

Menu Foods Income Fund announces higher net income for the first quarter of 2010

TORONTO, ONTARIO -- (Marketwire - May 13, 2010) -

Not for release over US newswire services

Attention Business/Financial Editors:

Menu Foods Income Fund (TSX: MEW.UN) announced its financial results for the first quarter ended March 31, 2010.

The financial results for the quarter ended March 31, 2010 will be discussed at Menu Foods Income Fund's annual and special meeting. The annual and special meeting will be held today at 2:00pm in the Britannia Room of the Delta Meadowvale Hotel located at 6750 Mississauga Road, Mississauga, Ontario. The meeting will be chaired by Ian Ross, Chairman of Menu Foods Income Fund. Ian will be joined by Paul Henderson, Menu's President and Chief Executive Officer and Mark Wiens, Menu's Executive Vice President and Chief Financial Officer.

-30-

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

MESSAGE to UNITHOLDERS

I am pleased to report that during the first quarter of 2010 Menu continued to build on its 2009 progress and as such is well positioned to continue to generate improved cash flow and net income in 2010. The table below reports selected highlights of the quarter's results:

	Quarter ended March 31,	
	2010	2009
	(\$ millions, except per unit amounts)	(\$ millions, except per unit amounts)
Sales	63.0	84.1
Net income	5.7	0.1
EBITDA (*)	8.3	7.5
Diluted net income per unit	0.187	0.002

Menu enjoyed a very positive start to 2010 with improved operating performance translating into a solid increase in profitability over the first quarter of 2009.

Menu's 9.9% year-over-year increase in EBITDA and its improvement in net income are, in large part, attributable to reduced operating costs and improved operating performance. This first quarter success marked the Fund's fifth consecutive profitable quarter. These improved results contributed significantly to the successful negotiation of new credit facilities with our banker. On March 31, 2010 the Fund executed definitive agreements with its banker for the provision of US\$105 million of fully underwritten credit facilities which will mature on March 31, 2013. The credit facilities, which replaced all of our existing debt, consist entirely of senior debt comprising a US\$30 million revolving term facility and a US\$75 million non-revolving term facility.

Previously reported customer losses had the effect of reducing Menu's volume during the first quarter of 2010 as compared to the same quarter in 2009 and outpaced the significant growth experienced by Menu's continuing customers. Specifically, customers who had told Menu of their intent to source their products elsewhere accounted for 2.3% of Menu's volume in the first quarter of 2010 as compared to 20.0% in the first quarter of 2009, representing a decline in total volume of 18.1%. In contrast to these losses, volume sold to Menu's continuing customers increased by 6.6% for the first quarter of 2010, equating to an increase in total volume of 5.3%. In response to these anticipated volume reductions, Menu took steps during 2009 to align its cost structure with its ongoing business thereby mitigating the adverse effect of these business losses.

I believe that this significant growth by Menu's continuing customers reflects the combination of (i) the shift by consumers to private-label over the past several months as a response to tough economic times and (ii) an increase in our customers' emphasis on private-label in general.

Looking ahead, Menu continues to expect lower volume in 2010, as compared to 2009 as a consequence of the previously announced loss of customers who purchased from Menu in 2009 but will not do so in 2010. Significant progress has been made to mitigate the effect of these losses through obtaining new customers and increasing sales of products to existing customers as well as through the restructuring of Menu's operating costs to better align them with ongoing customer demand for Menu's products. During 2009 private-label accounted for approximately 75% of the Fund's business, so a continuation of the shift in consumer demand for private-label, as noted above, is likely to translate into additional volume to existing Menu customers during the final three quarters of 2010. From the perspective of overall operating performance, management believes that the current economic climate should keep costs in 2010 in line with 2009. Should these expectations with respect to cost containment, new business and increased

(*) See Note A on page 21 of Management's Discussion and Analysis of Financial Results

sales to existing customers materialize, management believes the Fund is well positioned to continue its recent strong financial performance.

On March 16, 2010, the Fund announced that it had retained BMO Capital Markets as its exclusive financial advisor to assist the Fund in evaluating alternatives to maximize unitholder value. The evaluation of strategic alternatives continues and is expected to still require a period of time to complete. There can be no assurances that any particular alternative will be pursued or that any transaction will occur.

We appreciate the continued support of our investors and I want to take this opportunity to thank our lenders, suppliers, customers and employees who are seeing us through these challenging times and who have already helped the Fund to strengthen its business foundation.

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

Management's Discussion and Analysis of Financial Results For the quarter ended March 31, 2010

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

Presentation of Financial Information

The following discussion and analysis of the financial results of Menu Foods Income Fund (the "Fund") is dated as of May 13, 2010 and is supplementary to and should be read in conjunction with the unaudited consolidated financial statements for the quarters ended March 31, 2010 and 2009.

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

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

The nature of the Fund's operations gives rise to only a few critical accounting estimates. The most significant accounts where such estimates might apply are accounts receivable, inventory, property, plant and equipment, goodwill and recall costs. In the case of accounts receivable and inventory, required provisions and/or reserves are specific in nature. In the case of property, plant and equipment, the useful lives of these assets are reviewed periodically and adjustments made to amortization rates based on these reviews. In the case of goodwill, impairment is assessed based on the estimated fair value of the business, determined by reference to the trading value of the Fund's units. Recall costs are estimated based upon the best information available to management.

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

Overall Performance and Results of Operations

The following table highlights selected comparative results:

	For the quarter ended March 31,	
	2010	2009
	\$	\$
Sales	63,015	84,125
Cost of sales	53,822	76,413
Gross profit	9,193	7,712
Selling, general and administrative expenses	1,727	4,427
Income before the under noted	7,466	3,285
Financial expenses	1,743	3,187
Income before income taxes	5,723	98
Current income taxes	-	44
Net income for the period	5,723	54
Average US/Cdn exchange rate per Bank of Canada	0.9607	0.8037

Sales for the quarter ended March 31, 2010, were \$63.0 million, down 25.1% or \$21.1 million compared to the same period last year. This decrease is attributable to:

1. *Effect of Change in Sales Volume.* A 12.8% decrease in volume, which decreased sales by \$11.5 million;
2. *Foreign Exchange Effect on Sales.* The strengthening of the Canadian dollar relative to the United States dollar during the period had the effect of decreasing sales by approximately \$10.2 million; and
3. *Price and Cost Increases/Adjustments.* The effect of pricing adjustments to pass through cost increases to Menu's contract-manufacturing customers, together with changes to sales mix and other variables, had the effect of increasing sales by \$0.6 million.

Overall, volume (expressed in cases of 24 cans or pouches or cups) was down 12.8% compared to the quarter ended March 31, 2009. During 2007, the Fund was advised that customers whose volume represented approximately 37% of sales in 2006 would no longer be purchasing these products from Menu. Early in 2009, in part in response to price increases and in part as a consequence of a decision by a branded customer to self-manufacture its own products, certain other customers advised Menu that they would be discontinuing purchasing some products as well. In total, these customers accounted for approximately 2.3% of sales during the quarter ended March 31, 2010 as compared to 20.0% in 2009, a decrease of 90.3% (equating to a decrease in total volume of 18.1%). In contrast to these losses, volume sold to continuing private-label and contract-manufacturing customers increased by 6.6% for the quarter ended March 31, 2010 compared to the same period in 2009 (equating to an increase in total volume of 5.3%).

Can volume, which represented 79.7% of Menu's volume in the first quarter of 2010 (84.8% in 2009), decreased by 18.1% (equating to a decrease in total volume of 15.3%). During the first quarter of 2010, case sales of the pouch product, which represented 18.5% of total volume (14.5% in 2009), increased by 11.3% (equating to an increase in total volume of 1.6%) compared to the same period in 2009. The new cup format, which was introduced late in 2008, accounts for the remaining 0.9% increase in total volume.

Gross profit increased by \$1.5 million (or 19.2%) for the quarter ended March 31, 2010, compared to the prior year. This increase is attributable to:

1. *Price and Cost Increases/Adjustments.* In December 2008, Menu initiated a price increase to private-label customers, which was implemented during the first quarter of 2009. Additionally, on a comparative basis to 2009, the costs of certain inputs to production, including labour and benefits, have continued to rise and have increased cost of sales as a result. The selling price increase referred to above, together with selling price increases to contract-manufacturing customers, improved operating performance and other variables, combined to more than offset these cost increases, and increased gross profit by \$2.8 million;
2. *Foreign Exchange Effect on Sales.* The strengthening of the Canadian dollar relative to the United States dollar during the first quarter of 2010 had the effect of decreasing sales by approximately \$10.2 million and that translated into a decrease in gross profit of \$1.8 million for the quarter ended March 31, 2010;
3. *Decrease in Amortization.* Compared to the quarter ended March 31, 2009, the strengthening of the Canadian dollar relative to the United States dollar served to decrease the amount of amortization expensed as part of cost of sales. Furthermore, as discussed below, effective January 1, 2010 the Fund reviewed and revised the estimated useful lives of certain assets resulting in a prospective extension to the lives of these assets in general. Taken together, these two items accounted for virtually all of the decrease in the amortization associated with the cost of goods sold of \$1.6 million versus the quarter ended March 31, 2009; and
4. *Effect of Change in Sales Volume.* As previously noted, total volume for the quarter decreased by 12.8%. This change in sales volume decreased gross profit by \$1.1 million.

Selling, general and administrative expenses for the quarter ended March 31, 2010 decreased by \$2.7 million compared to the prior year. This change reflects a \$2.5 million comparative increase in foreign exchange gains associated with the United States dollar exposure in working capital in Menu's Canadian operations, as the Canadian dollar appreciated relative to the United States dollar rather significantly during the first quarter of 2010 versus last year. Excluding the effect of this impact of foreign exchange, selling, general and administrative expenses decreased \$0.2 million compared to the same period in 2009. This decrease primarily reflects the impact of a stronger Canadian dollar on expenses incurred in Menu's United States based operations.

The foregoing resulted in an EBITDA (see note A) of \$8.3 million for the quarter ended March 31, 2010, which is a 9.9% increase over the \$7.5 million for the same period in 2009.

The strengthening of the Canadian dollar, relative to the United States dollar, has decreased sales, gross margin, selling, general and administrative expenses, amortization, interest and EBITDA. Menu estimates that, all other variables remaining constant, each change of \$0.01 in the relationship of the Canadian dollar to the United States dollar changes EBITDA by approximately \$0.5 million and Distributable Cash by approximately \$0.385 million, on an annual basis. Menu estimates that the strengthening of the Canadian dollar during the first quarter of 2010 versus the same period in 2009 decreased EBITDA by approximately \$2.0 million and Distributable Cash by approximately \$1.5 million.

Amortization (which is included in cost of sales and SG&A expense) in the first quarter of 2010 was \$1.6 million lower than in the same period of 2009. This change, in large part, is a result of the extension in the estimated useful lives of certain assets along with the strengthening of the Canadian dollar versus the United States dollar. As a result of reduced sales volumes (as explained above) and the resultant reduction in "wear and tear" on certain of the Fund's assets, the Fund undertook a detailed review of the remaining useful lives of these assets – most notably machinery and equipment – and determined that the useful lives should be extended for amortization purposes. In the first quarter of 2010 such change in estimate, which was accounted for on a prospective basis, resulted in a reduction in amortization expense (before additions) of

approximately \$1.0 million when compared to the same period in 2009. Amortization expense for the year ending December 31, 2010 is expected to be lower (before additions) by approximately \$4.0 million versus 2009.

Financial expenses were \$1.4 million lower during the quarter ended March 31, 2010 than in the same period in 2009. The Fund recorded a gain of \$0.6 million on interest rate swaps during the quarter ended March 31, 2010 compared to a nominal loss in the same period last year. Excluding the effect of accounting for the interest rate swaps, interest expense decreased by \$0.8 million, reflecting the lower interest rates and the lower amounts borrowed this year, together with the effect of a stronger Canadian dollar.

The Fund operates using a number of different legal structures (i.e. partnerships, trusts, corporations) in a number of jurisdictions. Each of these structures and jurisdictions is subject to income tax at different rates. The effective tax rate can vary from period-to-period, depending on the taxing jurisdiction and the legal structure in which the income is earned. Since the Fund has approximately \$58.9 million in available tax losses it is not expecting to pay or recognize any significant amounts of current income taxes for the foreseeable future.

Net income for the quarter ended March 31, 2010 was \$5.7 million compared to net income of \$0.1 million for the quarter ended March 31, 2009.

Summary of Quarterly Results

The following table highlights quarterly comparative results:

	Mar 31, 2010	Dec 31, 2009	Sept 30, 2009	For the Quarter Ended				
				Jun 30, 2009	Mar 31, 2009	Dec 31, 2008	Sept 30, 2008	Jun 30, 2008
Sales	\$63,015	\$70,561	\$66,548	\$69,392	\$84,125	\$83,015	\$61,625	\$60,330
Cost of sales	\$53,822	\$60,225	\$59,551	\$62,109	\$76,413	\$75,371	\$57,620	\$55,471
Gross profit	\$9,193	\$10,336	\$6,997	\$7,283	\$7,712	\$7,644	\$4,005	\$4,859
Selling, general and administrative expenses	\$1,727	\$2,388	\$908	\$1,116	\$4,427	\$5,513	\$3,014	\$2,772
Financial expenses	\$1,743	\$2,172	\$1,938	\$2,292	\$3,187	\$5,400	\$3,100	\$1,347
Income taxes (recovery)	-	\$57	\$60	\$17	\$44	\$25	(\$60)	\$5
Net income (loss)	\$5,723	\$5,719	\$4,091	\$3,858	\$54	(\$3,294)	(\$2,049)	\$735
Net income (loss) per Trust Unit								
Basic (\$)	\$0.266	\$0.271	\$0.196	\$0.186	\$0.003	(\$0.162)	(\$0.101)	\$0.036
Diluted (\$)	\$0.187	\$0.190	\$0.140	\$0.132	\$0.002	(\$0.162)	(\$0.101)	\$0.025
Weighted average number of Trust Units outstanding ('000's)								
Basic	21,539	21,140	20,883	20,704	20,362	20,362	20,362	20,362
Diluted	30,535	30,046	29,304	29,188	28,984	28,984	28,989	28,989
Exchange rate – US\$ ⁽¹⁾	\$0.9607	\$0.9459	\$0.9112	\$0.8567	\$0.8037	\$0.8249	\$0.9600	\$0.9901

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

During the eight quarters ended March 31, 2010 it is important to note the following:

Management believes that it took until the fourth quarter of 2007 to get a clear picture of the business that remained following the recalls of that same year and consequently used this quarter as a baseline against which to measure Menu's recovery and subsequent improvements. On average, sales volumes during the first three quarters of 2008 were consistent with those obtained during the fourth quarter of 2007. In the case of customers who are continuing to do business with Menu, sales actually grew steadily in each quarter, averaging almost 4% higher than the fourth quarter of 2007. This change was even more dramatic during the fourth quarter of 2008 when overall sales increased by 11.4%, with sales to continuing customers up by 19.8%.

On a similar basis, on average, sales volumes during the four quarters of 2009 were 2.9% less than those obtained during the fourth quarter of 2007. However, this decrease can be attributed to either customers who, as a consequence of the recalls of 2007, in response to price increases

discussed below or as a result of decisions to start to self manufacture their own products, stopped buying Menu produced product. In the case of customers who are continuing to do business with Menu, sales remained strong, averaging over 11% higher than the fourth quarter of 2007 and almost 3% greater than in the same period in 2008.

In addition to the impacts of these volume changes, sales since 2007 have grown as a result of a series of price increases to our customers, which were necessary to recover escalating costs from our suppliers. The timely translation of cost increases into price increases remains a challenge to be managed by Menu. During 2008 it was not possible to obtain price increases, whose timing exactly matched the underlying cost increases, which resulted in a compression of Menu's gross profit. This situation did not recur in 2009 or during the first quarter of 2010.

For the most part, selling, general and administrative expenses declined early in 2008 as a consequence of the restructuring initiatives undertaken in late 2007. However, the impacts of higher public company costs and variable compensation expense in respect of improved performance have reduced the extent of these earlier savings. It should also be noted that the foreign exchange exposure associated with the United States dollar denominated working capital in Menu's Canadian operations, which is reflected in selling, general and administrative expenses, can fluctuate markedly from quarter-to-quarter and this further explains some of the more significant quarter-to-quarter changes.

The significant quarter-to-quarter changes in financial expenses can largely be explained by fluctuations in the mark-to-market adjustment in respect of Menu's interest rate swaps. Financial expenses have generally been trending downward as current bank indebtedness is reduced and interest rates decline. However, since most of Menu's borrowings are in United States dollars, foreign exchange changes have also been a substantial contributor to these changes.

Liquidity

During the quarter ended March 31, 2010, the Fund generated cash flow from operations of \$6.0 million. This amount was decreased by \$4.2 million as a result of changes in non-cash working capital items. Specifically, accounts payable and accrued liabilities decreased by \$1.3 million while accounts receivable, inventories and prepaid expense and sundry assets increased by \$1.8 million, \$0.6 million and \$0.4 million, respectively. The decrease in accounts payable and accrued liabilities during the quarter reflects incentive compensation payments together with the impacts of the stronger Canadian dollar relative to the United States dollar in the first quarter of 2010. The increase in accounts receivable reflects the timing of sales near the end of the first quarter of 2010. Inventory levels remained relatively static as compared to the balance at December 31, 2009. The decrease in prepaid expenses and other assets generally reflects the amortization of prepaid expenses over the period.

No distributions were declared during the first quarter of 2010.

As at March 31, 2010 the Fund had drawn \$16.0 million (equivalent to US\$15.7 million) under its US\$30.0 million revolving term facility (December 31, 2009 - \$16.3 million; equivalent to US\$15.5 million). In addition, at March 31, 2010, the Fund had an outstanding irrevocable letter of credit in the amount of \$0.488 million (US\$0.48 million) (December 31, 2009 - \$0.504 million (US\$0.48 million)), which reduces the amount available under the revolving term facility.

On March 31, 2010 the Fund executed definitive agreements with its banker for the provision of US\$105.0 million of fully underwritten credit facilities (the "Facilities"). The Facilities are comprised entirely of senior debt and include a US\$30.0 million revolving term facility and a US\$75.0 million non-revolving term facility both of which mature on March 31, 2013. The proceeds of the Facilities were used to repay all of the Fund's existing debt, including the senior secured notes, which were to mature October 31, 2010.

The non-revolving term facility will be repaid in quarterly instalments of principal commencing the third full quarter after closing as follows:

Period	Percentage of Initial Amount
Quarters 3 – 5	2.5% each quarter
Quarters 6 – 9	3.5% each quarter
Quarters 10 - 11	4.0% each quarter
Quarter 12	Balance

The Fund had working capital of \$20.7 million as at March 31, 2010 (\$71.7 million deficiency December 31, 2009). The deficiency as at December 31, 2009 arose due to the short-term maturity of the Fund's bank and senior notes facilities. This situation was rectified in the first quarter of 2010 by the Facilities, as described above.

Cash flow from operations, together with the remaining unutilized Facilities, the expected proceeds from the sale of assets still available for sale and working capital management, is expected to be sufficient to fund Menu's normal, ongoing operating requirements and maintenance capital expenditures.

Various legal actions and investigations have been commenced against the Fund as a consequence of the 2007 product recall. A number of product liability class action lawsuits were commenced in the United States and Canada, over 100 of which were consolidated in what is known as the pet food multi-district litigation. On October 14, 2008, the United States District Court for the District of New Jersey (the "U.S. Court") issued an oral order giving final approval of the cross-border settlement agreement in the pet food multi-district litigation (the "Settlement Agreement"). On November 3, 2008 there was a simultaneous hearing for final approval in the various Canadian courts (the "Canadian courts"). Formal final approval of the U.S. Court was given on November 19, 2008, and final approval of the Canadian courts was provided on November 27, 2008. Two appeals have been filed from the order of the U.S. Court approving the Settlement Agreement. It is uncertain how long these appeals will take to resolve. No appeals have been filed in Canada and the time for filing an appeal has passed. However, the Settlement Agreement requires the appeals in the United States to be finally determined prior to any payments to claimants, and therefore settlement payments to pet owners in both the United States and Canada will be delayed until the appeals have been resolved. The Settlement Agreement would resolve the class action lawsuits filed in the U.S. and Canadian courts and is binding on all members of the settlement class, except for the 114 individuals who have validly opted out of the settlement and who thereby retain their individual claim against one or more of the defendants, including Menu. Menu's contribution to the settlement fund is included within the \$55 million estimate of recall costs previously provided and was paid by Menu during the second quarter of 2009.

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

In common with most other companies, events in the world credit markets and the world economy could have a significant impact on the Fund going forward. Conditions in credit markets and the economy generally could adversely affect Menu's customers. These conditions, which have been difficult, have been steadily improving. To date management believes these developments have not had a significant adverse impact on either sales volumes or the creditworthiness of Menu's customers, but it is possible that adverse effects could arise in the future. In addition, any strengthening of the Canadian dollar relative to the United States dollar, as happened during the latter half of 2009 and the first quarter of 2010 will have an adverse impact on EBITDA, Distributable Cash and net assets.

The following table highlights the Fund's contractual obligations as at March 31, 2010:

Contractual Obligations	Payments Due by Period				
	Total	Less than 1 year	1 to 3 years	4 to 5 years	After 5 years
	\$	\$	\$	\$	\$
Long-term debt	107,331	10,339	96,992	--	--
Letter of credit	488	488	--	--	--
Operating leases	1,285	452	533	269	31
Purchase obligations	6,832	6,832	--	--	--
Total contractual obligations	115,936	18,111	97,525	269	31

The long-term bank obligations also reflect interest arising at the currently prevailing rates. Purchase obligations reflect contractual commitments to suppliers of a portion of the gas and aluminum container needs of the Fund's manufacturing facilities.

Capital Resources

During the quarter ended March 31, 2010, Menu spent just under \$1.2 million on property, plant and equipment. Capital expenditures, which the Fund defines as being of a maintenance nature for purposes of determining Distributable Cash, totalling \$1.1 million for the quarter ended March 31, 2010, were financed from the cash flow of the business. These maintenance capital expenditures were over and above the \$2.3 million (2009 - \$3.1 million) for labour and parts expended by Menu for the ongoing repairs and maintenance of its plants that have been expensed as part of cost of sales. Management expects that maintenance capital expenditures for 2010 will be between \$4.0 million and \$5.0 million as such expenditures include the replacement of two chains in one of its two hydrostatic cookers in Pennsauken, New Jersey at an approximate cost of \$2.0 million. Management estimates that on an annual basis for years after 2010, maintenance capital expenditures of between \$2.0 million and \$4.0 million are necessary to maintain Menu's current production capacity. Capital expenditures of a growth nature amounted to \$0.1 million for the quarter ended March 31, 2010.

Off-Balance Sheet Arrangements

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

Controls and Procedures

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

- (a) Disclosure Controls and Procedures

The CEO and CFO must certify that they have designed the disclosure controls and procedures, or caused them to be designed under their supervision, to provide reasonable assurance that

material information relating to the Fund, including its consolidated subsidiaries, is made known to them in a timely manner and that information required under securities legislation is recorded, processed, summarized and reported in a timely manner.

As at March 31, 2010, the Fund's management, under the supervision of, and with the participation of, the CEO and CFO evaluated the design of the disclosure controls and procedures. Based on this evaluation, the CEO and CFO have concluded that as at March 31, 2010, the Fund's disclosure controls and procedures were appropriately designed.

There have been no changes in the Fund's disclosure controls and procedures during the first quarter of 2010 that have materially affected, or are reasonably likely to materially affect, the Fund's disclosure controls and procedures.

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

(b) Internal Controls over Financial Reporting

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

As at March 31, 2010, the Fund's management, under the supervision of, and with the participation of, the CEO and CFO evaluated the design of the controls over financial reporting. No material weaknesses in the design of these controls over financial reporting were identified. Based on this evaluation, the CEO and CFO have concluded that as at March 31, 2010, the Fund's controls over financial reporting were appropriately designed.

There have been no changes in the Fund's internal controls over financial reporting during the first quarter of 2010 that have materially affected, or are reasonably likely to materially affect, the Fund's internal controls over financial reporting.

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

Critical Accounting Estimates

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

The most significant of these estimates relate to: the collectability of accounts receivable; the valuation of inventory and goodwill; the estimated useful lives of certain assets; and the final costs of the product recall.

Accounts Receivable

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

Inventory

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

Goodwill

Goodwill represents the cost of the acquired Menu business in excess of the fair value of net identifiable assets acquired, less any write down for impairment. The Fund reviews goodwill on an annual basis or at any other time when events or changes arise that suggest an impairment of the carrying value. Impairment is recognized when the estimated fair value of the goodwill is lower than its carrying value. Since the Fund operates as one reporting unit, the trading value of the Fund's units is used to establish the fair value of the Fund, which is then compared to the fair value of the other net assets to derive a residual value for goodwill.

Property, Plant and Equipment

Property, plant and equipment is amortized over an estimated useful life as determined when the asset is placed into use. Periodically the Fund reviews such estimates to ensure that they are still appropriate based on the then current physical condition of the asset and other factors. Should a change in estimate occur, the remaining amortization period is adjusted on a prospective basis.

Product Recall

The estimated product recall costs are based on the best information currently available to the management of the Fund. The ultimate determination of these costs is dependent on the amount of product actually returned and certain other factors.

Lawsuits have been initiated against the Fund and certain of its subsidiaries in the United States and in Canada relating to the recall, some of which remain outstanding in the United States as they are not resolved by the Settlement Agreement. Furthermore, the U.S. Food and Drug Administration is conducting an investigation into the situation. The United States Attorney for the Western District of Missouri, based in Kansas City, has informed Menu that it is the target of a criminal investigation for possible violations of the U.S. federal Food, Drug and Cosmetic Act with respect to the recalls in 2007. It is possible that additional actions or investigations may arise in the future. The Fund expects to expend significant amounts and devote considerable management time with regard to these matters. The Fund cannot predict the amount of such expenses, the resolution of any claims or investigations, the extent to which these items will be paid by the Fund's insurers, or whether the Fund will have sufficient resources to pay any or all of these items.

Financial Instruments and Other Instruments

Credit Risk

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

Foreign Exchange Risks

The Fund generates significant cash flows in foreign currency and is therefore exposed to risks relating to foreign exchange fluctuations. In order to reduce this risk, the Fund will, from time-to-time, as appropriate (e.g. when the Fund used its free cash flow to pay distributions), use derivative financial instruments (most commonly in the form of foreign currency forward contracts), which are not held or issued for speculative purposes.

As at March 31, 2010 and 2009, the Fund did not have any outstanding foreign currency forward contracts.

Interest Rate Risks

During the first quarter of 2006, the Fund fixed interest rates at 5.35% plus the applicable spread, at the time, of 1.55% on US\$50 million through to October 2010. The mark-to-market value of the contract as at March 31, 2010 resulted in an unrealized gain of \$633 (2009 – loss of \$20) for the quarter, which was included in financial expenses. The cumulative loss on the interest rate swap is \$1,410 (December 31, 2009 - \$2,043) and is included in accounts payable and accrued liabilities.

Fair Value of Financial Instruments

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

Outstanding Units

The following table highlights the number of Units outstanding:

	Trust Units	Class B Exchangeable Units
December 31, 2009	21,438,330	7,550,907
Conversion of Class B Units during the quarter	100,000	(100,000)
Options exercised during the quarter	12,216	--
March 31, 2010	21,550,546	7,450,907

The Fund's option plan authorizes 2,815,000 unit options. All unit options presently outstanding vest one-third annually from their date of grant and expire 39 months after the date of grant, if unexercised. As at December 31, 2007, 2,210,392 options having exercise prices between \$0.92 and \$7.34 and a weighted average exercise price of \$3.42 were outstanding.

During the year ended December 31, 2008: 64,200 unit options, with exercise prices between \$1.10 and \$1.37, were granted and 171,300 unit options, with exercise prices between \$1.82 and \$7.34, were forfeited. As at December 31, 2008, 2,103,292 options having exercise prices between \$0.92 and \$7.34 and a weighted average exercise price of \$3.34 were outstanding.

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

During the year ended December 31, 2009; 1,047,200 unit options, with exercise prices between \$0.79 and \$2.30, were granted, 288,795 unit options, with exercise prices between \$0.79 and \$7.34, were forfeited and 610,134 unit options, with exercise prices between \$4.56 and \$5.25,

expired. As at December 31, 2009, 2,246,569 options having exercise prices between \$0.79 and \$7.34 and a weighted average exercise price of \$2.13 were outstanding.

During the quarter ended March 31, 2010; 18,000 unit options, with an exercise price of \$3.15, were granted and 39,484 unit options, with exercise prices between \$0.79 and \$7.34, were forfeited. As at March 31, 2010, 2,212,869 options having exercise prices between \$0.79 and \$7.34 and a weighted average exercise price of \$2.13 were outstanding.

Recent Canadian accounting pronouncements issued and not yet adopted

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

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

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

The Accounting Standards Board has adopted a strategic plan that will have GAAP converge with International Financial Reporting Standards ("IFRS") effective January 1, 2011. At this date, publicly accountable enterprises will be required to prepare consolidated financial statements in accordance with IFRS.

The Fund has commenced the process to transition from GAAP to IFRS. This changeover process involves three separate and distinct phases:

- 1 *Diagnostic Phase* – assessing the differences between GAAP and IFRS and focusing on the areas that will have the most significant impacts on Menu;
- 2 *Design Phase* – resulting in the design and development of detailed solutions to address the differences identified during the *Diagnostic Phase*; and
- 3 *Implementation Phase* – implementing all of the required changes necessary for IFRS compliance.

A high-level diagnostic identifying major differences between GAAP and IFRS was completed during the third quarter of 2008. This diagnostic indicated that the areas most likely to have a significant impact on Menu include: the requirements of IFRS 1 dealing with first time adoption choices; property, plant and equipment; impairment of assets and fund units/exchangeable units. These areas, in turn, will impact policies, procedures and consolidated financial statement disclosures.

The Fund has completed the *Diagnostic Phase* of its changeover process, and has made significant progress in the *Design Phase* in those areas identified as potentially having a significant impact on the Fund. The *Design Phase* will continue to move forward in 2010 and the Fund has already begun the *Implementation Phase*. Several IFRS standards are in the process of being amended by the International Accounting Standards Board ("IASB"). Amendments to existing standards are expected to continue until the transition date of January 1, 2011. Menu monitors the IASB's activities on an ongoing basis, giving consideration to any proposed changes, where applicable, in its assessment of differences between IFRS and GAAP. However,

since all potential changes to IFRS that will be effective as at December 31, 2011 are not yet known, any conclusions drawn at this point in time must be considered preliminary.

Menu's progress-to-date has resulted in the following conclusions/assessments:

First-time adoption of IFRS ("IFRS 1")

IFRS 1 provides the framework for the first-time adoption of IFRS and outlines that, in general, an entity shall apply the principles under IFRS retrospectively and that adjustments arising on conversion from GAAP to IFRS shall be directly recognized in retained earnings. However, IFRS 1 also provides a number of optional exemptions from retrospective application of certain IFRS requirements as well as mandatory exceptions which prohibit retrospective application of standards. While this list has been subject to some change, currently there are fifteen elective exemptions and four mandatory exceptions that need to be considered.

The Fund currently expects to apply the following elective exemptions:

- it will not restate the accounting of past business combinations;
- for certain property, plant and equipment, it will select a previously established GAAP fair valuation and depreciate it forward to the date of transition, thereby deriving a deemed cost under IFRS at the transition date;
- it will reset its foreign currency translation account to \$nil; and
- it will commence application of IFRS 2 (*Share Based Payment*) to options granted after November 7, 2002.

Prima facie, the remaining elective exemptions have limited or no applicability to Menu.

Property, plant and equipment

IFRS and GAAP contain the same basic principles for property, plant and equipment; however, there are some differences. Specifically, IFRS requires property, plant and equipment to be measured at cost in accordance with IFRS, breaking down material items into components and amortizing each one separately. In addition, unlike GAAP, IFRS permits property, plant and equipment to be measured at fair value or amortized cost. In this regard, the Fund expects to continue to reflect property, plant and equipment at amortized cost.

Significant progress has been made in this area, particularly with respect to machinery and equipment, and the work is substantially completed. The Fund anticipates that it will complete the work in this area during the second quarter or early in the third quarter of 2010 and should be in a position to quantify the impacts, if any, thereafter.

Impairment of assets

GAAP impairment testing involves two steps, the first of which compares the asset carrying values with undiscounted future cash flows to determine whether impairment exists. If the carrying value exceeds the amount recoverable on an undiscounted basis, then the cash flows are discounted to calculate the amount of the impairment and the carrying values are written down to estimated fair value.

International Accounting Standard ("IAS") 36 ("*Impairment of Assets*"), uses a one-step approach for both testing and measurement of impairment, with asset carrying values compared directly with the higher of fair value less costs to sell and value in use (which uses discounted future cash flows). This may result in more frequent write downs where carrying values of assets were previously accepted under GAAP on an undiscounted cash flow basis, but could not be supported on a discounted cash flow basis.

The Fund has analyzed its operations and determined its cash generating units to be used for the purpose of impairment testing. Models are being developed, which will be used for the impairment testing as required at the date of transition to IFRS.

Trust/exchangeable units

The Fund believes that under IFRS it may be necessary to reclassify its Trust units from equity to liabilities. Similarly, since there is no equivalent standard under IFRS to EIC 151 under GAAP dealing with the exchangeable units, the exchangeable units may also need to be reflected as liabilities in the consolidated financial statements. This may also mean that any distributions to unitholders, which are currently treated as equity transactions under GAAP, may be accounted for as expenses in the consolidated statement of operations under IFRS. However, early investigation indicates that by making changes to the Fund's trust documents it may be possible to once again categorize the units as equity, with similar treatment being accorded to future distributions. Such changes will require Unitholder approval, which will not be obtained until the second quarter of 2010, at the earliest. However, the Fund's review of the terms of the exchangeable units indicates that the Fund may need to classify such units outside of equity as financial liabilities. Management is still assessing the impacts of such reporting requirements.

Other

In common with other publicly accountable enterprises, many other areas of IFRS will impact Menu as well, albeit to a lesser extent. At this time, the Fund does not anticipate that the transition to IFRS will have a significant impact on its information systems or internal controls.

Covenants contained in the new credit facilities with the Fund's banker are currently determined in accordance with GAAP. The Fund and its banker are aware of the upcoming transition from GAAP to IFRS and the Fund and the bank have agreed that on transition to IFRS the covenants will be determined with due consideration of any impacts arising from the transition.

The Fund's incentive compensation is largely based upon attaining and exceeding targeted EBITDA. These targets are determined on an annual basis and may need to be re-evaluated commencing in 2011 when the impacts of changes brought about by the transition to IFRS are fully known.

IFRS training for relevant financial staff is ongoing, while targeted programs for operational staff will need to be developed, if appropriate, once the transition to IFRS is underway. Investor relations will be updated once the impacts of the transition to IFRS are better understood which will most likely be sometime in late 2010 or early 2011.

General

Based upon the work completed to date, and since all potential changes to IFRS that will be effective as at December 31, 2011 are not yet known, Menu cannot reasonably determine the full impact that adopting IFRS may have on its consolidated financial position and future results.

Outlook

Product Recall and Litigation

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

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

the Fund, the pet food industry, our customers and consumers were all victims of a fraud of monumental proportions.

The Fund estimated that, based on currently available information, the direct costs associated with this recall would approximate \$55 million. This amount was expensed and reflected in the results for the year ended December 31, 2007.

Lawsuits have been initiated against the Fund and certain of its subsidiaries in the United States and in Canada, which seek to recover damages on behalf of the named plaintiffs and purported class of pet owners. On November 19, 2008 and on November 27, 2008, the U.S. Court and various Canadian courts, respectively, gave final approval of the comprehensive Settlement Agreement in the pet food multi-district litigation. Two appeals of the order of the U.S. Court approving the Settlement Agreement have been filed. It is uncertain how long these appeals will take to resolve. No appeals have been filed in Canada, and the time for filing an appeal has passed. However, the Settlement Agreement requires the appeals in the United States to be finally determined prior to any payments to claimants, and therefore settlement payments to pet owners in both the United States and Canada will be delayed until the appeals have been resolved. The Settlement Agreement would resolve the class action lawsuits filed in the U.S. and Canadian courts and is binding on all members of the settlement class, except for the 114 individuals who have validly opted out of the settlement and who thereby retain their claims against one or more of the defendants, including Menu. The Fund's estimate for the cost of settling the claims which these individuals may bring against Menu is reflected in the Recall Costs.

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

The U.S. Food and Drug Administration is conducting an investigation into the situation. The United States Attorney for the Western District of Missouri, based in Kansas City, has informed Menu that it is the target of a criminal investigation for possible violations of the U.S. Federal Food, Drug and Cosmetic Act.

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

Customers

During 2007, the Fund was advised that customers whose volume represented approximately 37% of sales in 2006 would no longer be purchasing these products from Menu. Early in 2009, in part as a response to recent price increases and in part as a consequence of decisions by a branded customer to self-manufacture its own products, certain other customers advised Menu that they would be discontinuing purchasing some products as well. In total, these customers accounted for approximately 10.9% of sales during the year ended December 31, 2009 (17.8% in 2008) and approximately 2.3% of sales during the quarter ended March 31, 2010 (20.0% in the first quarter of 2009). Very little of this business will continue throughout 2010.

Cost and Price Increases

Increasing input costs are a regular part of Menu's business. Rising costs of steel and aluminum mean higher can costs. Anecdotally, steel cans are made from "tinplate" sheets of steel covered

in a thin layer of tin. The tinplate suppliers to Menu's can manufacturer increased prices by 75% during the first quarter of 2009. This happened even though prices of steel and tin fell sharply during the same period. Increases in medical benefits (escalating at rates well above inflation) and labour push the cost of operating higher. Rising costs for certain meats and/or grain products also increase the cost of products. Such cost increases have occurred routinely over the past number of years and some continued to occur in 2009. Regular price increases are essential to mitigate the effect rising costs have on margins.

In respect of its private-label business, in both the United States and Canada, Menu's practice, in order to help ensure that the Fund's products are competitively priced at retail, has been to initiate price increases once leading national brand manufacturers have announced price increases on their products, although in some instances, such as during the fourth quarter of 2008, Menu has initiated price increases independent of the national brands. Typically these increases follow a period of rising costs and consequently are preceded by a time of compressed margins. In some instances, as has been the case in the past, outside factors can allow the period of compression to continue for much longer than would otherwise be the case. Absent regular price increases in the future, Menu expects that the margins on its private-label business will be compressed from time-to-time.

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

Bovine Spongiform Encephalopathy ("BSE")

The US and Canada have been categorized by the World Organization for Animal Health as having minimal risk for BSE. Both countries, however, continue to enhance their feed safety systems to further reduce this risk.

With regard to export to the EU, both the United States Department of Agriculture ("USDA") and the Canadian Food Inspection Agency ("CFIA") currently use EC 1774/2002 as a basis for interpretation of suitability for export. A new regulation, EC 1069/2009 is currently being developed to replace EC 1774/2002. Although not final, this regulation is regarded as having some relaxation with respect to the breadth of acceptable ruminant products. This program involves a combination of facility inspection to ensure segregation of appropriate raw materials as well as supplier verification of suitability. The latter has been a challenge in the United States because suitability of supply facilities by the USDA is required annually for several pet food ingredients and this supplier verification program has not proved to be sustainable, causing facilities to enter and leave the compliance list. No such issues have surfaced thus far with shipments from Canada.

With respect to shipments between the United States and Canada, each country now has an import permit program in place with respect to shipments from the alternative country. The import program from Canada to the United States has been in place for several years while the program from the United States to Canada was just established in 2009 and a few changes are required for the current approval. These changes are not deemed to be of a substantial nature to disrupt supply.

Subordination and Distribution

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

On May 11, 2005, certain holders of Class B Units (including senior management), representing more than 11 million units, agreed to forego a portion of their distributions until February 2006. Specifically, holders of approximately 3.4 million units agreed to forego all distributions, while

holders of approximately 7.7 million units agreed to forego receipt of distributions in excess of \$0.02 per unit. Such unitholders are entitled to a reimbursement of such foregone distributions, which at March 31, 2010 amounted to \$4.2 million, should the Fund declare a distribution in excess of 9 cents per unit, per month.

Financial Covenants

On March 31, 2010, the Fund executed definitive agreements with its banker for the provision of US\$105.0 million of fully underwritten credit facilities (the "Facilities"). The Facilities are comprised entirely of senior debt and include a US\$30.0 million revolving term facility and a US\$75.0 million non-revolving term facility both of which mature on March 31, 2013. The proceeds of the Facilities were used to repay all of the Fund's existing debt, including the senior secured notes, which were to mature October 31, 2010. As such, all of the Fund's outstanding debt is represented by these Facilities. As at March 31, 2010, the Fund had \$16.0 million drawn on its revolving term facility and \$76.2 million on its non-revolving term facility.

The Facilities have financial covenants and conditions that must be met. Management of the Fund believes that it will be able to comply with these covenants and conditions.

Legislative Changes

Like others in the trust sector, the Fund was impacted by the Canadian government's decision on October 31, 2006 to introduce a tax on distributions made by publicly traded income trusts. Bill C-52 which, in part, imposes this new tax on income funds and other similar flow-through entities, passed fourth reading in the House of Commons on June 12, 2007. To put things in context, it is important to note that the majority of the Fund's business is conducted outside of Canada and that the Fund is taxable in each of the foreign jurisdictions in which it operates. Subsequent to the Fund's IPO, for the periods ended December 31, 2002, 2003, 2004 and 2005, the percentage of distributions that were considered "other taxable income" amounted to 22.79%, 22.38%, 21.05% and 34.98%, respectively. Given the difficult conditions experienced in 2005, management does not consider the composition of distributions in that year to be representative of future expectations. Distributions have been suspended since 2005, and the Fund's distribution strategy will not be revisited until such time as distributions are permitted under the covenants with its lenders. Management's interpretation of the announcements made by the Department of Finance is that it is only this "other taxable income" that will be subject to the proposed tax of 31.5% starting in 2011. In response to these legislative changes, many income trusts are considering, or have already completed, a process to convert from being an income trust to becoming a limited company. On March 16, 2010, in response to the Canadian federal government's intention to begin to tax income trusts in 2011, the Fund announced that it had retained BMO Capital Markets as its exclusive financial advisor to assist the Fund in evaluating alternatives to maximize unitholder value. The evaluation of strategic alternatives is expected to require a period of several months and there can be no assurance that any particular alternative will be pursued or that any transaction will occur.

Risks and Uncertainties

Menu and the Fund are subject to numerous risk factors in their ongoing business. These risk factors include adequacy of credit facilities, the ability to obtain price increases in the face of rising costs, reliance on key customers, absence of long-term sales contracts, customer performance and relationships, foreign exchange fluctuations, governmental regulations and restrictions, legislative changes, reliance on key suppliers, reliance on key personnel, among others. For a review of some of the risks affecting the business, please refer to notes 20 and 21 to the accompanying consolidated financial statements. Additional information about the Fund is available at www.sedar.com.

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

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

The Fund's lenders do not permit the Fund to make any monthly distributions unless it is in compliance with the covenants contained in its Facilities agreement. There can be no assurance as to either when the Fund will resume monthly distributions, or the amount of the monthly distributions that will be paid at that time.

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

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

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

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

Additional Information

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

Note A: EBITDA is not a recognized measure under GAAP. Management believes that in addition to net income, EBITDA is a useful supplemental measure of operating performance as it provides investors with an indication of cash available for distribution prior to debt service, capital expenditures and income taxes. EBITDA, as defined in the Menu Foods Limited Partnership Agreement, is Earnings Before Interest, Taxes, Depreciation, Amortization and Non-controlling Interest. Adjusted EBITDA restates EBITDA by removing the effects of non-recurring items including any costs associated with the Strategic Review process currently underway.

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

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

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

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

	For the Quarter ended March 31,		Since Inception (May 22, 2002) to March 31,
	2010	2009	2010
	\$'000's	\$'000's	\$'000's
Net income (loss)	5,723	54	(71,707)
Adjust for:			
Goodwill impairment loss	-	-	124,030
Unrealized foreign exchange (gain) loss	(1,225)	779	(1,087)
Non-controlling interest of Class B Exchangeable Units	-	-	(30,210)
Amortization of property, plant and equipment	1,788	3,365	107,070
Amortization of customer relationship	-	-	2,789
Unit-based compensation	87	115	1,780
Future income taxes	-	-	(7,370)
Current income taxes	-	44	3,174
Interest and financial expenses	1,743	3,187	67,189
EBITDA	8,116	7,544	195,657
Adjust for:			
Product recall	-	-	52,530
Restructuring and related expenses	-	-	4,749
Strategic review process costs	176	-	176
Adjusted EBITDA	8,292	7,544	253,112

	For the Quarter ended March 31,		Since Inception (May 22, 2002) to March 31,
	2010	2009	2010
	\$'000's	\$'000's	\$'000's
Cash flow from operating activities	1,742	(400)	103,694
Adjust for:			
Maintenance capital expenditures	(1,097)	(661)	(19,959)
Principal repayments (*)	-	-	(624)
Distributable Cash	645	(1,061)	83,111

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

Menu Foods Income Fund
Consolidated Balance Sheets

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

	As at	
	March 31, 2010	December 31, 2009
	\$	\$
Assets		
Current assets		
Cash	97	20
Accounts receivable		
Trade	16,052	14,476
Other	728	844
Inventories (note 4)	32,081	32,435
Prepaid expenses and sundry assets	1,825	1,402
Total Current Assets	50,783	49,177
Property, plant and equipment (note 5)	55,280	57,507
Goodwill (note 6)	41,357	41,357
Deferred financing fees (note 7)	757	68
Total Assets	148,177	148,109
Liabilities		
Current liabilities		
Bank indebtedness (note 8)	-	16,338
Accounts payable and accrued liabilities	24,876	24,252
Income taxes payable	1,392	1,414
Current portion of long-term debt (note 8)	3,809	78,848
Total Current Liabilities	30,077	120,852
Long-term debt (note 8)	86,449	-
Total Liabilities	116,526	120,852
Unitholders' Equity		
Trust Units (note 10)	176,035	176,017
Warrants (note 10)	648	648
Contributed surplus (note 11)	1,787	1,701
Deficit	(131,190)	(136,913)
Accumulated other comprehensive loss (note 13)	(15,629)	(14,196)
Total Unitholders' Equity	31,651	27,257
Total Liabilities, Class B Exchangeable Units and Unitholders' Equity	148,177	148,109

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

Menu Foods Income Fund
Consolidated Statements of Income and Deficit

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

	Quarter ended March 31,	
	2010	2009
	\$	\$
Sales	63,015	84,125
Cost of sales	53,822	76,413
Gross profit	9,193	7,712
Selling, general and administrative expenses (note 16)	1,727	4,427
Income before the undernoted	7,466	3,285
Financial expenses (note 14)	1,743	3,187
Income before income taxes	5,723	98
Current income taxes (note 15)	-	44
Net income for the period	5,723	54
Deficit - beginning of period	(136,913)	(150,635)
Deficit - end of period	(131,190)	(150,581)
Deficit comprises:		
Accumulated net loss	(71,001)	(90,392)
Accumulated distributions	(60,189)	(60,189)
	(131,190)	(150,581)
Basic net income per Trust Unit	\$ 0.266	\$ 0.003
Diluted net income per Trust Unit	\$ 0.187	\$ 0.002
Basic weighted average number of Trust Units outstanding (note 10)	21,539,469	20,361,654
Diluted weighted average number of Trust Units outstanding (note 10)	30,535,272	28,984,243

Consolidated Statements of Comprehensive Income

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

	Quarter ended March 31,	
	2010	2009
	\$	\$
Net income for the period	5,723	54
Other comprehensive (loss) income, net of tax of \$nil (2009 - \$nil)		
Unrealized gains (losses) on translating financial statements of self-sustaining foreign operations	(4,073)	3,789
Gains (losses) on hedges of unrealized foreign currency translation	2,640	(3,254)
Comprehensive income for the period	4,290	589

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

Menu Foods Income Fund
Consolidated Statements of Cash Flows

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

	Quarter ended March 31,	
	2010	2009
	\$	\$
Cash provided by (used in)		
Operating activities		
Net income for the period	5,723	54
Adjustments for non-cash items		
Unrealized foreign exchange (gain) loss (note 16)	(1,225)	779
Amortization of property, plant and equipment	1,788	3,365
Amortization of deferred financing fees	239	224
Unit-based compensation (note 11)	87	115
Gain on sale of property, plant and equipment	-	(2)
Marked-to-market adjustment (note 20)	(633)	20
	5,979	4,555
Change in non-cash working capital items		
Accounts receivable	(1,831)	(930)
Inventories	(635)	2,994
Accounts payable and accrued liabilities	(1,324)	(7,062)
Prepaid expenses and sundry assets	(437)	94
Income taxes	(9)	(51)
	1,743	(400)
Financing activities		
Proceeds from revolving term facility	16,023	-
Change in bank indebtedness	(16,341)	960
Proceeds from non-revolving term facility	76,185	-
Long-term debt repayments	(76,345)	-
Issuance of Trust Units, net	17	-
Deferred financing charge	(38)	(70)
	(499)	890
Investing activities		
Purchase of property, plant and equipment	(1,168)	(672)
	(1,168)	(672)
Increase (decrease) in cash	77	(182)
Cash - beginning of period	20	210
Cash - end of period	97	28

Supplementary information

Income taxes paid	-	108
Interest paid	3,156	3,092

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

Menu Foods Income Fund
Notes to Consolidated Financial Statements
March 31, 2010

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

1. Description of the business

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

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

2. Recent Canadian accounting pronouncements issued and not yet adopted

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

The Canadian Institute of Chartered Accountants (the “CICA”) has issued three new accounting standards: Section 1582 – Business Combinations; Section 1601 – Consolidated Financial Statements and Section 1602 – Non-controlling Interest. These sections replace the former Section 1581 – Business Combinations and Section 1600 – Consolidated Financial Statements and establish a new section for accounting for non-controlling interest in a subsidiary subsequent to a business combination.

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

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

3. Summary of significant accounting policies

a) Basis of presentation

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

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

These consolidated financial statements are based on accounting principles consistent with those used and described in the annual consolidated financial statements as at December 31, 2009, and should be read in conjunction with those consolidated financial statements. The disclosures contained in these unaudited interim consolidated financial statements may not include all the requirements of GAAP for annual consolidated financial 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, 2010.

b) Use of estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of

Menu Foods Income Fund
Notes to Consolidated Financial Statements
March 31, 2010

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

contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

c) Cash and cash equivalents

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

d) Inventories

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

e) Property, plant and equipment

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

Buildings	20 – 40 years
Machinery and equipment	5 – 30 years
Other property and equipment	3 – 20 years

Construction-in-progress represents expenditures incurred for projects under development. Upon becoming substantially complete and ready for use, the related construction-in-progress balance is transferred to the appropriate asset class and amortization commences.

Effective January 1, 2010 the Fund prospectively revised the estimated useful lives of several of its assets in each of the classes of property, plant and equipment. These revisions were made as a result of a detailed review by management to determine the useful lives of the assets based on their historical use and based on the current condition of the assets. The changes were primarily made to extend the useful lives of the assets in the machinery and equipment class. Previously the range of useful lives for assets in machinery and equipment was 3 -10 years and that has been revised to 5-30 years. As a result of these changes to the estimated useful lives of the assets the amortization expense for the quarter ended March 31, 2010 was lower (before additions) by approximately \$990. Amortization expense in 2010 is expected to be lower than 2009 (before additions) by approximately \$4.0 million due to these changes.

f) Income taxes

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

Menu Foods Income Fund
Notes to Consolidated Financial Statements
March 31, 2010

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

g) Research and development

Research costs are expensed as incurred. Development costs are written off as incurred unless the expenditures are incurred in the development of products or processes and it is probable that the expected benefits attributable to the assets will flow to the Fund. In these cases, development costs are deferred and amortized over the estimated useful life of the product or process on a straight-line basis. Such useful life normally does not exceed five years.

h) Other financial liabilities and transaction costs

The Fund classifies its non-revolving term facility as another financial liability, which is measured at amortized cost. Transaction costs, which are netted against the carrying value of the non-revolving term facility, are amortized using the effective interest rate method and are included in financial expenses.

i) Deferred financing fees

Transaction costs relating to the Fund's revolving term facility are classified as other assets. These costs are amortized on a straight line basis over the term of the facility and are included in financial expenses.

j) Goodwill

Goodwill reflects the price paid for the Menu business in excess of the fair market value of net tangible assets and identifiable intangible assets acquired. Menu operates as one reporting unit for purposes of allocating and evaluating goodwill. The Fund reviews goodwill on an annual basis or at any other time when events or changes have occurred that suggest an impairment of the carrying value. Impairment is tested by comparing the Fund's carrying value of goodwill to its fair value. If the carrying value exceeds the fair value, then there is a potential impairment of goodwill. Any impairment in goodwill is measured by allocating the fair value of the reporting unit, in a manner similar to a purchase price allocation, and comparing the notional goodwill from the fair value allocation to the carrying value of the goodwill. The impairment loss represents the excess of notional goodwill from the fair value allocation over its carrying value.

k) Foreign currency translation

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

The assets and liabilities of all foreign subsidiaries, which are considered to be self-sustaining operations, are translated at the exchange rate in effect at the consolidated balance sheet dates. Revenues and expenses are translated at average exchange rates prevailing during the period. The Fund has designated its United States dollar indebtedness, to a maximum of US\$85,000, as a hedge of its net investment in the United States. The indebtedness is translated at the exchange rate in effect at the consolidated balance sheet dates. The resulting gains or losses, together with the related income taxes, are included in the foreign currency translation adjustment in the consolidated statements of comprehensive income.

l) Revenue recognition

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

Menu Foods Income Fund
Notes to Consolidated Financial Statements
March 31, 2010

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

m) Supplier rebates

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

n) Unit-based compensation

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

o) Asset retirement obligations

The fair value of any liability for an asset retirement obligation is recognized in the period in which it is incurred, if a reasonable estimate of fair value can be made. The associated retirement costs are capitalized as part of the carrying amount of the long-lived assets and amortized over the life of the asset. As at March 31, 2010, the Fund has concluded that there continues to be no asset retirement obligations associated with its assets.

p) Financial instruments

The Fund designates its cash as held-for-trading, which is measured at fair value. Accounts receivable are classified as loans and receivables, which are measured at amortized cost. Bank indebtedness, accounts payable and accrued liabilities and long-term debt are classified as other financial liabilities, which are recorded at amortized cost. Derivative instruments are recorded in the consolidated statements of income at fair value except for contracts entered into for the purposes of the Fund's own usage requirements. The Fund uses an interest rate swap to fix interest rates on a portion of its indebtedness. This interest rate swap is marked-to-market each reporting period, with changes included in financial expenses in the consolidated statements of income.

4. Inventories

	As at	
	March 31, 2010	December 31, 2009
	\$	\$
Raw materials and packaging	8,528	9,908
Finished goods	23,553	22,527
	32,081	32,435

5. Property, plant and equipment

	As at March 31, 2010		
	Cost	Accumulated Amortization	Net
	\$	\$	\$
Land	3,937	-	3,937
Buildings	38,319	9,910	28,409
Machinery and equipment	86,941	68,196	18,745
Other property and equipment	15,660	13,139	2,521
Construction-in-progress	1,668	-	1,668
	146,525	91,245	55,280

Menu Foods Income Fund
Notes to Consolidated Financial Statements
March 31, 2010

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

	As at December 31, 2009		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Land	4,211	-	4,211
Buildings	39,286	10,026	29,260
Machinery and equipment	85,070	64,878	20,192
Other property and equipment	17,827	15,339	2,488
Construction-in-progress	1,356	-	1,356
	147,750	90,243	57,507

Approximately \$596 in machinery and equipment and \$3,211 in buildings were not in use as at March 31, 2010 (December 31, 2009 - \$652 and \$3,348, respectively). The building is currently for sale.

6. Goodwill

When the Fund purchased its interest in Menu Foods Limited Partnership (“MFLP”), part of the purchase price was assigned as goodwill in the consolidated financial statements. As required by GAAP, goodwill is subject to an annual impairment test, which, for the Fund, takes place as at September 30th of each year, or at any other time when events or changes have occurred that suggest an impairment of the carrying value. The annual impairment test as at September 30, 2009, and events since that time, did not identify any further impairment.

7. Deferred financing fees

	As at	
	March 31, 2010	December 31, 2009
	\$	\$
Cost (note 8)	757	145
Accumulated amortization	-	(77)
	757	68

8. Bank indebtedness and long-term debt

	As at	
	March 31, 2010	December 31, 2009
	\$	\$
Revolving term facility	15,965	16,338
Non-revolving term facility	76,185	-
Senior secured notes	-	78,990
Transaction costs	(1,892)	(142)
Total bank indebtedness and long-term debt	90,258	95,186
Less: current portion of bank indebtedness	-	(16,338)
current portion of long-term debt	(3,809)	(78,848)
Long-term debt	86,449	-

Prior to March 31, 2010, the Fund’s banking agreement provided the Fund with two revolving term facilities which aggregated to US\$33,000 (collectively the “Old Facilities”). In addition, on October 31, 2003, the Fund closed a private placement offering for US\$85,000 in non-revolving floating rate senior secured notes (the “Notes Facility”). The notes, of which US\$75,157 were outstanding at December 31, 2009, were to be repaid by October 31, 2010, with interest payable quarterly. On March 31, 2010, the Fund entered into new fully underwritten credit facilities (the “Facilities”), as described below, the proceeds of which were used to, among other things, repay the Notes Facility. As at December 31, 2009 the Fund had drawn \$16,338 (equivalent to US\$15,545) under its Old Facilities. At December 31, 2009, the Fund had an outstanding irrevocable letter of credit in the amount of \$504 (US\$480) which further reduced the amount available under the Old Facilities.

Certain indebtedness included in the Old Facilities had been identified as priority indebtedness under an agreement between the bank and senior secured noteholders. Otherwise, the Fund had pledged, on a pari passu basis with its

Menu Foods Income Fund
Notes to Consolidated Financial Statements
March 31, 2010

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

senior secured noteholders, as security for bank indebtedness, all moveable property and book debts and, in addition, had signed a general security agreement. The Old Facilities and the Notes Facility required, among other things, that EBITDA (as defined in the respective agreements) together with operating leases be at least \$20,000 on a trailing twelve-month basis each calendar quarter.

On March 31, 2010 the Fund finalized the definitive agreements with its banker for the provision of US\$105,000 of Facilities and terminated its Old Facilities. The Facilities are comprised entirely of senior debt and include a US\$30,000 revolving term facility and a US\$75,000 non-revolving term facility. The proceeds of the Facilities were used to repay all of the Fund's existing debt, as described above, which was to mature in October 2010. The Facilities will mature on March 31, 2013. As at March 31, 2010, the Fund had drawn \$15,965 (equivalent to US\$15,717) under its revolving term facility and \$76,185 (equivalent to US\$75,000) under its non-revolving term facility. At March 31, 2010, the Fund had an outstanding irrevocable letter of credit in the amount of \$488 (US\$480) which further reduces the amount available under the Facilities.

Until receipt of the compliance certificate after the first full quarter after closing of the Facilities on March 31, 2010, the revolving term and non-revolving term facilities bear interest as follows:

Bank prime rate/US base rate	Banker's acceptance stamping fee/LIBOR	Standby fee (revolving term facility only)
+2.25%	+3.5%	0.875%

Commencing in the third quarter of 2010, performance pricing shall be applied and re-evaluated quarterly in accordance with the following:

Ratio of Total Funded Debt to EBITDA	Bank prime rate/US base rate	Banker's acceptance stamping fee/LIBOR	Standby fee (revolving term facility only)
≥ 3.00x	+2.75%	+4.00%	1.00%
≥ 2.50x < 3.00x	+2.25%	+3.50%	0.875%
≥ 2.00x < 2.50x	+1.50%	+2.75%	0.675%
≤ 2.00x	+1.00%	+2.25%	0.55%

(Total Funded Debt and EBITDA are as defined in the Facilities agreement, as applicable)

As at March 31, 2010, the bank prime rate was 2.25%, the U.S. base rate was 3.25%, the LIBOR rate was 0.25% and the banker's acceptance stamping fee was 0.44%

Default pricing, which is 2.00% higher than the applicable level, is implemented should the Fund default on any terms and conditions contained in the Facilities.

The non-revolving term facility is repaid in quarterly installments of principal commencing the third full quarter after closing as follows:

Period	Percentage of Initial Amount
Quarters 3 – 5	2.5% each quarter
Quarters 6 – 9	3.5% each quarter
Quarters 10 – 11	4.0% each quarter
Quarter 12	Balance

The principal amounts due, by year, are as follows:

Due Date	2010	2011	2012	2013
Canadian Dollars	1,905	9,142	11,428	53,710
US Dollar equivalent	1,875	9,000	11,250	52,875

Menu Foods Income Fund
Notes to Consolidated Financial Statements
March 31, 2010

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

The Fund pledges, as security for the Facilities, all moveable property and book debts and, in addition, has signed a general security agreement. The Fund is required to adhere to certain restrictive covenants and required financial ratios in order to satisfy its obligations under the terms of its Facilities.

Fees associated with the Facilities amount to US\$2,100, plus all associated professional fees and are payable on or after April 30, 2010. In addition, should certain events occur a further fee of US\$1,050 may become payable during the third quarter of 2010. These fees were allocated to the revolving term facility (note 7) and the non-revolving term facility based on availability as at March 31, 2010.

During the quarter ended March 31, 2006, the Fund fixed interest rates at 5.35% plus the applicable spread on US\$50,000 through to October 2010 (note 20).

9. Class B Exchangeable Units

	Number of Units	Carrying value \$
Class B Exchangeable Units		
January 1, 2008 and December 31, 2008	8,622,589	-
Conversion of Class B Exchangeable Units into Trust Units (note 10)	(1,071,682)	-
Share of net income for the year	-	-
December 31, 2009	7,550,907	-
Conversion of Class B Exchangeable Units into Trust Units (note 10)	(100,000)	-
Share of net income for the period	-	-
March 31, 2010	7,450,907	-

The Class B Exchangeable Units together with their related Special Trust Units (note 10) can be exchanged on a one-for-one basis with the Fund for Trust Units at the option of the holder.

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

Under GAAP, when the losses applicable to the non-controlling interest exceed their investment in the Fund's units, the excess and any further losses applicable to the non-controlling interest are allocated to the Trust Unitholders. This process continues once the Fund becomes profitable again until such time as all previously absorbed losses are recovered by the Trust Unitholders. As at March 31, 2010, these absorbed losses, still to be recovered by the Trust Unitholders, amount to \$977 (December 31, 2009 - \$2,087).

During the second quarter of 2005, certain holders of Class B Exchangeable Units agreed to subordinate their entitlement to distributions for a ten-month period beginning with the distributions in respect of the month of May 2005 and ending with the distributions in respect of the month of February 2006. Distributions subordinated amounted to \$4,151. Such Unitholders are entitled to a reimbursement of such subordinated distributions before distributions can be increased above 9 cents per unit, per month. No obligation arises to the Fund in respect of these subordinated amounts until it has generated sufficient distributable cash and declares distributions in excess of 9 cents per unit, per month. Accordingly, no amount has been accrued in distributions payable at March 31, 2010 and December 31, 2009.

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

Menu Foods Income Fund
Notes to Consolidated Financial Statements
March 31, 2010

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

10. Trust Units

Authorized

Unlimited number of Trust Units
 Unlimited number of Special Trust Units

Issued

	Number of Units	Gross proceeds \$	Issuance costs \$	Net proceeds \$
Trust Units				
January 1, 2008 and December 31, 2008	20,361,654	187,304	11,300	176,004
Conversion of Class B Exchangeable Units to Trust Units (note 9)	1,071,682	-	-	-
Issued under Unit Option Plan in 2009 (note 11)	4,994	13	-	13
December 31, 2009	21,438,330	187,317	11,300	176,017
Conversion of Class B Exchangeable Units during the period	100,000	-	-	-
Issued under Unit Option Plan during the period	12,216	18	-	18
March 31, 2010	21,550,546	187,335	11,300	176,035

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

Special Trust Units

Special Trust Units are used solely for providing voting rights to the holders of Class B Exchangeable Units ("Class B Units") (note 9) and by their terms have voting rights of the Fund. Special Trust Units are not transferable separately from the Class B Units to which they relate. Conversely, the Special Trust Units will automatically be transferred upon a transfer of the associated Class B Units. Each Special Trust Unit entitles the holder thereof to a number of votes at any meeting of Unitholders and holders of Special Trust Units equal to the number of Units that may be obtained upon the exchange of the Class B Units to which the Special Trust Units relate, but do not otherwise entitle the holder to any rights with respect to the Fund's property or income. The Fund issued 12,631,915 Special Trust Units relating to the Class B Units at the date of acquisition of Menu. There were 7,450,907 and 7,550,907 Special Trust Units outstanding as at March 31, 2010 and December 31, 2009, respectively (note 9).

Weighted average number of Units outstanding

Basic net income per Trust Unit is computed by dividing net income for the period by the weighted average number of Trust Units outstanding during the period. Diluted net income per Trust Unit includes the effect of exercising unit options (note 11) and warrants, only if dilutive, and includes the Class B Exchangeable Units using the "if converted" method.

Menu Foods Income Fund
Notes to Consolidated Financial Statements
March 31, 2010

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

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

	Quarter ended March 31,	
	2010	2009
Weighted average number of Trust Units outstanding	21,539,469	20,361,654
Weighted average number of Class B Units outstanding	7,456,463	8,622,589
Dilutive effect of warrants	553,087	-
Dilutive effect of options (note 11)	986,253	-
Weighted average number of units outstanding – diluted	30,535,272	28,984,243

Distributions

No distributions were declared on either the Trust Units or the Class B Units during the quarter ended March 31, 2010 and 2009.

11. Unit-based compensation

Unit option plan

The option plan under which these options were granted, which authorizes 2,815,000 units, was approved by the Unitholders at the Annual and Special Meeting of the Fund held on May 11, 2006. Compensation expense of \$87 was recognized for the quarter ended March 31, 2010 (2009 - \$115), which was added to contributed surplus. Total compensation expense to be recognized under these awards is estimated to be \$2,405. All options expire 39 months after the date of grant, if not exercised.

The fair value of the various options was determined using the Black-Scholes model, incorporating no expected distributions and an expected life of 39 months. The options vest one-third annually over three years from the date of grant. Additional details of each grant of options since January 1, 2008, including additional Black-Scholes assumptions, are set out in the following table:

Quarter of option grant	Number of options	Black-Scholes assumptions		Value
		Risk-free interest rate	Volatility factor	
June 30, 2008	48,900	2.97%	60%	\$0.54
September 30, 2008	15,300	2.94%	63%	\$0.62
March 31, 2009	505,600	1.51%	63%	\$0.35
June 30, 2009	523,600	1.34%	66%	\$0.68
December 31, 2009	18,000	1.78%	70%	\$1.12
March 31, 2010	18,000	1.77%	70%	\$1.54

Menu Foods Income Fund
Notes to Consolidated Financial Statements
March 31, 2010

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

A summary of option activities since January 1, 2009 is as follows:

	Number of options	Range of exercise prices \$	Weighted average exercise prices \$
January 1, 2009	2,103,292	0.92-7.34	3.34
Activities during the year			
Options granted	1,047,200	0.79-2.30	1.16
Options expired	(610,134)	4.56-5.25	4.57
Options forfeited	(288,795)	0.79-7.34	2.02
Options exercised	(4,994)	1.82	1.82
December 31, 2009	2,246,569	0.79-7.34	2.13
Activities during the quarter			
Options granted	18,000	3.15	3.15
Options forfeited	(39,484)	0.79-7.34	2.70
Options exercised	(12,216)	0.79-1.82	1.59
March 31, 2010	2,212,869	0.79-7.34	2.13

The outstanding options are summarized as follows:

Exercise price \$	Options outstanding		Vested options outstanding	
	Number	Weighted average remaining life	Number	Weighted average remaining life
7.34	233,679	2 months	233,679	2 months
3.00	18,390	7 months	12,260	7 months
1.82	956,100	11 months	637,400	11 months
0.92	21,000	11 months	14,000	11 months
1.35	26,200	17 months	7,600	17 months
1.37	15,300	20 months	5,100	20 months
0.79	442,900	26 months	147,833	26 months
1.47	463,300	29 months	-	-
2.30	18,000	35 months	-	-
3.15	18,000	38 months	-	-
	2,212,869	17 months	1,057,872	11 months

Contributed surplus attributed to Trust Unit options

	As at	
	March 31, 2010	December 31, 2009
	\$	\$
Opening balance	1,701	1,251
Compensation expense recognized for unit options during the period	87	457
Options	(1)	(7)
Ending Balance	1,787	1,701

As Trust Units are issued under the Unit Option Plan, the associated contributed surplus is reclassified to Trust Units (note 10).

12. Capital management

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

Menu Foods Income Fund
Notes to Consolidated Financial Statements
March 31, 2010

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

The appropriate level of Facilities is assessed with reference to expected cash flows and the Fund's overall business needs and risks. In addition, the Fund's Facilities are subject to a number of covenants and restrictions. The \$55,000 in recall related costs expensed in 2007 (note 17), together with the impact of the recalls on the operations for that year, significantly increased the Fund's indebtedness at that time.

In common with other income trusts, the Fund uses its cash flow from operations to invest in capital projects, repay indebtedness and pay distributions to its Unitholders. For the foreseeable future, cash flow will primarily be used to reduce indebtedness and finance capital projects. The Leverage Ratio (as defined in the agreements with the Fund's banker as at March 31, 2010 (the Fund's banker and the owners of the Fund's senior secured notes as at December 31, 2009)) for the quarter ended March 31, 2010 was 2.78 to 1 (December 31, 2009 – 2.86 to 1).

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

13. Accumulated other comprehensive loss

	As at	
	March 31, 2010	December 31, 2009
	\$	\$
Unrealized losses on translating financial statements of self-sustaining foreign operations	(40,182)	(36,109)
Gains on hedges of unrealized foreign currency translations, net of tax	24,553	21,913
	(15,629)	(14,196)

14. Financial expenses

	Quarter ended March 31,	
	2010	2009
	\$	\$
Interest on senior secured notes	2,077	2,573
Interest on bank indebtedness and other	299	594
Loss (gain) on interest rate swap	(633)	20
	1,743	3,187

15. Income taxes

On October 31, 2006, the Department of Finance (Canada) announced tax proposals pertaining to the taxation of income distributed by publicly listed trusts and the tax treatment of trust distributions to their unitholders. The new legislation will apply to the Fund effective January 1, 2011 and will result in a portion of the Fund's income being subject to tax at the trust level.

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

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

Menu Foods Income Fund
Notes to Consolidated Financial Statements
March 31, 2010

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

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

	As at	
	March 31, 2010	December 31, 2009
	\$	\$
Current future income tax assets		
Accounts receivable, accounts payable and accrued liabilities	270	269
Inventory provisions	356	377
Valuation allowance	(626)	(646)
	-	-
Long-term future income tax (assets) liabilities		
Property, plant and equipment	4,805	5,733
Tax benefits of loss carry-forwards	(21,872)	(25,401)
Other	(1,371)	(1,163)
Valuation allowance	18,438	20,831
	-	-

The benefits of these future tax loss carry-forwards, which aggregate to approximately \$58,929 (of which \$46,602 arose in the United States), expire primarily between 2022 and 2028.

16. Selling, general and administrative expenses

Selling, general and administrative expenses include an unrealized foreign exchange gain of \$1,225 for the quarter ended March 31, 2010 (2009 - \$779 loss).

17. Contingencies and commitments

Recall related contingencies

During 2007, the Fund announced a series of recalls together with a voluntary withdrawal of certain wet pet food products, which, at that time, management estimated would cost approximately \$55,000 (the "Recall Costs"). These Recall Costs are based on the best information currently available and remain unchanged as at March 31, 2010. The ultimate determination of these costs is dependent on a number of factors, some of which remain unresolved. Accordingly, actual amounts could differ from these estimates and the differences could be material. As at March 31, 2010, \$4,255 (December 31, 2009 - \$4,380) remains in accrued liabilities for Recall Costs not yet paid.

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

The Settlement Agreement resolved more than 100 class action lawsuits filed in the U.S. and Canadian courts and is binding on all members of the settlement class, except for 114 individuals who have validly opted out of the settlement and who thereby retain their claims against one or more of the defendants, including Menu. The Fund's estimate for the cost of settling the claims which these individuals may bring against Menu is reflected in the Recall Costs.

The Settlement Agreement created a settlement fund of US\$24,000 that allows a potential recovery of up to 100% of all economic damages incurred by pet owners, subject to certain limitations. The settlement fund, administered

Menu Foods Income Fund
Notes to Consolidated Financial Statements
March 31, 2010

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

by a neutral claims administrator, will be available to persons in the United States and Canada who purchased or obtained, or whose pets used or consumed, recalled pet food, and who have filed claims forms in accordance with the procedures approved by the U.S. and Canadian courts. Pursuant to the Settlement Agreement, the settlement fund has been funded by the defendants, including the Fund and its product liability insurer. The Fund's corporate contribution to the settlement is reflected in the Recall Costs and has been paid.

The United States Attorney for the Western District of Missouri, based in Kansas City, has informed Menu that it is the target of a criminal investigation for possible violations of the U.S. Federal Food, Drug and Cosmetic Act with respect to the recalls in 2007. Furthermore, it is possible that additional actions or investigations may arise in the future.

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

Commitments

Future minimum payments under operating leases as at March 31, 2010 are as follows:

	\$
2010	452
2011	314
2012	219
2013	163
2014	106
Thereafter	31
	<hr/> 1,285

In addition, the Fund contracts for a portion of its gas and aluminum container needs for the upcoming calendar year. As at March 31, 2010, commitments under such contracts amounted to \$6,832 (December 31, 2009 - \$9,277).

18. Employee benefit plans

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

The total expense related to these plans was \$80 for the quarter ended March 31, 2010 (2009 - \$80).

19. Segmented information

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

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

Menu Foods Income Fund
Notes to Consolidated Financial Statements
March 31, 2010

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

	Quarter ended March 31,	
	2010	2009
	\$	\$
Sales		
Canada		
Domestic	10,388	8,106
Foreign	6,039	15,021
Inter-segment transfers	2,331	2,905
	18,758	26,032
United States		
Domestic	48,958	63,954
Foreign	174	238
Inter-segment transfers	12,543	15,041
	61,675	79,233
	80,433	105,265
Elimination of inter-segment transfers	(14,874)	(17,946)
Discounts	(2,544)	(3,194)
	63,015	84,125

	As at	
	March 31, 2010	December 31, 2009
	\$	\$
Property, plant and equipment		
Canada	35,758	39,471
United States	110,767	108,279
	146,525	147,750
Less: Accumulated amortization	91,245	90,243
	55,280	57,507

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

20. Financial instruments

The Fund has the following categories of financial instruments:

	As at	
	March 31, 2010	December 31, 2009
	\$	\$
Measured at fair value:		
Cash	97	20
Interest rate swap	(1,410)	(2,043)
Measured at amortized cost:		
Accounts receivable	16,780	15,320
Bank indebtedness	-	(16,338)
Accounts payable and accrued liabilities	(23,466)	(22,209)
Long-term debt, including current portion	(90,258)	(78,848)

The fair value of the interest rate swap, which is included in accounts payable and accrued liabilities, is calculated by discounting the anticipated cash flows at the year-end forward rates, incorporating the Fund's credit risk at the time the fair value is calculated.

Credit risk

The Fund, in the normal course of business, reviews significant new customers' credit history and financial statements before extending credit and performs regular reviews of its existing credit performance. Since the Fund's market is primarily in North America, credit risk is considered similar over the entire customer base.

Menu Foods Income Fund
Notes to Consolidated Financial Statements
March 31, 2010

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

The creditworthiness of customers is reassessed on an ongoing basis and provisions are made for amounts that are more than 30 days past due. This allowance for doubtful accounts amounted to \$137 at March 31, 2010 (December 31, 2009 - \$279) which management believes adequately provides for uncollectible amounts. The net change during the quarter ended March 31, 2010 of \$142, has been included in selling, general and administrative expenses. The remaining balance of trade accounts receivable includes \$2,596 (December 31, 2009 - \$1,932) that is 1 to 30 days past due and not impaired. Notwithstanding events in the international credit markets over the past several months, management believes that its products, distribution channels and customers are such that these developments are not expected to have a significant effect on credit risk.

Foreign exchange and interest rate risks

The Fund generates significant cash flows in foreign currency and is therefore exposed to risks relating to foreign exchange fluctuations. The Fund's United States dollar denominated non-revolving facility and US\$10 million of its revolving facility have been designated as a hedge of the United States operations and act to reduce exposure to foreign exchange fluctuations. It is also subject to risks relating to interest rate fluctuations. In order to reduce these risks, the Fund may use derivative financial instruments, which are not held or issued for speculative purposes.

As at March 31, 2010 and December 31, 2009, the Fund did not have any outstanding foreign currency forward contracts.

The Fund has fixed interest rates on a portion of its long-term debt (note 8). The marked-to-market value of the contract at March 31, 2010 resulted in an unrealized gain of \$633 (2009 - \$20 loss) for the quarter, which is included in financial expenses. The cumulative loss on the interest rate swap at March 31, 2010 is \$1,410 (December 31, 2009 - \$2,043) and is included in accounts payable and accrued liabilities.

Liquidity risk

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

	Total	Payments due by period		
		Less than 1 year	1 to 2 years	Thereafter
	\$	\$	\$	\$
Long-term debt, including interest	107,331	10,339	96,992	-
Letter of credit	488	488	-	-
Accounts payable and accrued liabilities	23,466	23,466	-	-
	131,285	34,293	96,992	-

Market risk

The principal market risks of the Fund's financial instruments relate to fluctuations in exchange rates between Canada and the United States and interest rates on floating rate debt. Market risks are best assessed in relation to the budgeted or expected performance of the Fund. On an annualized basis, for the current year, a one cent change in the exchange rate between Canada and the United States dollars will impact other comprehensive income and earnings by approximately \$1,114 and \$261, respectively, and a fifty basis point change in interest rates will impact earnings by approximately \$88, net of fair value adjustments to the interest rate swap.

Fair value of financial instruments

The carrying values of cash, trade and other receivables, bank indebtedness and accounts payable and accrued liabilities approximate their fair values because of the short-term nature of these instruments. The carrying value of long-term debt bearing interest at variable rates (note 8) approximates its fair value because effective rates represent the rates that would be used to calculate fair value.

Menu Foods Income Fund
Notes to Consolidated Financial Statements
March 31, 2010

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

The following tables illustrate the classification of the Fund's financial instruments within the fair value hierarchy as at March 31, 2010 and December 31, 2009:

Financial liabilities at fair value as at March 31, 2010				
	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Interest rate swap	-	1,410	-	1,410
	-	1,410	-	1,410

Financial liabilities at fair value as at December 31, 2009				
	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Interest rate swap	-	2,043	-	2,043
	-	2,043	-	2,043

There were no transfers between levels of the financial hierarchy during the quarter.

21. Economic dependence

For the quarter ended March 31, 2010, no single customer accounted for more than 10% of sales. The Fund relies on single suppliers for the majority of its can, pouch and cup requirements. Should these suppliers fail to deliver in a timely manner, delays and/or shutdowns of the Fund's operations could result.