In connection with the IPO, these options were exchanged for options in the Fund having equivalent terms and conditions. As of May 22, 2002, there were 990,052 options outstanding under the Plan at a weighted average exercise price of \$2.967 per unit. As at October 5, 2002, 2,207 options are vested with 25,380 vesting in May 2003, 256,807 vesting in December, 2003 and 513,614 vesting in December, 2004. The options expire in November, 2006.

	Total
Balance at May 22, 2002	990,052
Exercised	(109,265)
Balance at June 29, 2002	880,787
Exercised	(35,319)
Forfeited	(47,460)
Balance at October 5, 2002	798,008

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

Contributed surplus attributed to stock options

	\$
Balance at May 22, 2002 (note 3)	4,776
Options exercised	586
<hr/>	
Balance at June 29, 2002	4,190
Options exercised	189
<hr/>	
Balance at October 5, 2002	4,001
<hr/>	

#### 14. Financial expenses

	May 22, 2002 to October 5, 2002 \$	For the Period June 30, 2002 to October 5, 2002 \$	May 22, 2002 to June 29, 2002 \$
Interest on term loans	1,018	698	320
Interest on capital leases	100	98	2
Other	79	74	5
	<hr/>		
	1,197	870	327
	<hr/>		

#### 15. Income taxes

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

	May 22, 2002 to October 5, 2002 \$	For the Period June 30, 2002 to October 5 2002 \$	May 22, 2002 to June 29, 2002 \$
Net income before income taxes	10,166	7,718	2,448
Net income of the Fund subject to tax in the hands of the recipients	9,361	7,676	1,685
	<hr/>		

Net income before tax of foreign subsidiaries of the Fund not yet distributed	805	42	763
Add: net income before tax of foreign subsidiaries of the Fund distributed	7,908	6,319	1,589

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Net income before tax attributable to foreign subsidiaries	8,713	6,361	2,352
Combined foreign tax rate	34.9%	35.5%	33.2%

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Income tax expense, current and future	3,041	2,259	782
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The tax effects of temporary differences that give rise to the future tax assets and future tax liabilities at October 5, 2002 and June 29, 2002 are:

	October 5, 2002 \$	June 29, 2002 \$
Future income tax assets		
Accounts receivable, accounts payable and accrued liabilities	1,008	960
Inventory provisions	985	1,057
	1,993	2,017
Future income tax liabilities		
Property, plant and equipment	13,423	13,026
Withholding tax on foreign retained earnings	941	1,256
Amount related to U.S. state losses and alternative minimum tax carried forward	(1,178)	(1,178)
Other	(60)	39
	13,126	13,143

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#### 16. Other expenses and income

Research and development expenses amounted to \$88, and \$44 for the periods ended October 5, 2002 and June 29, 2002, respectively. These expenses are included in selling, general and administrative expenses for the respective periods.

17. Obligations under operating leases

Future minimum payments under operating leases are as follows:

	October 5, 2002 \$	June 29, 2002 \$
2002	481	1,549
2003	1,808	3,196
2004	1,460	3,051
2005	1,186	2,779
2006	1,137	2,723
Thereafter	100	9,831
	----- 6,172	----- 23,129

18. Employee benefit plans

The Fund sponsors a 401(k) retirement savings plan in the United States and a registered pension plan, which is a defined contribution 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 \$481 for the period May 22, 2002 to October 5, 2002 and \$333 and \$148 for the periods ended October 5, 2002 and June 29, 2002, respectively.

19. Segmented information

The Fund's operations fall into one reportable business segment. The Fund's operations are substantially 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.

May 22, 2002 to October 5, 2002 \$	For the Period June 30, 2002 to October 5, 2002 \$	May 22, 2002 to June 29, 2002 \$
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Sales

Canada			
Domestic	17,683	12,841	4,842
External	22,323	13,722	8,601
Intersegment transfers	6,104	4,609	1,495
	-----	-----	-----
	46,110	31,172	14,938
	-----	-----	-----
United States			
Domestic	93,722	70,346	23,376
Intersegment transfers	23,754	14,989	8,765
	-----	-----	-----
	117,476	85,335	32,141
	-----	-----	-----
	163,586	116,507	47,079
Elimination of intersegment transfers	(29,858)	(19,598)	(10,260)
Discounts	(7,141)	(5,612)	(1,529)
	-----	-----	-----
	126,587	91,297	35,290
	-----	-----	-----
Property, plant and equipment			
Canada		27,420	26,675
United States		93,659	79,299
		-----	-----
		121,079	105,974
Less: Accumulated amortization		5,293	1,451
		-----	-----
		115,786	104,523
		-----	-----

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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.

## 20. Financial instruments

### Credit risk

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 may use derivative financial instruments, which are not held or issued for speculative purposes. There were no contracts outstanding as of October 5, 2002 and June 29, 2002. Subsequent to October 5, 2002 the Fund fixed interest rates on a portion of its indebtedness (note 8(a)).

#### Fair value of financial instruments

The carrying value of cash, trade and other receivables, accounts payable and accrued liabilities and income taxes payable and recoverable approximates their fair value 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.

#### 21. Economic Dependence

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

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