

Menu Foods Income Fund Announces 2009 Second Quarter Results

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Attention Business/Financial Editors:

Menu Foods Income Fund (TSX: MEW.UN) announces its financial results for the second quarter ended June 30, 2009.

-30-

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MESSAGE to UNITHOLDERS

I am pleased to report that during the second quarter of 2009 the Fund has continued to build on the significant progress made in 2008. The table below reports selected highlights of the results for the quarter and the year-to-date:

	Quarter ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
	(\$ millions)	(\$ millions)	(\$ millions)	(\$ millions)
Sales	69.4	60.3	153.5	115.9
Net income (loss) for the period	3.9	0.7	3.9	(1.5)
Adjusted EBITDA (*)	7.6	4.9	15.1	10.2

Menu increased adjusted EBITDA by 54% during the second quarter of 2009, compared to the same quarter in 2008. This significant improvement in performance can, in large part, be attributed to:

- The impacts of the two price increases implemented during 2008, together with the effects of a third price increase initiated during 2008 and implemented during the first quarter of 2009 which, together, increased sales by 13.0% compared to the second quarter of 2008 and enabled Menu to recover most of the cost increases experienced during 2008; and
- The appreciation of the United States dollar relative to the Canadian dollar (2009 - \$0.86; 2008 - \$0.99).

The strong second quarter performance continues the trend begun in the first quarter of 2009, and marks the first time since 2006 that Menu has had two consecutive profitable quarters. For the first six months of 2009 adjusted EBITDA is 48% greater than in the same period in 2008.

I am also very pleased to report that during the second quarter of 2009, due to the strength of its underlying business, the Fund generated over \$4.8 million in cash from operations. As a result, Menu was able to reduce its bank indebtedness by \$3.8 million and finance \$1.0 million of capital expenditures undertaken during the second quarter. Furthermore, through effective working capital management, Menu reduced accounts payable by \$4.3 million, taking advantage of early payment discounts from suppliers, and by \$2.5 million, settling liabilities associated with the 2007 recall.

As reported last quarter, Menu did experience some loss of business during the second quarter. Specifically, the departure of customers resulted in a 2.5% reduction in volume during the second quarter of 2009 as compared to the same quarter in 2008. During the second quarter of 2009, those customers who have told Menu of their intent to source their products elsewhere accounted for 11.6% of the Fund's second quarter volume in 2009 (as compared to 19.9% in the second quarter of 2008) and management expects that all of these customers will conclude their business with Menu by the end of 2009. In response to these losses Menu has taken steps to align its operating costs with its ongoing business and has replaced some of this lost volume with new customers as noted below. By so doing we expect to be able to partially mitigate the adverse effects this lost business may have on cash flow and profitability.

* See Note A on page 20 of Management's Discussion and Analysis of Financial Results

With respect to its continuing business, the second quarter saw a strong performance by Menu's private-label business which grew by 2.0% (5.9% year-to-date) as compared to those same customers during the second quarter of 2009. This anticipated growth in volume, is believed to reflect, to some extent, the shift by consumers to private-label during these tough economic times. In contrast, certain of Menu's contract-manufacturing customers saw weakness in consumer's demand for their higher-priced products that in turn translated to a modest reduction in volume in this segment of Menu's business.

Looking ahead, Menu still expects that the volume declines attributable to the previously announced customer losses will be partially offset by increased sales to our remaining customers and through the acquisition of new business. As noted above, management believes that the current recession has shifted some consumers' demand toward Menu customers' private-label products, which contributed to some portion of the 5.9% year-to-date growth in volume with continuing private-label customers. By the second quarter of 2009 private-label accounted for approximately 76% of Menu's business, so a continuation of this shift in consumer demand is likely to translate into additional volume for Menu during the remainder of the year. The acquisition of new business is an ongoing process and there continues to be opportunities in the marketplace in this regard.

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

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

Management's Discussion and Analysis of Financial Results For the quarter ended June 30, 2009

(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 August 12, 2009 and is supplementary to and should be read in conjunction with the unaudited consolidated financial statements for the quarters ended June 30, 2009 and 2008.

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

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

Overall Performance and Results of Operations

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

	For the quarter ended June 30,		For the six months ended June 30,	
	2009	2008	2009	2008
	\$	\$	\$	\$
Sales	69,392	60,330	153,517	115,911
Cost of sales	62,109	55,471	138,522	105,692
Gross profit	7,283	4,859	14,995	10,219
Selling, general and administrative expenses	1,116	2,702	5,543	5,441
Income before the undernoted	6,167	2,157	9,452	4,778
Restructuring and related expenses	-	70	-	172
Financial expenses	2,292	1,347	5,479	6,046
Income (loss) before income taxes	3,875	740	3,973	(1,440)
Current income taxes	17	5	61	29
Net income (loss) for the period	3,858	735	3,912	(1,469)
Basic net income (loss) per Trust Unit	0.186	0.036	0.191	(0.072)
Diluted net income (loss) per Unit	0.132	0.025	0.134	(0.072)
Basic weighted average number of Trust Units outstanding (000s)	20,704	20,362	20,534	20,362
Diluted weighted average number of Units outstanding (000s)	29,188	28,989	29,093	28,985
Average US/Cdn exchange rate per Bank of Canada	0.8567	0.9901	0.8293	0.9928

Operating Results for the Quarter Ended June 30, 2009

Sales for the quarter ended June 30, 2009, were \$69.4 million, up 15.0% or \$9.1 million compared to the same quarter last year. This increase, relative to the second quarter of 2008, is attributable to:

1. the strengthening of the United States dollar relative to the Canadian dollar, which had the effect of increasing sales by \$8.1 million;
2. the impact of the price increases since the end of the second quarter of 2008 and the effect of pricing adjustments to pass through cost increases to Menu's contract manufacturing customers, together with changes to sales mix and other variables, which had the effect of increasing sales by \$7.3 million; and
3. a 9.5% decrease in volume, which decreased sales by \$6.3 million;

Overall, volume (expressed in cases of 24 cans or pouches) was down 9.5% compared to the quarter ended June 30, 2008. Can volume, which represented 81.3% of Menu's volume in the second quarter of 2009 (88.5% in 2008), declined by 17.0% (equating to a decrease in total volume of 15.0%) while pouch volume, which represented 18.1% of total volume (11.5% in 2008), increased by 43.2% (equating to an increase in total volume of 4.9%) compared to the second quarter of 2008. The remaining 0.6% in volume represents sales of the new cup format which was introduced late in 2008.

During 2007, the Fund was advised by some customers that they would no longer be purchasing certain products from Menu. While this lost business primarily impacted 2007 and 2008 it has affected 2009 as well. During 2009 these customers reaffirmed their intention to withdraw their business from Menu before the end of the year, and in the second quarter of 2009 their purchases decreased 43.2% over the same period in 2008, such that during the second quarter they only accounted for 4.8% of sales in 2009 (7.6% in 2008). Furthermore, 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 their own products, certain other customers advised Menu that they would be discontinuing purchasing some products as well. These customers accounted for approximately

6.8% of sales during the quarter ended June 30, 2009 (12.3% in 2008). The decreased purchases by these customers accounts for virtually all of the 9.5% decrease in volume during the second quarter of 2009, relative to the same period last year.

Gross profit increased by \$2.4 million (or 49.9%) for the quarter ended June 30, 2009, compared to the prior year. This increase is attributable to:

1. *Price and Cost Increases/Adjustments.* During the first and third quarters of 2008 Menu followed a leading national brand manufacturer and announced price increases to private-label customers that were implemented during the second and fourth quarters of 2008. In addition, in December 2008 Menu initiated its own increase to private-label customers, which was implemented during the first quarter of 2009. Furthermore, on a comparative basis to the same quarter in 2008, the costs of certain inputs to production, including raw and packaging materials (tinplate used in cans, in particular) and labour and benefits, have continued to rise and have increased cost of sales as a result. The selling price increases referred to above, together with selling price increases to contract-manufacturing customers, improved operating efficiencies and other variables, combined to more than offset these cost increases, and increased gross profit by \$2.4 million.
2. *Foreign Exchange Effect on Sales.* The strengthening of the United States dollar relative to the Canadian dollar during the quarter had the effect of increasing sales by approximately \$8.1 million and that translated into an increase in gross profit of \$1.2 million for the quarter ended June 30, 2009.
3. *Effect of Change in Sales Volume.* As previously noted, total volume for the second quarter of 2009 decreased by 9.5%. This change in sales volume decreased gross profit by \$0.8 million.
4. *Increase in Amortization.* The reduction in finished goods inventory levels during the quarter resulted in less amortization of capital assets being included in inventory as part of factory overhead costs, and more being expensed as part of cost of sales. Furthermore, compared to the second quarter of 2008, the strengthening of the United States dollar, relative to the Canadian dollar, also served to increase the amount of amortization expensed as part of cost of sales. Taken together, these two items accounted for virtually all of the increase in the amortization associated with the cost of goods sold of \$0.4 million versus the second quarter of 2008.

Selling, general and administrative expenses for the quarter ended June 30, 2009 decreased by \$1.6 million compared to the prior year. Most of this improvement can be attributed to foreign exchange gains of \$2.3 million (\$1.8 million of which was unrealized) on the United States dollar exposure in working capital in Menu's Canadian operations, as the Canadian dollar appreciated 6.6% relative to the United States dollar during the second quarter of 2009. This compares to a more nominal depreciation in the Canadian dollar of 0.5% during the second quarter of 2008. Otherwise, selling, general and administrative expenses increased \$0.7 million compared to the same quarter in 2008. The largest single component of this increase can be attributed to variable compensation which increased by \$0.4 million over the period ended June 30, 2008, as a result of the Fund's improved performance this year. The remaining \$0.3 million reflects the impact of a stronger United States dollar on expenses incurred in Menu's United States based operations as well as numerous smaller changes, none of which is particularly noteworthy.

Adjusted EBITDA (see Note A) for the quarter ended June 30, 2009 amounted to \$7.6 million. This represents a \$2.7 million (or 53.7%) improvement over the same quarter in 2008. Compared to the second quarter of 2008, the strengthening of the United States dollar, relative to the Canadian dollar, has increased sales, gross margin, selling, general and administrative expenses, amortization, interest and EBITDA. Menu estimates that each change of \$0.01 in the cost of the Canadian dollar changes EBITDA by approximately \$0.11 million and Distributable Cash (see Note A) by approximately \$0.08 million, on a quarterly basis. Menu estimates that the strengthening of the United States dollar during the second quarter of 2009 versus the same

period in 2008 increased EBITDA by approximately \$1.5 million and Distributable Cash by approximately \$1.1 million.

Amortization (which is included in cost of sales and SG&A expense) in the second quarter of 2009 was \$0.4 million higher than in 2008. This change is principally a result of the increase in amortization expensed in cost of sales, as explained above.

Financial expenses were \$0.9 million higher during the quarter ended June 30, 2009 than in the second quarter of 2008. This change is principally attributable to the fact that during the second quarter of 2008, the Fund recorded a gain of \$1.5 million on interest rate swaps compared to a gain of \$0.7 million this year. Otherwise, during the second quarter of 2009, interest expense increased by \$0.1 million, reflecting the strengthening of the United States dollar, relative to the Canadian dollar, partially offset by the lower interest rates and the lower amounts borrowed this year.

The Fund operates using a number of different legal structures (e.g. partnerships, trusts, corporations etc.) in a number of jurisdictions. Each of these structures and jurisdictions is subject to income tax at different rates. The effective tax rate can vary from quarter-to-quarter, depending upon the taxing jurisdiction and the legal structure in which the income is earned. Since the Fund has approximately \$93.0 million in available tax losses it is not expecting to pay any significant amount of current income taxes for the foreseeable future.

Net income for the quarter ended June 30, 2009, was \$3.9 million, compared to \$0.7 million for the quarter ended June 30, 2008.

Operating Results for the Six Months Ended June 30, 2009

Sales for the six months ended June 30, 2009, were \$153.5 million, up 32.4% or \$37.6 million compared to the same period last year. This increase is attributable to:

1. *Foreign Exchange Effect on Sales.* The strengthening of the United States dollar relative to the Canadian dollar during the period had the effect of increasing sales by approximately \$21.9 million;
2. *Price and Cost Increases/Adjustments.* The impact of the price increases since the end of the second quarter of 2008 and the effect of pricing adjustments to pass through cost increases to Menu's contract-manufacturing customers, together with changes to sales mix and other variables, had the effect of increasing sales by \$18.0 million; and
3. *Effect of Change in Sales Volume.* A 1.2% decrease in volume, which decreased sales by \$2.3 million.

Overall, volume (expressed in cases of 24 cans or pouches) was down 1.2% compared to the six months ended June 30, 2008. Can volume, which represented 83.2% of Menu's volume in the first half of 2009 (87.5% in 2008), decreased by 6.2% (equating to a decrease in total volume of 5.4%). During the first six months of 2009, case sales of the pouch product, which represented 16.2% of total volume (12.5% in 2008), increased by 28.6% (equating to an increase in total volume of 3.6%) compared to the first six months of 2008. The remaining 0.6% in volume represents sales of the new cup format which was introduced late in 2008.

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. This lost business primarily impacted 2007 and 2008, but it has affected 2009 as well. During the six months ended June 30, 2009, volume to these customers decreased 16.3% as compared to the six months ended June 30, 2008. Over this same period the significance of these lost customers has decreased as well, with their volumes accounting for only 7.1% of total volume (8.5% in 2008). Furthermore, 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 their own products, certain other customers advised Menu that they would be discontinuing purchasing some products as

well. These customers accounted for approximately 8.7% of sales during the six months ended June 30, 2009 (11.1% in 2008). In contrast to these losses, volume sold to continuing customers (private-label and contract-manufacturing) increased by 3.4% for the six months ended June 30, 2009 compared to the same period in 2008.

Gross profit increased by \$4.8 million (or 46.7%) for the six months ended June 30, 2009, compared to the prior year. This increase is attributable to:

1. *Price and Cost Increases/Adjustments.* During the first and third quarters of 2008 Menu followed a leading national brand manufacturer and announced price increases to private-label customers that were implemented during the second and fourth quarters of 2008. In addition, in December 2008 Menu initiated its own increase to private-label customers, which was implemented during the first quarter of 2009. Furthermore, on a comparative basis to the first half of 2008, the costs of certain inputs to production, including raw and packaging materials (tinplate used in cans, in particular) and labour and benefits, have continued to rise and have increased cost of sales as a result. The selling price increases referred to above, together with selling price increases to contract-manufacturing customers, improved operating efficiencies and other variables, combined to more than offset these cost increases, and increased gross profit by \$3.5 million;
2. *Foreign Exchange Effect on Sales.* The strengthening of the United States dollar relative to the Canadian dollar during the period had the effect of increasing sales by approximately \$21.9 million and that translated into an increase in gross profit of \$3.0 million for the six months ended June 30, 2009;
3. *Increase in Amortization.* The reduction in finished goods inventory levels during the six month period resulted in less amortization of capital assets being included in inventory as part of factory overhead costs, and more being expensed as part of cost of sales. Furthermore, compared to the first half of 2008, the strengthening of the United States dollar, relative to the Canadian dollar, also served to increase the amount of amortization expensed as part of cost of sales. Taken together, these two items accounted for virtually all of the increase in the amortization associated with the cost of goods sold of \$1.5 million versus the first six months of 2008; and
4. *Effect of Change in Sales Volume.* As previously noted, total volume for the first half of the year decreased by 1.2%. This change in sales volume decreased gross profit by \$0.2 million.

Selling, general and administrative expenses for the six months ended June 30, 2009 increased by \$0.1 million compared to the prior year. This comparative increase reflects a \$1.4 million decrease in foreign exchange losses 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 during 2009. Aside from this impact of foreign exchange, selling, general and administrative expenses increased \$1.5 million compared to the same period in 2008. The largest single component of this increase reflects higher variable compensation which increased by \$0.5 million over the period ended June 30, 2008 as a result of the Fund's improved performance this year. While the Canadian dollar has strengthened relative to the United States dollar during 2009, the opposite is true on a comparative basis to 2008 with the result that United States dollar denominated expenses of Menu's United States based operations increased approximately \$0.5 million as a consequence of foreign exchange. The remaining \$0.5 million is attributable to numerous smaller changes, none of which is particularly noteworthy.

The foregoing resulted in an adjusted EBITDA of \$15.1 million for the six months ended June 30, 2009, which is a \$4.9 million (or 48.0%) increase over the \$10.2 million for the same period in 2008.

The strengthening of the United States dollar, relative to the Canadian dollar, has increased 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 \$0.44 million and Distributable Cash by approximately \$0.325 million, on an annual basis. Menu estimates that the strengthening of the United States dollar during the first half of 2009 versus the same period in 2008 increased EBITDA by approximately \$3.6 million and Distributable Cash by approximately \$2.7 million.

Amortization (which is included in cost of sales and SG&A expense) in the first six months of 2009 was \$1.4 million greater than in 2008. This change, in large part, is a result of the increase in amortization expensed in cost of sales, as explained above.

Financial expenses were \$0.6 million lower during the six months ended June 30, 2009 than in the same period in 2008. The Fund recorded a gain of \$0.7 million on interest rate swaps during the first half of 2009 compared to a loss of \$0.2 million in the same period last year. Excluding the effect of accounting for the interest rate swaps, interest expense increased by \$0.3 million, reflecting the stronger United States dollar partially offset by lower interest rates and the lower amounts borrowed this year.

The Fund operates using a number of different legal structures (e.g., partnerships, trusts, corporations etc.) in a number of jurisdictions. Each of these structures and jurisdictions is subject to income tax at different rates. The effective tax rate can vary from period-to-period, depending on the taxing jurisdiction and the legal structure in which the income is earned. Since the Fund has approximately \$93.0 million in available tax losses it is not expecting to pay or recognized any current income taxes for the foreseeable future.

Net income for the six months ended June 30, 2009, was \$3.9 million, compared to a loss of \$1.5 million for the six months ended June 30, 2008.

Summary of Quarterly Results

The following table highlights quarterly comparative results:

	For the Quarter Ended							
	Jun 30, 2009	Mar 31, 2009	Dec 31, 2008	Sept 30, 2008	Jun 30, 2008	Mar 31, 2008	Dec 31, 2007	Sept 30, 2007
Sales	\$69,392	\$84,125	\$83,015	\$61,625	\$60,330	\$55,581	\$55,001	\$78,050
Cost of sales	\$62,109	\$76,413	\$75,371	\$57,620	\$55,471	\$50,221	\$51,865	\$72,965
Gross profit	\$7,283	\$7,712	\$7,644	\$4,005	\$4,859	\$5,360	\$3,136	\$5,085
Selling, general and administrative expenses	\$1,116	\$4,427	\$5,382	\$3,004	\$2,702	\$2,739	\$3,907	\$2,537
Product recall	-	-	-	-	-	-	-	\$11,086
Restructuring and related expenses	-	-	\$131	\$10	\$70	\$102	(\$11,452)	\$15,889
Goodwill impairment	-	-	-	-	-	-	\$30,615	-
Financial expenses	\$2,292	\$3,187	\$5,400	\$3,100	\$1,347	\$4,699	\$3,887	\$4,393
Income taxes (recovery)	\$17	\$44	\$25	(\$60)	\$5	\$24	\$85	\$481
Income (loss) before non-controlling interest	\$3,858	\$54	(\$3,294)	(\$2,049)	\$735	(\$2,204)	(\$23,906)	(\$29,301)
Net income (loss)	\$3,858	\$54	(\$3,294)	(\$2,049)	\$735	(\$2,204)	(\$21,723)	(\$19,295)
Net income (loss) per Trust Unit								
Basic (\$)	\$0.186	\$0.003	(\$0.162)	(\$0.101)	\$0.036	(\$0.108)	(\$1.113)	(\$1.011)
Diluted (\$)	\$0.132	\$0.002	(\$0.162)	(\$0.101)	\$0.025	(\$0.108)	(\$1.113)	(\$1.011)
Weighted average number of Trust Units outstanding ('000's)								
Basic	20,704	20,362	20,362	20,362	20,362	20,362	19,516	19,087
Diluted	29,188	28,984	28,984	28,989	28,989	28,984	28,984	28,984
Exchange rate – US\$ ⁽¹⁾	\$0.8567	\$0.8037	\$0.8249	\$0.9600	\$0.9901	\$0.9955	\$1.0184	\$0.9571

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

During the eight quarters ended June 30, 2009 it is important to note the following:

Between March 16 and May 22, 2007 Menu experienced a series of product recalls which had a devastating effect on the Fund's performance during 2007. By the third quarter of 2007 the Fund had resumed shipping to most of its private-label customers and consequently volume increased

by about 79% when compared to the second quarter. Management believed that a portion of the demand in the third quarter of 2007 was attributable to the fact that many customers, who had been without product for several months, needed to rebuild inventory within their distribution systems and, consequently, did not expect this trend to continue into the fourth quarter. Sales during the fourth quarter did fall to about 75% of volumes in the third quarter, but remained 34% greater than in the second quarter.

During the third quarter of 2007 the final quantification of the costs of the recalls was completed and additional recall related costs were expensed as a result. Also, during the third quarter of 2007, Menu announced a restructuring to better align costs with its ongoing business operations. The restructuring initiatives took several forms and under GAAP, depending upon their nature, were recognized in 2007 and 2008. Another by-product of the recalls was the need to write-down goodwill by \$30.6 million to reflect the value the marketplace ascribed to the Fund's units. This write-down was reflected in the fourth quarter of 2007.

Using the fourth quarter of 2007 as a baseline, until the second quarter of 2009, except for a 3.4% decrease in the first quarter of 2008, quarterly sales volumes have exceeded those achieved in the final quarter of 2007 by between 0.6% and 11.3%. In the case of customers who continued to do business with Menu following the recall, the improvements were even more dramatic with quarterly volumes growing by 12.6% to 34.5% during the same period. The extent to which business with Menu's continuing customers would be re-established was one of the great uncertainties arising out of the recalls in 2007. During the first quarter of 2009 certain of these continuing customers advised Menu that, for various reasons, they would be discontinuing business with Menu. These decisions started to impact Menu in the first quarter of 2009, and by the second quarter of 2009 volumes were 8.9% less than in the fourth quarter of 2007. However, volumes were still 11.0% higher than the baseline established for continuing customers in 2007. During the second quarter of 2009, those customers who have told Menu of their intent to manufacture their own products or to source their products from someone else accounted for 11.6% of the Menu's second quarter volume in 2009 (as compared to 19.9% in the second quarter of 2008) and management expects that all of these customers will conclude their business with Menu by the end of 2009.

In addition to benefiting from these volume increases, sales since 2007 have grown as a result of a stronger United States dollar, relative to the Canadian dollar, and a series of price increases necessary to recover escalating costs from our customers. The timely translation of cost increases into price increases remains a challenge to be managed by Menu; however, management is encouraged by the extent to which this has been achieved more recently.

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, as time passes, the impacts of a stronger United States dollar, 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 mitigated a substantial portion of these changes.

Liquidity

During the six months ended June 30, 2009, the Fund generated cash flow from operations of \$9.4 million. This amount was reduced by \$4.9 million as a result of changes in non-cash working capital items. Specifically, accounts payable and accrued liabilities decreased by \$13.9 million and inventories decreased by \$6.4 million while accounts receivable decreased by \$1.7

million and prepaid expense and sundry assets decreased by \$1.0 million. The reduction in accounts payable and accrued liabilities during the period arises from approximately \$2.8 million in recall and restructuring related disbursements and reflects the acceleration of supplier payments to once again take advantage of early payment discounts, the reduction in inventory purchases in response to the fact that certain customers have stopped doing business with Menu and the stronger Canadian dollar relative to the United States dollar during 2009. The decrease in accounts receivable reflects the net impact of the decrease in sales due to lower volumes during the second quarter of 2009, the stronger Canadian dollar resulting in lower sales dollars, offset by the price increases effective during 2009, and the timing of sales near the end of the second quarter. Inventory levels have been reduced primarily in response to lost volume of customers who have decided to discontinue purchasing product from Menu. Inventory management remains a priority for the Fund, and management is pleased with the progress made in this area during 2009, particularly given the effects of continually rising input costs, especially tinplate. Finished goods inventories in the fourth quarter of 2008 had been increased in advance of scheduled maintenance that took down one plant for the first week of 2009, so a portion of the decrease was to be expected. The decrease in prepaid expenses and other assets generally reflects the amortization of prepaid expenses over the period.

No distributions were declared during 2009.

As of March 31, 2009, the Fund reached an agreement with its lenders to modify the terms of its existing credit facilities. This arrangement modified the terms governing the US\$30 million revolving bank operating facility, the US\$20 million revolving bank recall term facility (the "Recall Term Facility") and the non-revolving senior secured notes facilities. The Fund's US\$30 million revolving operating facility, which was due to expire on June 30, 2009, was extended until October 29, 2010 on terms and conditions that were substantially unchanged. The Recall Term Facility, which was due to be reduced by US\$3.0 million on each of March 31, 2009, June 30, 2009, September 30, 2009 and December 31, 2009, has been modified such that reductions of US\$3.0 million take place on each of June 30, 2009, September 30, 2009, December 31, 2009 and March 31, 2010, by which time the Recall Term Facility will have been extinguished. The holders of the senior secured notes have consented to these changes. On June 30, 2009 the Fund had drawn or committed US\$29.6 million (\$34.4 million) of the total US\$39.0 million bank facility.

The Fund had working capital of \$24.5 million as at June 30, 2009 (\$7.9 million deficiency-December 31, 2008). The extension of the revolving operating facility until October 29, 2010 accounts for most of this improvement. Historically the Fund has operated with positive working capital. The deficiency that existed at December 31, 2008 had arisen as a consequence of the \$55 million in recall related expenses incurred in 2007, which were funded by bank indebtedness, asset sales and working capital management.

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

Various legal actions and investigations have been commenced against the Fund as a consequence of the product recall. A number of product liability class action lawsuits were commenced in the United States and Canada, over 100 of which were consolidated in what is known as the pet food multi-district litigation. On October 14, 2008, the United States District Court for the District of New Jersey (the "U.S. Court") issued an oral order giving final approval of the cross-border settlement agreement in the pet food multi-district litigation (the "Settlement Agreement"). On November 3, 2008 there was a simultaneous hearing for final approval in the various Canadian courts (the "Canadian courts"). Formal final approval of the U.S. Court was given on November 19, 2008, and final approval of the Canadian courts was provided on November 27, 2008. Two appeals have been filed from the order of the U.S. Court approving the Settlement Agreement. It is uncertain how long these appeals will take to resolve. No appeals have been filed in Canada and the time for filing an appeal has passed. However, the Settlement Agreement requires the appeals in the United States to be finally determined prior to any

payments to claimants, and therefore settlement payments to pet owners in both the United States and Canada will be delayed until the appeals have been resolved. The Settlement Agreement would resolve 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 within the \$55 million estimate of recall costs previously provided. This contribution was paid, by Menu, during the second quarter of 2009.

Other actions and investigations remain outstanding, and it is possible that additional actions or investigations may arise in the future. The Fund may be required to expend significant amounts and to devote considerable management time to these matters. It is not possible to predict the amount of such expenses, the resolution of such claims or investigations, or the extent to which these items will be paid by insurance. Furthermore, if the actual cost of the recall exceeds \$55 million the Fund may need to obtain consent from its lenders and/or additional credit facilities, although there can be no assurances that such consents or facilities would be provided or available.

In common with most other companies, recent events in the world credit markets and the world economy could have a significant impact on the Fund going forward. Conditions in credit markets and the economy generally could adversely affect Menu's customers. To date management believes these developments have not had a significant adverse impact on either sales volumes or the creditworthiness of Menu's customers, but it is possible that adverse effects could arise in the future. In addition, any strengthening of the United States dollar relative to the Canadian dollar will have a positive impact on EBITDA, Distributable Cash and net assets. The United States dollar had strengthened significantly during the fourth quarter of 2008; however, this trend has been reversing itself during the first six months of 2009. The Fund estimates that on an annual basis, all other variables remaining constant, each change of \$0.01 in the cost of the Canadian dollar changes EBITDA by \$0.44 million and Distributable Cash by \$0.325 million.

The following table highlights the Fund's contractual obligations as at June 30, 2009:

Contractual Obligations	Payments Due by Period				
	Total	Less than 1 year	1 to 3 years	4 to 5 years	After 5 years
	\$	\$	\$	\$	\$
Senior secured notes	98,550	8,356	90,194	-	-
Bank indebtedness	36,275	10,154	26,121	-	-
Letter of credit	855	-	855	-	-
Operating leases	1,398	548	712	138	-
Purchase obligations	7,111	7,111	-	-	-
Total contractual obligations	144,189	26,169	117,882	138	-

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

Capital Resources

During the six months ended June 30, 2009, Menu spent over \$1.6 million on property, plant and equipment. Capital expenditures, which the Fund defines as being of a maintenance nature for purposes of determining Distributable Cash, which totalled almost \$1.3 million for the six months ended June 30, 2009, were financed from the cash flow of the business. These maintenance capital expenditures were over and above the \$6.0 million (2008 - \$4.5 million) for labour and parts expended by Menu for the ongoing repairs and maintenance of its plants that have been expensed as part of cost of sales. Management estimates that, on an annual basis, maintenance capital expenditures between \$2.0 million and \$3.5 million are necessary to maintain Menu's

current production capacity. Capital expenditures of a growth nature were nominal for the quarter.

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 June 30, 2009, 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 June 30, 2009, the Fund's disclosure controls and procedures were appropriately designed.

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

(b) Internal Controls over Financial Reporting

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

As at June 30, 2009, 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 June 30, 2009, the Fund's controls over financial reporting were appropriately designed.

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

During the third quarter of 2008, management enacted a change to internal controls that could materially affect, or could be reasonably considered to materially affect, the internal controls over financial reporting. Specifically, the Fund undertook, on a company-wide basis, a software conversion to a new inventory tracking system which better integrates with the Fund's existing enterprise system. During the third and fourth quarters of 2008 this system was implemented, in respect of finished goods, in the Fund's Canadian and one United States plant, respectively. During the first quarter of 2009 this system was implemented, in respect of finished goods, in the Fund's remaining United States plant. This change arises from the Fund's ongoing efforts to improve the efficiency and effectiveness of its internal controls.

Critical Accounting Estimates

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

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

Accounts Receivable

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

Inventory

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

Goodwill

Goodwill 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 suggests an impairment of the carrying value. Impairment is recognized when the estimated fair value of the goodwill is lower than its carrying value. Since the Fund operates as one reporting unit, the trading value of the Fund's units is used to establish the fair value of the Fund, which is then compared to the fair value of the other net assets to derive a residual value for goodwill.

Product recall

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

Lawsuits have been initiated against the Fund and certain of its subsidiaries in the United States and in Canada relating to the recall, some of which remain outstanding in the United States as they are not resolved by the Settlement Agreement. Furthermore, the U.S. Food and Drug Administration is conducting an investigation into the situation. The United States Attorney for the Western District of Missouri, based in Kansas City, has informed Menu that it is the target of a criminal investigation for possible violations of the U.S. federal Food, Drug and Cosmetic Act. It

is possible that additional actions or investigations may arise in the future. The Fund expects to expend significant amounts and devote considerable management time with regard to these matters. The Fund cannot predict the amount of such expenses, the resolution of any claims or investigations, the extent to which these items will be paid by the Fund's insurers, or whether the Fund will have sufficient resources to pay any or all of these items.

Financial Instruments and Other Instruments

Credit Risk

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

Foreign Exchange Risks

The Fund generates significant cash flows in foreign currency and is therefore exposed to risks relating to foreign exchange fluctuations. In order to reduce this risk, the Fund will, from time-to-time, as appropriate, 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 June 30, 2009 and 2008, 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 June 30, 2009 resulted in an unrealized gain of \$680 (2008 – loss of \$165) for the year-to-date, which was charged to financial expenses during the period. The cumulative unrealized loss on the interest rate swap is \$3,180 (December 31, 2008 - \$3,868) and is included in accounts payable and accrued liabilities that will be realized by its maturity.

Fair Value of Financial Instruments

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

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

Outstanding Units

The following table highlights the number of Units outstanding:

	Trust Units	Class B Exchangeable Units
December 31, 2008	20,361,654	8,622,589
Conversion of units	521,682	(521,682)
June 30, 2009	<u>20,883,336</u>	<u>8,100,907</u>

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 1 million five-year Trust Unit warrants in the Fund. The Trust Unit warrants were issued on August 22, 2008 and are exercisable at \$1.33, the fair market value on that date.

During the six months ended June 30, 2009: 1,029,200 unit options, with exercise prices between \$0.79 and \$1.47 were granted, 15,300 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 June 30, 2009, 2,507,058 options having exercise prices between \$0.79 and \$7.34 and a weighted average exercise price of \$2.11 were outstanding.

Recent Canadian accounting pronouncements issued and not yet adopted

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

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

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

The Accounting Standards Board has adopted a strategic plan that will have GAAP converge with International Financial Reporting Standards ("IFRS") effective January 2011. At this date, publicly accountable enterprises will be required to prepare 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. Preliminarily, 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; fund units/exchangeable units; and their resultant impacts on policies, procedures and financial statement disclosures. 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 significant impacts on its information systems or internal controls.

Furthermore, 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.

The Fund is currently completing the *Diagnostic Phase* of its changeover process, and has made some progress in related areas of the *Design Phase*. These phases will continue to move in tandem for the balance of 2009 and into the early part of 2010, at which time the Fund will move into the *Implementation Phase*. 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 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, which were suspected of containing an adulterated ingredient. In addition, the Fund instituted a withdrawal of all varieties of recalled product, regardless of its date of manufacture, in order to reduce the risk that any recalled product might remain on the retailer's shelves.

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

The Fund estimates that, based on currently available information, the direct costs associated with this recall, which will ultimately be financed from a combination of internally generated cash flow, proceeds from asset sales and bank credit facilities, will approximate \$55 million. This amount has been expensed and reflected in the results for the year ended December 31, 2007.

During 2007 the Fund entered into a number of agreements with its lenders to increase the amount available under the bank facility and to modify the terms of its existing facility in order to provide funding for the direct and indirect costs of the recall. The amended agreements increase the rates of interest paid by the Fund. Both of these changes have increased the Fund's financial expenses and are expected to continue to do so going forward.

Lawsuits have been initiated against the Fund and certain of its subsidiaries in the United States and in Canada, which seek to recover damages on behalf of the named plaintiffs and a purported class of pet owners. On October 14, 2008, the U.S. Court issued an oral order giving final approval of the Settlement Agreement which consolidated over 100 of the class action product liability civil suits commenced. On November 3, 2008 there was a simultaneous hearing for final approval in the various Canadian courts. Formal final approval of the U.S. Court was given on November 19, 2008 and final approval of the Canadian courts was provided on November 27, 2008. Two appeals have been filed from the order of the U.S. Court approving the Settlement Agreement. It is uncertain how long these appeals will take to resolve. No appeals have been filed in Canada and the time for filing an appeal has passed. However, the Settlement Agreement requires the appeals in the United States to be finally determined prior to any payments to claimants, and therefore settlement payments to pet owners in both the United

States and Canada will be delayed until the appeals have been resolved. The Settlement Agreement would resolve 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 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.

Other actions and investigations remain outstanding, and it is possible that additional actions or investigations may arise in the future. The U.S. Food and Drug Administration is conducting an investigation into the situation. The United States Attorney for the Western District of Missouri, based in Kansas City, has informed Menu that it is the target of a criminal investigation for possible violations of the U.S. Federal Food, Drug and Cosmetic Act. It is possible that additional actions or investigations may arise in the future. The Fund may be required to expend significant amounts and to devote considerable management time to these matters. It is not possible to predict the amount of such expenses, the resolution of such claims or investigations, or the extent to which these items will be paid by insurance.

Customers

During 2007, the Fund was advised that customers whose volume represented approximately 37% of sales in 2006 would no longer be purchasing these products from Menu. Much of this business was lost during 2007 and 2008. Early in 2009 these customers, who accounted for about 4.8% and 7.1% of the Fund's total volume during the second quarter and first half of 2009, respectively, reaffirmed their intention to stop purchasing products from the Fund by the end of 2009. The Fund believes that the recall did not cause it to violate any of its contracts with its customers because, among other things, the recall was caused by unforeseen circumstances beyond the Fund's control. However, it is possible that in the future Menu may be found to have breached contracts with one or more of its customers as a result of the recall.

In addition, during the first quarter of 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 their own products, certain other customers advised Menu that they would be discontinuing purchasing some items from the Fund. These customers accounted for approximately 6.8% (12.3% in 2008) and 8.7% (11.1% in 2008) of sales during the quarter and six months ended June 30, 2009, respectively. This business will be lost over the remainder of 2009.

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 2009. This happened even though prices of pure steel and tin have fallen sharply during the same period. Increases in medical benefits (escalating at rates well above inflation) and labour, push the cost of operating higher. Legislation in the United States on work hours for truck drivers and trucking delays crossing the Canadian/United States border similarly increases the cost of delivery. Rising costs for 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 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 continue to be compressed from time-to-time.

In the fourth quarter of 2008, responding to the rising cost of tinplate, Menu initiated price increases to private-label customers in both the United States and Canada in respect of product in steel cans, effective in the first quarter of 2009. This price increase is expected to increase Menu's sales by about 3.0% and should enable Menu to recover some of the steel can cost increases.

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

Bovine Spongiform Encephalopathy ("BSE")

The US and Canada have been categorized by 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.

Beginning in August 2008, with respect to the export of pet foods from Canada to the United States, based on the categorization referred to above, our Canadian facility was again permitted to utilize certain Canadian beef products. This use had been suspended since 2003 with the first incidence of BSE in Canadian cattle. Import permits are still required, however, with annual facility inspection and renewal.

Conversely, with respect to the export of pet foods from the United States to Canada, effective July 12, 2007, Canada announced an enhanced feed rule (the "Rule"), whereby specified risk materials (i.e. those components of the animal thought to have the highest level of infectivity when consumed) are banned in all animal feed, including pet food. A prohibition order (enacted to allow publication of the new Health of Animals regulations as described below) has been in place since the effective date of this Rule. Under this prohibition order pet food imported from the United States is relieved from complying with the Rule but instead must be certified as to the absence of specified risk materials.

Part IV of the Canadian Food Inspection Agency's Health of Animals Regulations was published in the Canada Gazette on February 19, 2009, but the prohibition order then in place delayed its application through June 30, 2009. The required import permits have been obtained for both United States manufacturing facilities and no trade disruptions have been experienced.

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 June 30, 2009 amounted to \$4.2 million, should the Fund declare a distribution in excess of 9 cents per unit, per month.

Financial Covenants

Most of the Fund's outstanding debt is represented by its bank facilities and senior secured notes. As at June 30, 2009, the Fund had \$33.6 million drawn on its bank facilities and \$87.4 million of senior secured notes outstanding. Each of these facilities has financial covenants and cross-default provisions that must be met. The terms of these facilities are described above under "Liquidity".

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

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

Legislative Changes

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

Risks and Uncertainties

Menu and the Fund are subject to numerous risk factors in their ongoing business. These risk factors include adequacy of credit facilities, the ability to obtain price increases in the face of rising costs, reliance on key customers, absence of long-term sales contracts, customer performance and relationships, foreign exchange fluctuations, governmental regulations and restrictions, legislative changes, reliance on key suppliers, reliance on key personnel, among others. For a review of some of the risks affecting the business, please refer to notes 25 and 26

to the accompanying consolidated financial statements. Additional information about the Fund is available at www.sedar.com.

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

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

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

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

Various legal actions and investigations have been commenced against the Fund as a consequence of the product recall. A number of product liability class action lawsuits were commenced in the United States and Canada, over 100 of which were consolidated in what is known as the pet food multi-district litigation. On October 14, 2008, the U.S. Court issued an oral order giving final approval of the cross-border settlement agreement in the pet food multi-district litigation (the "Settlement Agreement"). On November 3, 2008 there was a simultaneous hearing for final approval in the various Canadian courts (the "Canadian courts"). Formal final approval of the U.S. Court was given on November 19, 2008, and final approval of the Canadian courts was provided on November 27, 2008. Two appeals have been filed from the order of the U.S. Court approving the Settlement Agreement. It is uncertain how long these appeals will take to resolve. No appeals have been filed in Canada and the time for filing an appeal has passed. However, the Settlement Agreement requires the appeals in the United States to be finally determined prior to any payments to claimants, and therefore settlement payments to pet owners in both the United States and Canada will be delayed until the appeals have been resolved. The Settlement Agreement would resolve 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, and it is possible that additional actions or investigations may arise in the future. The Fund may be required expend significant amounts and

to devote considerable management time to these matters. It is not possible to predict the amount of such expenses, the resolution of such claims or investigations, or the extent to which these items will be paid by insurance.

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

Additional Information

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

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

Distributable Cash is not a recognized measure under 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."

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 current quarter and since the inception of the Fund:

	For the Quarter ended June 30,	
	2009	2008
	\$'000's	\$'000's
Net income	3,858	735
Adjust for:		
Unrealized foreign exchange	(1,769)	(63)
Amortization of property, plant and equipment	3,087	2,696
Unit based compensation	114	155
Current income taxes	17	5
Interest and financial expenses	2,292	1,347
EBITDA	7,599	4,875
Adjust for:		
Restructuring and related expenses	-	70
Adjusted EBITDA	7,599	4,945

	For the Quarter ended June 30,	
	2009	2008
	\$'000's	\$'000's
Cash flow from operating activities	4,861	3,906
Adjust for:		
Maintenance capital expenditures	(645)	(713)
Principal repayments (*)	-	(7)
Distributable Cash	4,216	3,186

	For the Six Months ended June 30,		Since Inception (May 22, 2002) to June 30, 2009
	2009	2008	
	\$'000's	\$'000's	\$'000's
Net income (loss)	3,912	(1,469)	(87,240)
Adjust for:			
Goodwill impairment loss	-	-	124,030
Unrealized foreign exchange	(990)	109	2,154
Non-controlling interest of Class B Exchangeable Units	-	-	(30,210)
Amortization of property, plant and equipment	6,452	5,036	99,389
Amortization of customer relationship	-	-	2,789
Unit based compensation	229	311	1,465
Future income taxes	-	-	(7,370)
Current income taxes	61	29	3,057
Interest and financial expenses	5,479	6,046	61,336
EBITDA	15,143	10,062	169,400
Adjust for:			
Product recall	-	-	(x) 52,530
Restructuring and related expenses	-	172	4,749
Adjusted EBITDA	15,143	10,234	(x) 226,679

	For the Six Months ended June 30,		Since Inception (May 22, 2002) to June 30, 2009
	2009	2008	
	\$'000's	\$'000's	\$'000's
Cash flow from operating activities	4,461	4,060	82,404
Adjust for:			
Maintenance capital expenditures	(1,306)	(1,332)	(17,051)
Principal repayments (*)	-	(14)	(624)
Distributable Cash	3,155	2,714	64,729

(*) principal repayments exclude amounts paid to the bank and note holders under the terms of amended Agreements
(x) the 2008 annual report stated product recall expenses as \$55,000, which was not adjusted for \$2,470 in recall related amortization that had been reclassified from product recall to amortization of property, plant and equipment in respect of 2007. Accordingly, EBITDA and adjusted EBITDA since inception have been reduced by \$2,470.

Menu Foods Income Fund
Consolidated Balance Sheets

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

	As at	
	June 30, 2009	December 31, 2008
	\$	\$
Assets		
Current assets		
Cash	34	210
Accounts receivable		
Trade	15,137	16,093
Other	1,133	2,439
Inventories (note 6)	38,288	46,426
Prepaid expenses and sundry assets	1,424	2,447
Total Current Assets	56,016	67,615
Property, plant and equipment (note 7)	65,977	73,034
Goodwill (note 8)	41,357	41,357
Other assets (note 9)	70	306
Total Assets	163,420	182,312
Liabilities		
Current liabilities		
Bank indebtedness (note 10)	8,141	36,839
Accounts payable and accrued liabilities (notes 2 and 3)	22,070	37,284
Income taxes payable	1,269	1,362
Total Current Liabilities	31,480	75,485
Long-term debt (note 11)	112,629	91,227
Total Liabilities	144,109	166,712
Unitholders' Equity		
Trust Units (note 13)	176,004	176,004
Warrants (note 13)	648	648
Contributed surplus (note 15)	1,480	1,251
Deficit	(146,723)	(150,635)
Accumulated other comprehensive loss (note 17)	(12,098)	(11,668)
Total Unitholders' Equity	19,311	15,600
Total Liabilities, Class B Exchangeable Units and Unitholders' Equity	163,420	182,312

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

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

Menu Foods Income Fund
Consolidated Statements of Operations and Deficit

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

	Quarter ended June 30,	
	2009	2008
	\$	\$
Sales	69,392	60,330
Cost of sales (note 20)	62,109	55,471
Gross profit	7,283	4,859
Selling, general and administrative expenses (note 21)	1,116	2,702
Income before the undernoted	6,167	2,157
Restructuring and related expenses (note 3)	-	70
Financial expenses (note 18)	2,292	1,347
Income before income taxes	3,875	740
Current income taxes	17	5
Net income for the period	3,858	735
Deficit - beginning of period	(150,581)	(146,027)
Deficit - end of period	(146,723)	(145,292)
Basic net income per Trust Unit	\$ 0.186	\$ 0.036
Diluted net income per Trust Unit	\$ 0.132	\$ 0.025
Basic weighted average number of Trust Units outstanding (note 13)	20,704,210	20,361,654
Diluted weighted average number of Trust Units outstanding (note 13)	29,187,915	28,989,389

Consolidated Statements of Comprehensive Income

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

	Quarter ended June 30,	
	2009	2008
	\$	\$
Net income for the period	3,858	735
Other comprehensive income (loss), net of tax of \$nil (2008 - \$nil):		
Unrealized (losses) gains on translating financial statements of self-sustaining foreign operations	(8,352)	73
Gains (losses) on hedges of unrealized foreign currency translation	7,387	(65)
Comprehensive income for the period	2,893	743

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

Menu Foods Income Fund
Consolidated Statements of Operations and Deficit

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

	Six months ended June 30,	
	2009	2008
	\$	\$
Sales	153,517	115,911
Cost of sales (note 20)	138,522	105,692
Gross profit	14,995	10,219
Selling, general and administrative expenses (note 21)	5,543	5,441
Income before the undernoted	9,452	4,778
Restructuring and related expenses (note 3)	-	172
Financial expenses (note 18)	5,479	6,046
Income (loss) before income taxes	3,973	(1,440)
Current income taxes	61	29
Net income (loss) for the period	3,912	(1,469)
Deficit - beginning of period	(150,635)	(143,823)
Deficit - end of period	(146,723)	(145,292)
Deficit comprises:		
Accumulated net loss	(86,534)	(85,103)
Accumulated distributions	(60,189)	(60,189)
	(146,723)	(145,292)
Basic net income (loss) per Trust Unit	\$ 0.191	\$ (0.072)
Diluted net income (loss) per Trust Unit	\$ 0.134	\$ (0.072)
Basic weighted average number of Trust Units outstanding (note 13)	20,533,878	20,361,654
Diluted weighted average number of Trust Units outstanding (note 13)	29,093,180	28,985,058

Consolidated Statements of Comprehensive Income (Loss)

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

	Six months ended June 30,	
	2009	2008
	\$	\$
Net income (loss) for the period	3,912	(1,469)
Other comprehensive (loss) income, net of tax of \$nil (2008 - \$nil)		
Unrealized gains (losses) on translating financial statements of self-sustaining foreign operations	(4,563)	4,241
Gains (losses) on hedges of unrealized foreign currency translation	4,133	(3,840)
Comprehensive income (loss) for the period	3,482	(1,068)

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 June 30,	
	2009	2008
	\$	\$
Cash provided by (used in)		
Operating activities		
Net income for the period	3,858	735
Adjustments for non-cash items		
Unrealized foreign exchange gain (note 21)	(1,769)	(63)
Amortization of property, plant and equipment	3,087	2,696
Amortization of deferred financing fees	243	182
Unit-based compensation (note 15)	114	155
Gain on sale of property, plant and equipment	-	(116)
Marked-to-market adjustment (note 25)	(700)	(1,505)
	4,833	2,084
Change in non-cash working capital items		
Accounts receivable	2,596	(1,327)
Inventories	3,390	3,222
Accounts payable and accrued liabilities	(6,842)	(911)
Prepaid expenses and sundry assets	916	576
Income taxes	(32)	262
	4,861	3,906
Financing activities		
Change in bank indebtedness	(3,812)	(2,641)
Long-term debt repayments	-	(7)
Deferred financing charge	(75)	-
	(3,887)	(2,648)
Investing activities		
Purchase of property, plant and equipment	(968)	(1,544)
Proceeds from sale of property, plant and equipment	-	270
	(968)	(1,274)
Increase (decrease) in cash	6	(16)
Cash - beginning of period	28	267
Cash - end of period	34	251
Supplementary information		
Income taxes paid (refunded)	106	(243)
Interest paid	2,855	2,702

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)

	Six months ended June 30,	
	2009	2008
	\$	\$
Cash provided by (used in)		
Operating activities		
Net income (loss) for the period	3,912	(1,469)
Adjustments for non-cash items		
Unrealized foreign exchange (gain) loss (note 21)	(990)	109
Amortization of property, plant and equipment	6,452	5,036
Amortization of deferred financing fees	467	364
Unit-based compensation (note 15)	229	311
Gain on sale of property, plant and equipment	(2)	(116)
Marked-to-market adjustment (note 25)	(680)	165
	9,388	4,400
Change in non-cash working capital items		
Accounts receivable	1,666	219
Inventories	6,384	259
Accounts payable and accrued liabilities	(13,904)	(2,027)
Prepaid expenses and sundry assets	1,010	965
Income taxes	(83)	244
	4,461	4,060
Financing activities		
Change in bank indebtedness	(2,852)	(1,799)
Long-term debt repayments	-	(14)
Deferred financing charge	(145)	-
	(2,997)	(1,813)
Investing activities		
Purchase of property, plant and equipment	(1,640)	(2,295)
Proceeds from sale of property, plant and equipment	-	274
	(1,640)	(2,021)
Increase (decrease) in cash	(176)	226
Cash - beginning of period	210	25
Cash - end of period	34	251
Supplementary information		
Income taxes paid (refunded)	214	(181)
Interest paid	5,947	5,583

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

Menu Foods Income Fund
Notes to Consolidated Financial Statements
June 30, 2009

(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. Product recall, contingencies and going concern

During 2007, the Fund announced a series of recalls together with a voluntary withdrawal of certain products. The recalls and withdrawal related primarily to "cuts and gravy" style products manufactured by Menu, but included certain other products as well. These products were manufactured and sold under private-label and contract-manufactured for some national brands.

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

In 2007, 2008 and 2009, the Fund entered into amended agreements with its lenders, which among other things, defined the terms and conditions governing the Fund's revolving bank facility (note 10) and non-revolving senior secured notes facility (note 11).

The estimated product recall costs are based on the best information currently available to the management of the Fund. The above-noted estimate of \$55,000 remains unchanged as at June 30, 2009. The ultimate determination of these costs is dependent on a number of factors, some of which remain unresolved. Accordingly, actual amounts could differ from these estimates and the differences could be material. The ongoing impact of the product recall could have a material effect on the liquidity of the Fund. As at June 30, 2009, \$4,325 (December 31, 2008 - \$7,100) remains in accrued liabilities for recall related 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 a purported class of pet owners. On November 19, 2008 and on November 27, 2008, the U.S. Court and various Canadian courts, respectively, gave final approval of the comprehensive settlement agreement in the pet food multi-district litigation. Two appeals 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 resolves 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.

Menu Foods Income Fund
Notes to Consolidated Financial Statements
June 30, 2009

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

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

The settlement agreement creates a settlement fund of US\$24,000 that allows a potential recovery of up to 100% of all economic damages incurred by pet owners, subject to certain limitations. The settlement fund, administered by a neutral claims administrator, will be available to persons in the United States and Canada who purchased or obtained, or whose pets used or consumed, recalled pet food, 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 will be funded by the defendants, including the Fund and its product liability insurer. The Fund's corporate contribution to the settlement is reflected in the \$55,000 estimate of 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. Furthermore, it is possible that additional actions or investigations may arise in the future. The Fund may be required to expend significant amounts and to devote considerable management time to these matters. It is not possible to predict the amount of such expenses, the resolution of such claims or investigations, or the extent to which these items will be paid by insurance.

Given the restructuring activities (note 3) and based on current forecasts, management believes that the Fund will generate sufficient income and cash flows to discharge its obligations as they become due in the normal course of operations and that the Fund will not require any significant additional credit facilities. The agreement with the Fund's bank has been extended to October 29, 2010 (note 10) and its senior secured notes are due on October 31, 2010 (note 11). However, given the significant uncertainty caused by the recall and the legal and regulatory matters referred to above, there is no assurance that additional financing will not be required, or that it will be available to the Fund, if needed. As a result of this uncertainty there may be significant doubt as to the ability of the Fund to continue as a going concern.

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

3. Restructuring and related expenses

During 2007, as a consequence of the product recalls, the Fund restructured its operations to better align costs with its ongoing business. By the end of 2008 these restructuring initiatives had been substantially completed. As at June 30, 2009, the accrual for restructuring, which primarily comprises costs associated with inventory disposal together with severance costs being paid over time, amounted to \$470 (December 31, 2008 - \$895).

4. Changes in accounting policies and new accounting pronouncements

In January 2009, the Canadian Institute of Chartered Accountants ("CICA") issued EIC-173, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities", which requires the entity to consider its own credit risk as well as the credit risk of its counterparty when determining the fair value of financial assets and liabilities, including derivative instruments. The standard is effective for the Fund's 2009 fiscal year, commencing January 1, 2009 and is required to be applied retrospectively without restatement of prior periods. The adoption of this standard did not have a material impact on the valuation of Menu's financial assets or liabilities.

Menu Foods Income Fund
Notes to Consolidated Financial Statements
June 30, 2009

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

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

Recent Canadian accounting pronouncements issued and not yet adopted

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

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

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

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

5. Summary of significant accounting policies

a) Basis of presentation

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

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

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, 2008, 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 requirements of GAAP for annual statements.

Accounting measurements at interim dates involve greater reliance on estimates than at year-end. In the opinion of management, the accompanying unaudited interim consolidated financial statements include all adjustments of a normal recurring nature to present fairly the financial position of the Fund as at June 30, 2009.

b) Use of estimates

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

c) Cash and cash equivalents

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

Menu Foods Income Fund
Notes to Consolidated Financial Statements
June 30, 2009

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

5. Summary of significant accounting policies (continued)

d) Inventories

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

e) Property, plant and equipment

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

Buildings	20 - 40 years
Machinery and equipment	3 - 10 years
Other property and equipment	3 - 20 years

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

f) Income taxes

The Fund follows the 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.

g) Research and development

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

Menu Foods Income Fund
Notes to Consolidated Financial Statements
June 30, 2009

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

5 Summary of significant accounting policies (continued)

i) Goodwill

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

j) Foreign currency translation

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

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

k) Revenue recognition

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

l) Supplier rebates

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

m) Unit-based compensation

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

Menu Foods Income Fund
Notes to Consolidated Financial Statements
June 30, 2009

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

5 Summary of significant accounting policies (continued)

n) Asset retirement obligations

The fair value of any liability for an asset retirement obligation is recognized in the period in which it is incurred, if a reasonable estimate of fair value can be made. The associated retirement costs are capitalized as part of the carrying amount of the long-lived assets and amortized over the life of the asset. As at June 30, 2009, the Fund has concluded that there were no asset retirement obligations associated with its assets.

o) Financial instruments

The Fund designates its cash as held-for-trading, which is measured at fair value. Accounts receivable are classified as loans and receivables, which are measured at amortized cost. Bank indebtedness, accounts payable and accrued liabilities and long-term debt are classified as other financial liabilities, which are recorded at amortized cost. Derivative instruments are recorded in the consolidated statements of operations at fair value except for contracts entered into for the purposes of the Fund's own usage requirements. The Fund uses 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 operations.

6. Inventories

	As at	
	June 30, 2009	December 31, 2008
	\$	\$
Raw materials and packaging	13,171	14,383
Finished goods	25,117	32,043
	38,288	46,426

7. Property, plant and equipment

	As at June 30, 2009		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Land	4,371	-	4,371
Buildings	42,518	10,147	32,371
Machinery and equipment	93,699	68,090	25,609
Other property and equipment	16,988	14,750	2,238
Construction-in-progress	1,388	-	1,388
	158,964	92,987	65,977

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

Menu Foods Income Fund
Notes to Consolidated Financial Statements
June 30, 2009

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

7. Property, plant and equipment (continued)

Approximately \$852 in machinery and equipment and \$3,759 in buildings were not in use at June 30, 2009 (December 31, 2008 - \$1,118 and \$4,073, respectively). These assets are currently available for sale.

8. 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. Under 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, 2008, and events since that time, did not identify any further impairment.

9. Other assets

	As at	
	June 30, 2009	December 31, 2008
	\$	\$
Deferred commitment fees (note 10)		
Cost	75	1,053
Accumulated amortization	(5)	(747)
	70	306

10. Bank indebtedness

	As at	
	June 30, 2009	December 31, 2008
	\$	\$
Revolving term facility	25,450	28,313
Recall Term Facility	8,141	8,526
Total bank indebtedness	33,591	36,839
Less: long-term portion (note 11)	(25,450)	-
Current bank indebtedness	8,141	36,839

The banking agreement provides the Fund with two operating facilities (collectively the "Operating Facilities"). As at June 30, 2009 the Fund had drawn \$25,450 (equivalent to US\$21,883) under its US\$30,000 revolving term facility (December 31, 2008 - \$28,313; equivalent to US\$23,245) and \$8,141 (equivalent to US\$7,000) under its Recall Term Facility, as defined below (December 31, 2008 - \$8,526; equivalent to US\$7,000). At June 30, 2009, the Fund had an outstanding irrevocable letter of credit in the amount of \$855 (US\$735) (December 31, 2008 - \$895 (US\$735)), which further reduces the amount available under the Operating Facilities.

The costs associated with the product recalls (note 2) and restructuring (note 3) were significant and resulted in the Fund not being in compliance with certain financial covenants with its bank and senior secured noteholders (note 11) (the "Lenders") during 2007. Accordingly, the Fund entered into amended agreements (the "Agreements") with its Lenders that, among other things, defined the terms and conditions governing the Fund's US\$30,000 revolving term facility and non-revolving senior secured notes facilities (note 11) going forward. In addition, the agreement with the bank was extended to June 30, 2009 and expanded to include a new US\$20,000 credit facility (the "Recall Term Facility" or "Facility"). In March 2009, the Agreement was again extended, for a fee of \$75, until October 29, 2010.

Menu Foods Income Fund
Notes to Consolidated Financial Statements
June 30, 2009

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

10. Bank indebtedness (continued)

By December 31, 2008, the Recall Term Facility had been reduced to US\$12,000. The Facility was to be further reduced by \$3,000 at the end of each calendar quarter of 2009, until it was extinguished. However, in March 2009 the terms of the Facility were again revised such that reductions of US\$3,000 will occur at the end of each calendar quarter commencing in June 2009, with the Recall Term Facility being extinguished on March 31, 2010. Following the reduction on June 30, 2009 the maximum amount available under the Facility is US\$9,000.

Pursuant to its amended banking agreement, the Operating Facilities bear interest at Canadian prime rate (2.25% as at June 30, 2009) plus 3.5%, US base rate (3.25% as at June 30, 2009) plus 3.5% or Euro rate (0.60% as at June 30, 2009) plus 4.75% (the "Base Rates") depending on the currency advanced. These interest rates will continue to apply until the Recall Term Facility is extinguished and the balance owing under the revolving term facility is less than US\$15,000 for five consecutive business days and the Fund achieves a total debt to EBITDA (a non-GAAP measure that is defined in the amended banking agreement) ratio (the "Leverage Ratio"), on a trailing twelve-month basis, of 3 to 1 or less (the "Threshold Conditions"), at which time the interest rates will revert to those set out in the Fund's credit facilities prior to amendment, provided that there are no other defaults. The Fund is precluded from paying distributions to its Unitholders at any time the Leverage Ratio exceeds 3 to 1.

Certain of the pre-existing covenants have been suspended until such time as the recall costs no longer impact the Fund's Leverage Ratio and until the Threshold Conditions are satisfied. Specifically, EBITDA before recall and restructuring costs and operating leases must be at least \$20,000 on a trailing twelve-month basis each calendar quarter. Under the terms of the amended agreements, not more than \$55,000 may be utilized by the Fund for recall-related costs and restructuring costs should approximate \$5,400, upon completion of the restructuring. The restructuring has now been substantially completed and this condition satisfied. These changes are consistent with the terms and conditions governing the non-revolving senior secured notes (note 11).

Certain of the amendments required the Fund to pay commitment fees to the bank, plus all associated professional costs. These fees are recorded in other assets and are amortized on a straight-line basis over the term of the credit facility (note 9).

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

11. Long-term debt

	June 30, 2009	As at December 31, 2008
	\$	\$
Senior secured notes	87,408	91,542
Transaction costs	(229)	(315)
	87,179	91,227
Long-term portion of bank indebtedness (note 10)	25,450	-
	112,629	91,227

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 June 30, 2009 and December 31, 2008, are repayable on October 31, 2010, with interest payable quarterly. Certain bank indebtedness has been identified as priority indebtedness under an agreement between the bank and senior secured noteholders. Otherwise, the Fund has pledged, on a pari passu basis with its bank, as security for its senior secured notes, all moveable property and book debts and, in addition, has signed a general security agreement.

Menu Foods Income Fund
Notes to Consolidated Financial Statements
June 30, 2009

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

11. Long-term debt (continued)

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

Pursuant to the terms of the agreements, the Notes Facility now bears interest at floating rate, three-month LIBOR (0.60% as at June 30, 2009) plus 580 basis points. This rate will continue to apply until the Threshold Conditions (note 10) are satisfied, at which time the interest rates will revert to those set out in the Fund's existing Notes Facility, provided that there are no other defaults. The Fund is precluded from paying distributions to its Unitholders at any time the Leverage Ratio exceeds 3 to 1.

Certain of the pre-existing covenants have been suspended on an identical basis with those of the bank, as described in note 10. In addition, the senior secured noteholders have acknowledged and consented to the amendments to the bank agreement, as described in note 10. Furthermore, under the terms of the amended agreements, not more than \$55,000 may be utilized by the Fund for recall-related costs and restructuring costs should approximate \$5,400 upon completion of the restructuring. The amendments in 2007 required the Fund to pay fees and expenses to the senior secured noteholders of \$515 (US\$517). These transaction costs were netted against the Notes Facility and are being amortized until October 31, 2010 using the effective interest method.

During the quarter ended March 31, 2006, the Fund fixed interest rates at 5.35% plus the applicable spread on US\$50,000 through to October 2010 (note 25).

12. Class B Exchangeable Units

	Number of units	Carrying value \$
Class B Exchangeable Units		
January 1, 2008 and December 31, 2008	8,622,589	-
Conversion of Class B Exchangeable Units to Trust Units (note 13)	(521,682)	-
Share of net income (loss) for the period		-
June 30, 2009	8,100,907	-

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

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

Under GAAP, when the losses applicable to the non-controlling interest exceed their investment in the Fund's units, the excess and any further losses applicable to the non-controlling interest are allocated to the Trust Unitholders. This process continues once the Fund becomes profitable again until such time as all previously absorbed losses are recovered by the Trust Unitholders. As at June 30, 2009 these absorbed losses, still to be recovered by the Trust Unitholders, amount to \$4,394 (December 31, 2008 - \$5,713).

Menu Foods Income Fund
Notes to Consolidated Financial Statements
June 30, 2009

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

12. Class B Exchangeable Units (continued)

During the second quarter of 2005, certain holders of Class B Exchangeable Units agreed to subordinate their entitlement to distributions for a ten-month period beginning with the distributions in respect of the month of May 2005 and ending with the distributions in respect of the month of February 2006. Distributions subordinated amounted to \$4,151. Such Unitholders are entitled to a reimbursement of such subordinated distributions before distributions can be increased above 9 cents per unit, per month. No obligation arises to the Fund in respect of these subordinated amounts until it has generated sufficient distributable cash and declares distributions in excess of 9 cents per unit, per month. Accordingly, no amount has been accrued in distributions payable at June 30, 2009 and December 31, 2008.

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

13. Trust Units

Authorized

Unlimited number of Trust Units
 Unlimited number of Special Trust Units

Issued

	Number of units	Gross proceeds \$	Issuance costs \$	Net proceeds \$
Trust Units				
January 1, 2008 and December 31, 2008	20,361,654	187,304	11,300	176,004
Conversion of Class B Exchangeable Units during the period (note 12)	521,682	-	-	-
June 30, 2009	20,883,336	187,304	11,300	176,004

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

Special Trust Units

Special Trust Units are used solely for providing voting rights to the holders of Class B Exchangeable Units ("Class B Units") (note 12) and by their terms have voting rights of the Fund. Special Trust Units are not transferable separately from the Class B Units to which they relate. Conversely, the Special Trust Units will automatically be transferred upon a transfer of the associated Class B Units. Each Special Trust Unit entitles the holder thereof to a number of votes at any meeting of Unitholders and holders of Special Trust Units equal to the number of Units that may be obtained upon the exchange of the Class B Units to which the Special Trust Unit relates, but do not otherwise entitle the holder to any rights with respect to the Fund's property or income. The Fund issued 12,631,915 Special Trust Units relating to the Class B Units at the date of acquisition of Menu. There were 8,100,907 and 8,622,589 Special Trust Units outstanding as at June 30, 2009 and December 31, 2008, respectively (note 12).

Menu Foods Income Fund
Notes to Consolidated Financial Statements
June 30, 2009

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

13. Trust Units (continued)

Weighted average number of Units outstanding

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

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

	Quarter ended June 30,	
	2009	2008
Weighted average number of Trust Units outstanding - basic	20,704,210	20,361,654
Weighted average number of Class B Units outstanding - basic (note 12)	8,280,033	8,622,589
Dilutive effect of warrants	-	-
Dilutive effect of options (note 15)	203,672	5,146
Weighted average number of units outstanding - diluted	29,187,915	28,989,389

	Six months ended June 30,	
	2009	2008
Weighted average number of Trust Units outstanding - basic	20,533,878	20,361,654
Weighted average number of Class B Units outstanding - basic (note 12)	8,450,365	8,622,589
Dilutive effect of warrants	-	-
Dilutive effect of options (note 15)	108,937	815
Weighted average number of units outstanding - diluted	29,093,180	28,985,058

14. Distributions

No distributions were declared on either the Trust Units or the Class B Units during the quarter and six months ended June 30, 2009 and 2008.

15. Unit-based compensation

Unit option plan

The option plan under which these options were granted, which authorizes 2,815,000 units, was approved by the Unitholders at the Annual and Special Meeting of the Fund held on May 11, 2006. Compensation expense of \$114 and \$229 was recognized for the quarter and six months ended June 30, 2009 (2008 - \$155 and \$311), respectively, which was added to contributed surplus. Total compensation expense to be recognized under these awards is estimated to be \$2,385. All options expire 39 months after the date of grant, if not exercised.

Menu Foods Income Fund
Notes to Consolidated Financial Statements
June 30, 2009

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

15. Unit-based compensation (continued)

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

A summary of option activities since January 1, 2008 is as follows:

	Number of options	Range of exercise prices \$	Weighted average exercise prices \$
January 1, 2008	2,210,392	0.92-7.34	3.42
Options granted during quarter ended			
June 30, 2008	48,900	1.10-1.35	1.24
September 30, 2008	15,300	1.37	1.37
Options forfeited during quarter ended			
March 31, 2008	(87,600)	1.82-7.34	4.57
June 30, 2008	(60,600)	1.82-7.34	3.53
September 30, 2008	(23,100)	1.82-7.34	3.25
December 31, 2008	2,103,292	0.92-7.34	3.34
Options granted during quarter ended			
March 31, 2009	505,600	0.79	0.79
June 30, 2009	523,600	1.47	1.47
Options expired during quarter ended			
June 30, 2009	(610,134)	4.56-5.25	4.57
Options forfeited during quarter ended			
June 30, 2009	(15,300)	0.79-7.34	3.64
June 30, 2009	2,507,058	0.79-7.34	2.11

Menu Foods Income Fund
Notes to Consolidated Financial Statements
June 30, 2009

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

15. Unit-based compensation (continued)

The outstanding options are summarized as follows:

	Options outstanding		Vested options outstanding	
	Number	Weighted average remaining life	Number	Weighted average remaining life
Exercise price				
7.34	262,968	11 months	175,312	11 months
3.00	18,390	16 months	6,130	16 months
1.82	1,113,100	20 months	371,033	20 months
0.92	21,000	21 months	7,000	21 months
1.35	27,900	26 months	9,300	26 months
1.10	21,000	26 months	7,000	26 months
1.37	15,300	29 months	-	-
0.79	503,800	35 months	-	-
1.47	523,600	38 months	-	-
	2,507,058	26 months	575,775	17 months

Contributed surplus attributed to Trust Unit options

	As at	
	June 30, 2009	December 31, 2008
	\$	\$
Opening balance	1,251	658
Compensation expense recognized for unit options during the period	229	593
Ending balance	1,480	1,251

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

16. Capital management

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

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

The Leverage Ratio for the twelve months ended June 30, 2009 was 4.33 to 1 (December 31, 2008 – 5.52 to 1). Furthermore, as described more fully in note 10, the Fund is required to have EBITDA before recall and restructuring costs and operating leases of \$20,000 on a trailing twelve-months basis each calendar quarter.

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

Menu Foods Income Fund
Notes to Consolidated Financial Statements
June 30, 2009

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

16. Capital Management (continued)

For the time being, the equity component of capital, which was seriously depleted as a consequence of the events in 2007, will only increase by the amount of income earned and retained by the business. 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 improve. The Fund will review its level of equity in light of its ongoing performance and future needs and opportunities and additional equity may be issued if deemed appropriate or necessary.

17. Accumulated other comprehensive loss

	As at	
	June 30, 2009	December 31, 2008
	\$	\$
Unrealized losses on translating financial statements of self-sustaining foreign operations	(25,592)	(21,029)
Gains on hedges of unrealized foreign currency translation, net of tax	13,494	9,361
	(12,098)	(11,668)

18. Financial expenses

	Quarter ended June 30,	
	2009	2008
	\$	\$
Interest on senior secured notes	2,434	2,014
Interest on bank indebtedness	558	838
Gain on interest rate swap	(700)	(1,505)
	2,292	1,347

	Six months ended June 30,	
	2009	2008
	\$	\$
Interest on senior secured notes	5,007	4,118
Interest on bank indebtedness and other	1,152	1,763
Loss (gain) on interest rate swap	(680)	165
	5,479	6,046

19. Income taxes

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

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

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

Menu Foods Income Fund
Notes to Consolidated Financial Statements
June 30, 2009

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

19. Income taxes (continued)

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

	June 30, 2009	As at December 31, 2008
	\$	\$
Current future income tax assets:		
Accounts receivable, accounts payable and accrued liabilities	406	331
Inventory provisions	440	537
Valuation allowance	(846)	(868)
	-	-
Long-term future income tax (assets) and liabilities:		
Property, plant and equipment	7,581	10,249
Tax benefits of loss carry-forwards	(32,153)	(31,532)
Other	(1,764)	(6,948)
Valuation allowance	26,336	28,231
	-	-

The benefits of these future tax loss carry-forwards, which aggregate to approximately \$93,017 (of which \$66,653 arose in the United States), expire primarily between 2022 and 2028, with \$15,709 expiring by 2015.

20. Other expenses

Research and development expenses amounted to \$63 and \$117 for the quarter and six months ended June 30, 2009 (2008 - \$57 and \$118), respectively. These expenses are included in cost of sales.

21. Selling, general and administrative expenses

Selling, general and administrative expenses include an unrealized foreign exchange gain of \$1,769 and \$990 for the quarter and six months ended June 30, 2009 (2008 - \$63 gain and \$109 loss).

22. Commitments

Future minimum payments under operating leases at June 30, 2009 are as follows:

	\$
2009	548
2010	517
2011	195
2012	90
2013	27
Thereafter	21
	1,398

In addition, the Fund contracts for a portion of its gas and electricity and aluminum container needs for the upcoming calendar year. As at June 30, 2009 commitments under such contracts amounted to \$7,111.

Menu Foods Income Fund
Notes to Consolidated Financial Statements
June 30, 2009

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

23. Employee benefit plans

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

The total expense related to these plans was \$77 and \$157 for the quarter and six months ended June 30, 2009 (2008 - \$70 and \$180).

24. Segmented information

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

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

	Quarter ended June 30,	
	2009	2008
	\$	\$
Sales		
Canada		
Domestic	6,262	10,755
Foreign	12,767	8,718
Intersegment transfers	2,711	3,404
	<hr/> 21,740	<hr/> 22,877
United States		
Domestic	53,017	42,682
Foreign	92	308
Intersegment transfers	13,061	8,256
	<hr/> 66,170	<hr/> 51,246
	87,910	74,123
Elimination of intersegment transfers	(15,772)	(11,660)
Discounts	(2,746)	(2,133)
	<hr/> 69,392	<hr/> 60,330

Menu Foods Income Fund
Notes to Consolidated Financial Statements
June 30, 2009

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

24. Segmented information (continued)

	Six months ended June 30,	
	2009	2008
	\$	\$
Sales		
Canada		
Domestic	14,368	20,840
Foreign	27,788	14,729
Intersegment transfers	5,616	6,255
	<hr/> 47,772	<hr/> 41,824
United States		
Domestic	116,971	83,873
Foreign	330	776
Intersegment transfers	28,102	16,715
	<hr/> 145,403	<hr/> 101,364
	193,175	143,188
Elimination of intersegment transfers	(33,718)	(22,970)
Discounts	(5,940)	(4,307)
	<hr/> 153,517	<hr/> 115,911

	As at	
	June 30, 2009	December 31, 2008
	\$	\$
Property, plant and equipment		
Canada	39,524	38,925
United States	119,440	125,075
	<hr/> 158,964	<hr/> 164,000
Less: Accumulated amortization	92,987	90,966
	<hr/> 65,977	<hr/> 73,034

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

25. Financial instruments

The Fund has the following categories of financial instruments:

	As at	
	June 30, 2009	December 31, 2008
	\$	\$
Measured at fair value:		
Cash	34	210
Interest rate swap	(3,188)	(3,868)
Measured at amortized cost:		
Accounts receivable	16,270	18,532
Bank indebtedness	(8,141)	(36,839)
Accounts payable and accrued liabilities	(18,882)	(33,416)
Long-term debt	(112,629)	(91,227)

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

Menu Foods Income Fund
Notes to Consolidated Financial Statements
June 30, 2009

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

25. Financial instruments (continued)

Credit risk

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

On an ongoing basis the credit worthiness of customers is reassessed and provisions are made for amounts that are more than 30 days past due. This allowance for doubtful accounts amounted to \$413 at June 30, 2009 (December 31, 2008 - \$285) which management believes adequately addresses the Fund's credit risk. The net change during the six months ended June 30, 2009 of \$128, has been included in selling, general and administrative expenses. The remaining balance of trade accounts receivable includes \$1,817 that is 1 to 30 days past due and not impaired. Notwithstanding recent events in the international credit markets, management believes that its products, distribution channels and customers are such that these developments are not expected to have a significant effect on credit risk.

Foreign exchange and interest rate risks

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

As at June 30, 2009 and December 31, 2008, the Fund did not have any outstanding foreign currency forward contracts.

The Fund has fixed interest rates on a portion of its indebtedness (note 11). The mark-to-market value of the contract at June 30, 2009 resulted in an unrealized gain of \$700 (2008 - \$1,505) and \$680 (2008 - \$165 loss) for the quarter and six months, respectively, which is included in financial expense during the period. The cumulative unrealized loss on the interest rate swap is \$3,188 (December 31, 2008 - \$3,868) and is included in accounts payable and accrued liabilities.

Liquidity risk

The Fund's banking agreement (\$33,591 (US\$28,883) outstanding as at June 30, 2009) expires on October 29, 2010 (note 10) and its Notes Facility (\$87,408 (US\$75,157) outstanding as at June 30, 2009) expires on October 31, 2010 (note 11). The Fund expects to be in a position at that time to renew or replace these arrangements on their maturity at the prevailing market conditions then in place, which management expects to be similar to those contained in the existing Agreements.

Menu Foods Income Fund
Notes to Consolidated Financial Statements
June 30, 2009

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

25. Financial instruments (continued)

Liquidity risk (continued)

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

	Total	Payments Due By Period		
		Less than 1 year	1 to 2 years	Thereafter
Senior secured notes, including interest	98,550	8,356	90,193	-
Bank indebtedness, including interest	36,275	10,154	26,121	-
Letter of credit	855	-	855	-
Accounts payable and accrued liabilities	22,070	22,070	-	-
	157,750	40,580	117,169	-

The senior secured notes and bank indebtedness obligations also reflect interest arising at the currently prevailing interest rates.

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 \$1,008 and \$78, respectively, and a fifty basis point change in interest rates will impact earnings by approximately \$294, net of fair value adjustments to the interest rate swap.

Fair value of financial instruments

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

26. Economic dependence

For the six months ended June 30, 2009, no single customer accounted for more than 10% of sales. The Fund relies on single suppliers for the majority of its can and pouch requirements. Should these suppliers fail to deliver in a timely manner, delays and/or shutdowns of the Fund's operations could result.

27. Comparative figures

Certain comparative figures have been reclassified to reflect the presentation adopted during the current period. Most significantly, for the quarter and six months ended June 30, 2008, \$1,880 and \$3,999, respectively, previously reflected as selling, general and administrative expenses was reclassified to cost of sales.