Attention Business/Financial Editors:

Menu Foods Income Fund increases fourth quarter EBITDA by 82%

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TORONTO, **February 14** /CCN Matthews/ - (TSX: MEW.UN): Menu Foods Income Fund (the "Fund") announced today its financial results for the quarter ended **December 31, 2006**.

A conference call to review these results will take place tomorrow, **February 15, 2007** at 8:30 a.m. EST (Toronto time). The conference call will be chaired by Paul Henderson, Menu's President and Chief Executive Officer. Paul will be joined on the call by Mark Wiens, Menu's Executive Vice-President and Chief Financial Officer.

To access the conference call in real time, please call 416-850-9150 or 1-866-809-4939. A replay will be available from approximately one hour after the end of the conference call until **March 1, 2007** by dialing 416-915-1035 or 1-866-245-6755, using passcode 300865 followed by the # sign. A live audio webcast of the conference call is also available, it can be accessed by entering www.ccnmatthews.com/news/webcasts/index.jsp on an Internet browser. A replay of the webcast will be available for one year, it can be accessed by entering www. ccnmatthews.com/news/webcasts/index.jsp on an Internet browser.

MESSAGE to UNITHOLDERS

We are pleased to present, to Unitholders of Menu Foods Income Fund, our report for the fourth quarter ended December 31, 2006. The table below reports selected highlights of the quarter's results:

	Quarter ended December 31,		Year ended December 31,	
	2006 ($ millions)	2005 ($ millions)	2006 ($ millions)	2005 ($ millions)
Sales	87.9	84.8	356.2	346.9
Income before non-controlling interest and goodwill impairment loss	2.7	0.7	10.1	4.7
Net income (loss)	1.8	(13.8)	6.4	(54.7)
EBITDA	10.2	5.6	39.6	25.0
Distributable cash	4.7	2.3	24.2	22.4
Diluted distributable cash per Trust Unit and per Class B unit ($)	0.1598	0.0791	0.8298	0.7753

The 2006 fourth quarter results continue the trend established during the first nine months of the year, with the Fund improving its EBITDA by 82% when compared to the fourth quarter of 2005. For all of 2006, the Fund generated EBITDA of $39.6 million, representing an increase of 58% compared to the twelve months ended December 31, 2005.

During the fourth quarter of 2006, the Fund adopted, in all material respects, the recommendations of the CICA contained in the 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." On a comparative basis, the adoption of these recommendations resulted in the exclusion of non-cash working capital items in the calculation of distributable cash. For the Fund, this represented a reduction in the reported distributable cash of $1.8 million and $1.6 million for the quarters ended December 31, 2006 and 2005, respectively. Further, this represented a reduction of $1.5 million for the year ended December 31, 2006 and an increase of $6.1 million for the year ended December 31, 2005 in the reported distributable cash.

As previously reported, during the first six months of 2006, the Fund initiated price increases with its United States private-label customers, the impacts of which were fully effective by the third quarter. The price increases in cans and pouches continued to favorably impact the Fund's results during the fourth quarter.

In summary, on a comparative basis to the fourth quarter of 2005:

- Sales increased by 3.6% or $3.1 million, due in large part to the positive effects of pricing adjustments realized during the quarter offset by the continued effect of the stronger Canadian dollar, which reduced sales by $3.3 million.

- EBITDA of $10.2 million improved by $4.6 million or 82%. EBITDA was favourably impacted by the full impact of the previously mentioned price increases as well as by improved operating efficiencies. Similar to sales, these improvements were partially offset by the effects of the higher Canadian dollar, as well as the effects of higher raw material costs arising subsequent to the price increases that have not been passed on to private-label customers.

- The Fund generated $4.7 million in distributable cash, an improvement of $2.4 million. Since distributions have been suspended, the Fund used this distributable cash to fund operations and to reduce its outstanding indebtedness with its Lenders.

During the fourth quarter, the Fund reduced its bank and long-term indebtedness by $4.8 million, bringing its year-to-date repayments to $27.7 million. As a result of these repayments and the improvement in the Fund's operating results, the trailing 12-month debt to EBITDA ratio as at December 31, 2006 was 2.44 to 1, which compares favourably to 5.14 to 1 at December 31, 2005. Having attained a ratio of less than 3 to 1, during the quarter ended September 30, 2006, the restriction on making distributions to Unitholders was removed. The Fund remains committed to a strategy of reducing indebtedness even further. The Fund's board is monitoring the future business prospects, growth opportunities and cash requirements and will determine an appropriate distribution policy.

Management remains encouraged by the positive actions and events that impacted the Fund's 2006 results. The price increases to United States private-label customers and the improved operating performance of the Fund's production facilities are both expected to continue to positively contribute to the Fund's results in 2007. In addition, in late January 2007, the leading national brand manufacturer announced a price increase on their cat food sold in aluminum cans to United States customers. Having experienced similar increases in the cost of manufacturing cat food in aluminum cans, the Fund intends to initiate a price increase to its United States private-label customers. This price increase should enable the Fund to recover some of the cost increases it absorbed on its production for its United States private-label customers during 2006. Once implemented, the Fund's price increase is expected to grow annualized sales by approximately 0.5% to 1.0%.

It is a fact of our business that cost increases are only passed onto our customers in arrears. During the first quarter of 2007 the Fund has continued to experience increases in raw material and operating costs as well as a reduction in sales to its largest customer, who we understand to be reducing its inventory. These developments may serve to offset some of the ongoing positive effects of the price increase and operational improvements throughout the remainder of 2007.

We continue to appreciate the support of our investors, customers and suppliers and the ongoing dedication of our employees and look forward to reporting our progress next quarter.

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 December 31, 2006)

Presentation of Financial Information

The following discussion and analysis of the financial results of Menu Foods Income Fund (the "Fund") is dated as of February 14, 2007 and is supplementary to and should be read in conjunction with the unaudited consolidated financial statements for the quarters and years ended December 31, 2006 and 2005.

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

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

Certain statements in this Management's Discussion and Analysis of Financial Results are "forward-looking statements", which reflect management's expectations regarding the Fund and Menu's future growth, results of operations, performance, business prospects and opportunities. Such forward-looking statements reflect management's current beliefs and are based on information currently available to management. Many factors could cause results to differ materially from the results discussed in the forward-looking statements, including risks related to dependence on key suppliers, economic conditions, competition, regulatory change, foreign exchange rates and interest rates, among others. Although the forward-looking statements are based 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, expressed in thousands of Canadian dollars)

	For the quarter ended December 31,		For the year ended December 31,	
	2006	2005	2006	2005
	$	$	$	$
Sales	87,933	84,842	356,196	346,932
Cost of sales	74,289	77,055	304,913	313,681
Gross profit	13,644	7,787	51,283	33,251
Selling, general and administrative expenses	7,332	6,108	27,276	24,532
Income before the undernoted	6,312	1,679	24,007	8,719
Goodwill impairment loss	-	23,120	-	93,415
Financial expenses	2,088	2,047	10,327	6,916
Income (loss) before income taxes and non-controlling interest	4,224	(23,488)	13,680	(91,612)
Current income taxes	904	86	1,482	69
Future income taxes	572	(1,130)	2,069	(2,980)
Total income taxes	1,476	(1,044)	3,551	(2,911)
Income (loss) before non-controlling interest	2,748	(22,444)	10,129	(88,701)
Non-controlling interest of Class B Exchangeable Units	939	(8,647)	3,699	(34,036)
Net income (loss) for the period	1,809	(13,797)	6,430	(54,665)
Basic net income (loss) per Trust Unit	0.095	(0.777)	0.348	(3.201)
Diluted net income (loss) per Trust Unit	0.094	(0.777)	0.348	(3.201)
Distributions per Trust Unit	-	0.1000	-	0.8900
Distributions (net of subordinated amounts) per Class B Unit	-	0.0277	-	0.5262
Basic weighted average number of Trust Units outstanding (000's)	19,040	17,766	18,468	17,077
Diluted weighted average number of Trust Units outstanding (000's)	29,163	28,920	29,106	28,889
Average US/Cdn exchange rate per Bank of Canada	0.8778	0.8524	0.8816	0.8255

Operating Results for the Quarter Ended December, 2006

Sales for the quarter ended December 31, 2006, were $87.9 million, up 3.6% or $3.1 million compared to the same quarter last year. This increase is attributable to:

1. the effect of pricing adjustments to pass through cost increases to Menu's co-pack customers and the price increases initiated on can and pouch sales to Menu's United States private-label customers, together with other variables, had the effect of increasing sales by $6.7 million. These increases were partially offset by:

2. the strengthening of the Canadian dollar relative to the United States dollar, had the effect of reducing sales by $3.3 million relative to the fourth quarter of 2005;

3. a nominal increase in volume was adversely impacted by mix, resulting in a sales decrease of $0.2 million; and

4. the impact of take-or-pay agreements in the fourth quarter of 2006 relative to the same quarter in 2005, had the effect of decreasing sales by $0.1 million.

Overall, volume (expressed in cases of 24 cans or pouches) was up 0.3% compared to the quarter ended December 31, 2005.

Can volume, which represented 75.8% of Menu's volume in the fourth quarter of 2006, contracted by 4.0% (equating to a decrease in total volume of 3.2%). Sales of cans to the Fund's largest customer declined by 31.2% as that customer reduced its can inventory, representing a 5.6% decline in the Fund's can volume. During the first three quarters of 2006, this customer increased its can inventory to support the launch of its new products. Demand for these products has stabilized, and as predicted, during the fourth quarter, this customer reduced the amount of

inventory it carries to support its business. Continued inventory adjustments have also been experienced in the first quarter of 2007. In addition, as a result of the can price increase to United States private-label customers initiated in the first quarter of 2006, Menu lost sales to one of its customers which reduced Menu's fourth quarter can volumes by 2.9%, relative to the fourth quarter of 2005. Sales of cans to new customers or increased sales of cans to other existing customers, combined to increase can volume by 4.5%.

During the fourth quarter of 2006, case sales of the pouch product, which represented 24.2% of total volume, increased by 16.5% (equating to an increase in total volume of 3.5%) compared to the fourth quarter of 2005, primarily due to a 60.5% increase in pouch volume to Menu's largest customer. This substantial increase reflects the lower sales in the comparative quarter in 2005, as this customer reduced its pouch inventory. This inventory reduction initiative, recurred in 2006, but was not as significant as in the prior year and, like cans, has continued into the first quarter of 2007.

Gross profit increased by $5.9 million (or 75.2%) for the quarter ended December 31, 2006, compared to the prior year. This increase is attributable to:

1. *Price and Cost Increases/Adjustments.* In January 2006 and again in the second quarter of 2006, Menu followed a leading national brand manufacturer and announced a price increase on canned and pouch products, respectively, sold to its United States private-label customers. These increases were effective from the beginning of the second and third quarters of 2006, respectively. On a comparative basis to the same quarter in 2005, the costs of certain inputs to production, including raw and packaging materials and labour and benefits, have continued to rise and have increased cost of sales as a result. The price increases referred to above, together with selling price increases to co-pack customers and improved operating efficiencies and other variables, combined to more than offset these cost increases, and increased gross profit by $6.6 million;

2. *Foreign Exchange Effect on Sales.* The strengthening of the Canadian dollar relative to the United States dollar during the quarter had the effect of reducing sales by approximately $3.3 million and that translated into a reduction in gross profit of $0.6 million for the quarter ended December 31, 2006;

3. *Increase in Amortization*. The amortization of capital projects completed during the past twelve months, together with the full quarter amortization of additions made in the fourth quarter of 2005, was largely offset by the effects of fully-amortized assets resulting in an increase in the amortization associated with the cost of goods sold of $0.1 million versus the fourth quarter of 2005; and

4. *Effect of Change in Sales Volume.* As previously noted, total volume for the fourth quarter increased by 0.3%. This change in sales volume had only a nominal impact on gross profit.

Selling, general and administrative expenses for the quarter ended December 31, 2006 increased by $1.2 million compared to the prior year. Since the majority of these expenses are incurred in the United States, the stronger Canadian dollar, relative to the United States dollar, had the effect of lowering selling, general and administrative expenses. Foreign exchange losses on the United States dollar exposure in working capital in Menu's Canadian operations declined by almost $0.2 million, which, together with the absence of marked-to-market adjustments in the quarter ended December 31, 2006 (marked-to-market gains on forward contracts entered into to hedge distributions were included in selling, general and administrative expenses in the quarter ended December 31, 2005) resulted in foreign exchange costs $0.2 million higher than the same quarter last year. Amortization was $0.1 million less than in 2005, largely as a result of assets being fully amortized in prior periods. One significant exception to this trend of lower expenses arises from the significant improvement in the Fund's operating performance in 2006, which results in a bonus expense that is $1.0 million greater than in the quarter ended December 31, 2005. In addition, compliance costs associated with expanded public company disclosure requirements were $0.3 million higher than in the prior year.

The foregoing resulted in EBITDA (see Note A) of $10.2 million for the quarter ended December 31, 2006, an increase of $4.6 million (or 82.4%) compared to the same period in 2005. The strengthening of the Canadian dollar, relative to the United States dollar, has reduced sales, gross margin, selling, general and administrative expenses, amortization, interest and EBITDA. Menu estimates that each change of $0.01 in the cost of the Canadian dollar changes EBITDA by approximately $0.15 million and Distributable Cash (see Note A) by approximately $0.115 million, on a quarterly basis.

Menu estimates that absent the impacts of its hedging program in 2005, the strengthening of the Canadian dollar during the fourth quarter of 2006 versus the same period in 2005 reduced EBITDA by approximately $0.4 million and Distributable Cash by approximately $0.3 million. Under its program for hedging distributions, in 2005 the Fund entered into foreign exchange contracts for the period through July 2006. Any outstanding contracts were settled in December 2005, following the decision to suspend distributions, resulting in realized gains of $0.2 million. In addition, during the quarter ended December 31, 2005, the Fund realized a gain of $0.2 million on matured contracts. These gains were recorded in selling, general and administration expenses.

Amortization (which is included in cost of sales and SG&A expense) in the fourth quarter of 2006 was virtually identical to 2005. This is directly attributable to fully amortized assets and the effects of the strengthening of the Canadian dollar, relative to the United States dollar, offset by the additional amortization in 2006 on the $5.1 million of capital expenditures made during the twelve-month period ended December 31, 2006, together with the full quarter amortization on the $0.4 million of capital expenditures made during the quarter ended December 31, 2005.

Financial expenses were virtually unchanged during the quarter ended December 31, 2006, compared to the fourth quarter of 2005. Higher interest rates in 2006 were largely offset by reduced borrowing levels and the absence of costs associated with obtaining waivers and forbearance from the Lenders that arose during the fourth quarter of 2005. In addition, the Fund recorded a gain of $0.1 million on interest rate swaps in 2006, compared to a loss of $0.1 million in the same quarter last year.

The Fund operates using a number of different legal structures (i.e. partnerships, trusts and corporations) in a number of jurisdictions. Each of these structures and jurisdictions is subject to income tax at different rates. The effective tax rate can vary from quarter-to-quarter, depending upon the taxing jurisdiction and the legal structure in which the income is earned. As a consequence, the Fund's effective tax rate is 34.9% during the quarter, (the result of a higher proportion of taxable earnings arising in Menu's United States operations) as compared to a recovery in the fourth quarter of 2005.

Income before non-controlling interest of Class B Exchangeable Units ("Class B Units") for the quarter ended December 31, 2006, was $2.7 million, compared to a loss of $22.4 million for the quarter ended December 31, 2005.

Operating Results for the Year Ended December 31, 2006

Sales for the year ended December 31, 2006, were $356.2 million, up 2.7% or $9.3 million compared to the same period last year. This increase is attributable to:

1. the effect of pricing adjustments to pass through cost increases to Menu's co-pack customers and the price increase initiated on can and pouch sales to Menu's United States private-label customers, together with changes to sales mix and other variables, had the effect of increasing sales by $20.1 million;

2. a 2.5% increase in can volume translated into a sales increase of $6.7 million. This improvement was despite the loss of some volume following the Fund's first quarter can price increase to United States private-label customers and is primarily due to a 25.8% increase in

can sales volumes to Menu's largest customer. This growth essentially restored this customer's can volumes to 2004 levels. A build in inventory by this customer during the first quarter of 2006, and a return to more historical purchasing patterns during the second and third quarters of 2006 was largely offset by volume declines during the fourth quarter as this customer reduced the level of can inventory within its system. This inventory reduction continued into the first quarter of 2007;

3. a 6.6% increase in pouch volume equating to a sales increase of $4.4 million. This represents a resumption of growth in this packaging format, albeit at a slower rate than in the past; and

4. take-or-pay agreements during 2006 had the affect of increasing sales by $0.3 million. All of these positive events were largely offset by:

5. the strengthening of the Canadian dollar, relative to the United States dollar, which had the effect of reducing sales by $22.2 million.

Overall, volume (expressed in cases of 24 cans or pouches) was up 3.4% compared to the year ended December 31, 2005, with both packaging formats showing growth in 2006.

Can volume, which represented 76.2% of Menu's volume during 2006, expanded by 2.5% (equating to an increase in total volume of 1.9%). This increase was primarily attributable to the 25.8% increase during the year ended December 31, 2006 in case volume of canned wet pet food sold to Menu's largest customer, which increased can and total volume for the year by 4.4% and 3.4%, respectively.

As a consequence of its can price increase to United States private-label customers initiated in the first quarter of 2006, Menu lost some of its private-label can business. In addition, during the second quarter of 2005, a Canadian co-pack customer who relied on Menu for its supply of certain products for sale in the Canadian market, opted to reduce its dependence on Menu and self-manufacture that product in its United States facilities. This decision, together with the lost business due to the price increase, reduced Menu's can volumes, relative to 2005, by 3.0%. Sales of cans to new customers or increased sales of cans to other existing customers, other than Menu's largest customer, combined to increase can volume by 1.1%.

In addition to the increase in case sales of canned wet pet food as described above, sales of Menu's pouch product also increased over the same period in the prior year. During 2006, case sales of the pouch product, which represented 23.8% of total volume, grew by 6.6% (equating to an increase in total volume of 1.5%) compared to the same period of 2005.

Gross profit increased by $18.0 million (or 54.2%) for the year ended December 31, 2006, compared to the prior year. This increase is attributable to:

1. *Price and Cost Increases/Adjustments.* In January 2006 and again in the second quarter of 2006, Menu followed a leading national brand manufacturer and announced a price increase on canned and pouch products, respectively, sold to its United States private-label customers. These increases were effective from the beginning of the second and third quarters of 2006, respectively. On a comparative basis to the same period in 2005, the costs of certain inputs to production, including raw and packaging materials, labour and benefits, as well as the cost of freight, have continued to rise and have increased cost of sales as a result. The price increases referred to above, together with selling price increases to co-pack customers and improved operating efficiencies and other variables, combined to more than offset these cost increases, and increased gross profit by $20.7 million;

2. *Effect of Change in Sales Volume.* Total volume for the year ended December 31, 2006 increased by 3.4%. This change in sales volume increased gross profit by $1.4 million;

3. *Foreign Exchange Effect on Sales.* The strengthening of the Canadian dollar relative to the United States dollar during the year had the effect of reducing sales by approximately $22.2 million and that translated into a reduction in gross profit of approximately $4.0 million for the year ended December 31, 2006; and

4. *Increase in Amortization*. The amortization of capital projects completed during the past twelve months, together with the full year amortization of additions made during 2005, was offset by the effects of fully-amortized assets, resulting in a $0.1 million increase in the amortization associated with the cost of goods sold versus the same period of 2005.

Selling, general and administrative expenses for the year ended December 31, 2006 increased by $2.7 million compared to the prior year. Since the majority of these expenses are incurred in the United States, the stronger Canadian dollar, relative to the United States dollar, had the effect of lowering selling, general and administrative expenses. One significant exception is that the improved earnings in 2006 led to an increase in the bonus expense for the year, which, coupled with the costs of terminating the former long-term incentive plan, increased selling, general and administrative expenses by $3.0 million compared to the year ended December 31, 2005. Furthermore, compliance costs associated with expanded public company disclosure requirements were $0.5 million higher than in the prior year. In addition, foreign exchange losses on the United States dollar exposure in working capital in Menu's Canadian operations, net of the marked-to-market gains on forward contracts entered into to hedge distributions increased by almost $0.5 million in 2006. Amortization was $0.8 million less than in 2005, largely as a result of assets being fully amortized in prior periods.

The foregoing resulted in EBITDA (see Note A) of $39.6 million for the year ended December 31, 2006, an increase of $14.6 million (or 58.5%) compared to the same period in 2005. The strengthening of the Canadian dollar, relative to the United States dollar, has reduced sales, gross margin, selling, general and administrative expenses, amortization, interest and EBITDA. Menu estimates that each change of $0.01 in the cost of the Canadian dollar changes EBITDA by approximately $0.60 million and Distributable Cash (see Note A) by approximately $0.46 million, on an annual basis.

Menu estimates that absent the impacts of its hedging program in 2005, the strengthening of the Canadian dollar during 2006 versus the year ended December 31, 2005 reduced EBITDA by approximately $3.4 million and Distributable Cash by approximately $2.6 million.

Amortization (which is included in cost of sales and SG&A expense) during the year ended December 31, 2006 was $0.7 million lower than in 2005. This decrease is directly attributable to the amortization on the $5.1 million of capital expenditures made during the year ended December 31, 2006 together with the full year amortization on the $10.4 million of capital expenditures made during the year ended December 31, 2005, being more than offset by the absence of amortization on fully-amortized assets and the effects of the strengthening of the Canadian dollar relative to the United States dollar.

Financial expenses were $3.4 million greater during the year ended December 31, 2006, than in the same period of 2005. This increase primarily results from the higher interest rates in 2006 and the amortization of the fees and associated costs arising from the amended Agreements with its Lenders, which were concluded during the first quarter, partially offset by the Fund's lower levels of debt.

The Fund operates using a number of different legal structures (i.e. partnerships, trusts, corporations) in a number of jurisdictions. Each of these structures and jurisdictions is subject to income tax at different rates. The effective tax rate can vary from year-to-year, depending upon the taxing jurisdiction and the legal structure in which the income is earned. As a consequence, the Fund's effective tax rate was 26.0% during the year ended December 31, 2006 as compared to a recovery in 2005.

Income before non-controlling interest of Class B Exchangeable Units ("Class B Units") for the year ended December 31, 2006, was $10.1 million, compared to a loss of $88.7 million for the same period of 2005.

Liquidity

During the year ended December 31, 2006, the Fund generated cash flow from operations of $28.9 million, which was reduced by $1.5 million as a result of changes in non-cash working capital items. The change in non-cash working capital items is primarily the result of a $2.7 million increase in accounts receivable, a $1.1 million increase in income taxes payable, a $0.5 increase in accounts payable, a $0.6 million increase in prepaid expenses and sundry assets and a $0.2 million decrease in inventories. The increase in income taxes payable arises from the improved operating results during the year. The changes in inventory, prepaid and sundry assets, accounts receivable and payable are consistent with the activity in the final month of the period.

For the nine months ended September 30, 2006, the Fund, as required by its amended Agreements with its Lenders, did not declare or pay any distributions on the Trust Units or on the Class B Exchangeable Units. The Fund was expected by its Lenders to use 75% of its excess cash to reduce its indebtedness until a total debt to EBITDA ratio of 3 to 1 or less was achieved. During the quarter ended September 30, 2006, this level of total debt to EBITDA was attained. During the year ended December 31, 2006, the Fund's senior secured notes were reduced from US$85.0 million to US$75.2 million. No distributions were declared during the fourth quarter of 2006.

During the fourth quarter of 2006, the Fund adopted, in all material respects, the recommendations of the CICA contained in the 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." On a comparative basis, the adoption of these recommendations resulted in the exclusion of non-cash working capital items in the calculation of distributable cash. Since inception, after adopting these recommendations which exclude the add back of $28.8 million in non-cash working capital items, the pay-out ratio (including the distributions declared on the Class B Exchangeable Units) is 103.1%.

The Fund operates utilizing its US$30 million ($35 million) bank facility, of which US$11.8 million ($13.8 million) was drawn or committed at December 31, 2006. Cash flow from operations, together with the US$18.2 million ($21.2 million) in unutilized bank facility, is expected to be sufficient to fund Menu's ongoing operating requirements and maintenance capital expenditures.

Capital Resources

During the year ended December 31, 2006, Menu spent $5.1 million on property, plant and equipment. Annually the Fund establishes a capital budget consistent with its business plan for the coming year. The Fund categorizes capital expenditures as relating to either maintenance or growth. Maintenance capital expenditures are those that do not represent new initiatives which expand Menu's production capabilities/product offerings, but rather enable Menu to maintain the status quo. Growth capital expenditures are new project initiatives that expand either Menu's production capabilities or product offerings, or reduce or avoid costs, or are anticipated to provide an internal rate of return in excess of 30%.

Capital expenditures of a maintenance nature, which totaled $3.2 million for the year ended December 31, 2006, were financed from the cash flow of the business. These maintenance capital expenditures were over and above the $14.2 million (2005 - $15.2 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.

Outstanding Units

The following table highlights the number of units outstanding:

	Trust Units	Class B Exchangeable Units
December 31, 2003	13,259,823	12,631,915
Options exercised during the year	380,413	--
Issuance during the year	2,500,000	--
December 31, 2004	16,140,236	12,631,915
Conversion of Class B Units during the year	1,498,260	(1,498,260)
Options exercised during the year	127,663	--
December 31, 2005	17,766,159	11,133,655
Conversion of Class B Units during the year	1,236,431	(1,236,431)
Options exercised during the year	74,683	--
December 31, 2006	19,077,273	9,897,224

Menu Foods Corporation (the former parent company of Menu) had a stock option plan pursuant to which there were outstanding options issued to 61 of its directors, executive officers and key employees. In connection with the initial public offering and acquisition, these options were exchanged for Trust Unit options in the Fund having equivalent terms and conditions. As at December 31, 2006, all of these options had either been exercised or expired. In February 2005, 36,390 units were purchased under the Fund's Long-Term Incentive Plan for the benefit of 22 individuals.

During the year ended December 31, 2006, 959,296 unit options with an exercise price of $4.56 were granted to 41 employees; 6,000 unit options with an exercise price of $5.25 were granted to one employee; 21,000 unit options with an exercise price of $5.00 were granted to one employee; 21,000 unit options with an exercise price of $6.20 were granted to one employee; 6,000 unit options with an exercise price of $6.55 were granted to one employee; and 57,000 unit options with an exercise price of $4.56 were forfeited. These options, of which 238,148 will vest after 36 months, with the balance vesting in equal annual amounts over three years, will expire 39 months after the date they were granted. On May 11, 2006, the option plan under which these options were granted, which authorizes 2,815,000 units, received Unitholder approval at the Annual and Special Meeting of Unitholders.

Outlook

Cost and Price Increases

In the United States, in early 2004, and in Canada, in early 2005, Menu initiated price increases to its private-label customers, following the price increases taken by the leading national brands. In January 2006 and again in the second quarter of 2006 Menu followed a leading national brand manufacturer and announced price increases on its canned and pouch products, respectively, sold to it United States private-label customers. In early 2007, Menu again intends to follow a leading national brand manufacturer and increase prices on canned cat food sold to its United States private-label customers. In all cases, these price increases enable Menu to recover some of the cost increases absorbed during the time since the last price increase.

Increasing input costs are a regular part of Menu's business. Rising costs of steel and aluminum mean higher can costs, while the strengthening of the Euro increases the cost of empty pouches purchased by Menu. Higher utility costs, together with increases in medical benefits (escalating at rates well above inflation) push the cost of operating higher. Higher fuel costs, together with new 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. Such cost increases have occurred routinely over the past number of years. Regular price increases are essential to mitigate the effect rising costs have on margins.

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). However, for its private-label business, Menu's practice, with respect to price increases, has been to follow the brand leaders. While this practice at times compresses Menu's margins, as it did in 2005, it none-the-less helps to ensure that Menu's products are competitively priced at retail.

Looking ahead to 2007, Menu expects that input costs for its products in both Canada and the United States will continue to rise. In particular, aluminum cans, labour and medical benefits to employees are expected to increase in cost in 2007. Absent regular price increases in the future, Menu expects that its margins will continue to be squeezed.

Bovine Spongiform Encephalopathy ("BSE")

BSE surveillance continues to confirm an extremely low incidence of BSE in North America, with cases in both the US and Canada. Both countries instituted a ruminant feed rule in 1997 as part of their prevention programs. Cases have been identified in Canada in cattle born after the feed ban. In response to this, Canada has announced a strengthening of the feed ban to prevent the addition of specified risk materials (those components of the animal thought to have the highest level of infectivity when consumed) in all animal feed, including pet food. The effective date of implementation is currently set at July 12, 2007. This change does not impact the Fund's formulations, as these risk materials are not currently used.

Additionally, the US has published information stating that the BSE agents found in their cases come from a rare strain also seen in France, Sweden and Poland, which is harder to detect and mainly found in older cattle. It is possible that these cases form spontaneously in older cattle without consumption of ruminant material.

The US currently requires companies to obtain import permits for Canadian pet food imported into their country. Canada has recently announced that it will institute a similar program. Publication in the Gazette, outlining the specifics of the program, occurred on December 16, 2006. On a positive note, the US has opened the border to a wider range of Canadian cattle in recent months and there are signs that it may be willing to accept pet foods containing beef that can be certified coming from cattle less than 30 months of age. With the excellent identification programs present in Canada, it appears that this may be possible and Menu will explore this opportunity when the changes are effective. Furthermore, the added pressure brought about by the introduction of Canadian import permits may cause the US to accelerate its review of the necessity for existing import permits.

Subordination and Distribution

The Fund has two classes of units: (a) publicly traded Trust Units and (b) privately held Class B Exchangeable Units (the "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, since which time, except as discussed below, the Class B Units have no longer been subordinated to the publicly traded Trust Units.

On May 11, 2005 certain holders of Class B Units (including senior management), representing more than 11 million units, agreed to forego a portion of their distributions until February 2006. Specifically, holders of approximately 3.4 million units agreed to forego all distributions, while holders of approximately 7.7 million units agreed to forego receipt of distributions in excess of $0.02 per unit. Such unitholders are entitled to a reimbursement of such foregone distributions, which at December 31, 2006 amounted to $4.2 million, only to the extent that the Fund generates sufficient Distributable Cash in the future and declares distributions in excess of 9 cents per unit, per month.

Financial Covenants

Most of the Fund's outstanding debt is represented by its bank facility and senior secured notes. As at December 31, 2006, the Fund had $9.1 million drawn on its bank facility (excluding outstanding cheques of $3.7 million) and $87.6 million of senior secured notes outstanding. Each of these facilities has financial covenants and cross default provisions that must be met.

On February 28, 2006, the Fund reached agreement with its Lenders to continue its bank facility and senior secured notes under modified terms and conditions. As a consequence, the Fund agreed to suspend distributions until it is in compliance with the covenants specified in the original Agreements, to pay consent and amendment fees amounting to US$0.5 million, to change certain covenants and cross-default provisions, and to change the method of charging interest, whereby the rates charged by its Lenders increase as the ratio of debt to adjusted EBITDA increases. The Fund is in compliance with these financial covenants as at December 31, 2006 and management of the Fund believes that it will be able to continue to comply with these amended terms and conditions.

Under the terms of this agreement, the Fund was required to have a debt to EBITDA ratio (based upon the trailing twelve months) of less than 3 to 1 by September 30, 2007. This level was achieved for the twelve months ended September 30, 2006 and for the twelve months ended December 31, 2006.

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. The Department of Finance released draft legislation in December 2006. Not having seen the final legislation, it is too early in the process to be definitive on the impacts of this tax on the Fund. However, 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 pays tax 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. 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. The draft legislation released late last year does not cause Management to alter this interpretation. Management continues to consider the proposed legislation and its possible impact to the Fund.

Risks and Uncertainties

Menu and the Fund are subject to numerous risk factors in its ongoing business. These include reliance on a key customer, absence of long-term sales contracts, customer performance and relationships, foreign exchange fluctuations, governmental regulations and restrictions, reliance on key suppliers, reliance on key personnel, among others. For a review of some of the risks affecting the business, please refer to notes 19 and 20 to the accompanying consolidated financial statements. Additional information about the Fund is available at www.sedar.com.

In the present economic climate, the most significant risks and uncertainties facing the Fund result from the continued strength of the Canadian dollar relative to the United States dollar, and from the ongoing inability to pass input cost increases on to private-label customers in a timely manner. 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 to hedge Distributable Cash flow against future fluctuations in the currency (as has been done in the past), it is not possible to hedge business operations, so a continuation of a strong Canadian dollar will have a negative impact on the relative contribution of the Fund's United States denominated business. Similarly, if the Fund must continue to absorb 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 largely 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. Having attained a total debt to EBITDA ratio of less than 3 to 1 during the quarter ended September 30, 2006, the Fund is now in a position to consider future distributions. Accordingly, it is necessary for the board to determine an appropriate strategy for making monthly distributions. 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 will be significantly modified. Draft legislation was released in December 2006. The Fund is considering the possible impact of the proposed rules to the Fund. The proposed 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 proposed rules apply to the Fund, the distributable cash of the Fund may be reduced.

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

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 Discussion and Analysis is in all material respects in accordance with the guidance provided in CICA's publication "Distributable Cash in Income Trusts and Other Flow-Through Entities – Guidance on Preparation and Disclosure in Management's Discussion and Analysis – Draft Interpretive Release."

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

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

The following are reconciliations of: Net income to EBITDA and of Cash Flow from Operating Activities to Distributable Cash for the ***fourth*** *quarter:*

	For the Quarter ended December 31,	
	2006	2005
	$'000's	$'000's
Net income (loss)	1,809	(13,797)
Adjust for:		
Goodwill impairment loss	-	23,120
Non-controlling interest of Class B Exchangeable Units	939	(8,647)
Amortization of property, plant and equipment	3,790	3,795
Amortization of customer relationship	129	135
Future income taxes	572	(1,130)
Current income taxes	904	86
Interest and financial expenses	2,088	2,047
EBITDA	10,231	5,609

	For the Quarter ended December 31,	
	2006	2005
	$'000's	$'000's
Cash flow from operating activities	5,497	2,648
Adjust for:		
Maintenance capital expenditures	(830)	(318)
Principal repayments (*)	(6)	(42)
Distributable Cash from Operations	4,661	2,288

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

	For the Year ended December 31,		Since Inception (May 22, 2002) to December 31,
	2006	2005	2006
	$'000's	$'000's	$'000's
Net income (loss)	6,430	(54,665)	(22,211)
Adjust for:			
Goodwill impairment loss	-	93,415	93,415
Non-controlling interest of Class B Exchangeable Units	3,699	(34,036)	(7,072)
Amortization of property, plant and equipment	15,058	15,702	67,348
Amortization of customer relationship	517	553	2,491
Future income taxes	2,069	(2,980)	6,967
Current income taxes	1,482	69	2,588
Interest and financial expenses	10,327	6,916	27,896
EBITDA	39,582	24,974	171,422

	For the Year ended December 31		Since Inception (May 22, 2002) to December 31,
	2006	2005	2006
	$'000's	$'000's	$'000's
Cash flow from operating activities	27,327	24,986	115,444
Adjust for:			
Maintenance capital expenditures	(3,151)	(2,432)	(12,087)
Principal repayments (*)	(24)	(157)	(567)
Distributable Cash from Operations	24,152	22,397	102,790

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

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Menu Foods Income Fund

Consolidated Balance Sheets

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

	As at December 31, 2006	2005
	$	$
Assets		
Current assets		
Cash	-	5,790
Accounts receivable		
Trade	20,062	17,298
Other	2,175	2,133
Inventories (note 3)	49,576	49,475
Prepaid expenses and sundry assets	1,956	1,318
Income taxes recoverable	-	550
Future income taxes (note 14)	1,657	1,701
Total Current Assets	**75,426**	**78,265**
Property, plant and equipment (note 4)	**97,734**	**107,622**
Goodwill (note 5)	**71,972**	**71,972**
Other assets (note 6)	**4,810**	**5,374**
Total Assets	**249,942**	**263,233**
Liabilities		
Current liabilities		
Bank indebtedness (note 7)	12,814	29,309
Accounts payable and accrued liabilities	19,806	18,803
Income taxes payable	603	-
Current portion of long-term debt (note 8)	27	24
Total Current Liabilities	**33,250**	**48,136**
Long-term debt (note 8)	**87,618**	**98,912**
Future income taxes (note 14)	**16,085**	**13,996**
Total Liabilities	**136,953**	**161,044**
Class B Exchangeable Units (note 9)	**27,823**	**27,268**
Unitholders' Equity		
Trust Units (note 10)	174,648	170,454
Contributed surplus (note 12)	272	272
Deficit	(82,400)	(88,830)
Foreign currency translation adjustment	(7,354)	(6,975)
Total Unitholders' Equity	**85,166**	**74,921**
Total Liabilities, Class B Exchangeable Units and Unitholders' Equity	**249,942**	**263,233**

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 per Unit amounts, expressed in thousands of Canadian dollars, unaudited)

	Quarter ended December 31, 2006	Quarter ended December 31, 2005
	$	$
Sales	**87,933**	**84,842**
Cost of sales (note 15)	**74,289**	**77,055**
Gross profit	**13,644**	**7,787**
Selling, general and administrative expenses	**7,332**	**6,108**
Income before the undernoted	**6,312**	**1,679**
Goodwill impairment loss (note 5)	**-**	**23,120**
Financial expenses (note 13)	**2,088**	**2,047**
Income (loss) before income taxes and non-controlling interest	**4,224**	**(23,488)**
Current income taxes	904	86
Future income taxes	572	(1,130)
Total income taxes (note 14)	**1,476**	**(1,044)**
Income (loss) before non-controlling interest	**2,748**	**(22,444)**
Non-controlling interest of Class B Exchangeable Units (note 9)	**939**	**(8,647)**
Net income (loss) for the period	**1,809**	**(13,797)**
Deficit - beginning of period	**(84,209)**	**(73,257)**
Distributions (note 11)	**-**	**(1,776)**
Deficit - end of period	**(82,400)**	**(88,830)**
Basic net income (loss) per Trust Unit	$ 0.095	$ (0.777)
Diluted net income (loss) per Trust Unit	$ 0.094	$ (0.777)
Basic weighted average number of Trust Units outstanding (note 10)	19,039,539	17,766,159
Diluted weighted average number of Trust Units outstanding (note 10)	29,162,905	28,920,261

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 per Unit amounts, expressed in thousands of Canadian dollars, unaudited)

	Year ended December 31, 2006	Year ended December 31, 2005
	$	$
Sales	**356,196**	**346,932**
Cost of sales (note 15)	**304,913**	**313,681**
Gross profit	**51,283**	**33,251**
Selling, general and administrative expenses	**27,276**	**24,532**
Income before the undernoted	**24,007**	**8,719**
Goodwill impairment loss (note 5)	**-**	**93,415**
Financial expenses (note 13)	**10,327**	**6,916**
Income (loss) before income taxes and non-controlling interest	**13,680**	**(91,612)**
Current income taxes	1,482	69
Future income taxes	2,069	(2,980)
Total income taxes (note 14)	**3,551**	**(2,911)**
Income (loss) before non-controlling interest	**10,129**	**(88,701)**
Non-controlling interest of Class B Exchangeable Units (note 9)	**3,699**	**(34,036)**
Net income (loss) for the period	**6,430**	**(54,665)**
Deficit - beginning of period	**(88,830)**	**(19,182)**
Distributions (note 11)	**-**	**(14,983)**
Deficit - end of period	**(82,400)**	**(88,830)**
Deficit comprises:		
Accumulated net loss	**(22,211)**	**(28,641)**
Accumulated distributions	**(60,189)**	**(60,189)**
	(82,400)	**(88,830)**
Basic net income (loss) per Trust Unit	$ 0.348	$ (3.201)
Diluted net income (loss) per Trust Unit	$ 0.348	$ (3.201)
Basic weighted average number of Trust Units outstanding (note 10)	18,467,879	17,077,197
Diluted weighted average number of Trust Units outstanding (note 10)	29,105,933	28,889,067

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 December 31, 2006	Quarter ended December 31, 2005
	$	$
Cash provided by (used in)		
Operating activities		
Net income (loss) for the period	1,809	(13,797)
Adjustments for non-cash items		
Goodwill impairment loss	-	23,120
Non-controlling interest of Class B Exchangeable Units	939	(8,647)
Amortization of property, plant and equipment	3,790	3,795
Amortization of customer relationship	129	135
Amortization of deferred financing costs	75	223
Unit-based compensation	86	35
Marked-to- market adjustment	(86)	526
Future income taxes	572	(1,130)
	7,314	4,260
Change in non-cash working capital items		
Accounts receivable	626	2,106
Inventories	1,339	(4,325)
Prepaid expenses and sundry assets	(362)	250
Income taxes	917	75
Accounts payable and accrued liabilities	(4,337)	282
	5,497	**2,648**
Financing activities		
Change in bank indebtedness	162	-
Issuance of Trust Units, net	182	-
Long-term debt repayments	(4,979)	(42)
Distributions paid to Trust Units	-	(2,665)
Distributions paid to Class B Exchangeable Units	-	(773)
	(4,635)	**(3,480)**
Investing activities		
Purchase of property, plant and equipment	(862)	(351)
Other assets	-	(173)
	(862)	**(524)**
Decrease in cash	**-**	**(1,356)**
Cash - beginning of period	**-**	**7,146**
Cash - end of period	**-**	**5,790**
Supplementary information		
Income taxes paid	135	52
Interest paid	2,240	1,570

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)

	Year ended December 31,	
	2006	**2005**
	$	$
Cash provided by (used in)		
Operating activities		
Net income (loss) for the period	6,430	(54,665)
Adjustments for non-cash items		
Goodwill impairment loss	-	93,415
Non-controlling interest of Class B Exchangeable Units	3,699	(34,036)
Amortization of property, plant and equipment	15,058	15,702
Amortization of customer relationship	517	553
Amortization of deferred financing costs	405	422
Unit-based compensation	572	218
Gain on sale of property, plant and equipment	(29)	-
Marked-to- market adjustment	133	266
Future income taxes	2,069	(2,980)
	28,854	18,895
Change in non-cash working capital items		
Accounts receivable	(2,693)	1,241
Inventories	246	8,012
Prepaid expenses and sundry assets	(639)	570
Income taxes	1,105	(238)
Accounts payable and accrued liabilities	454	(3,494)
	27,327	**24,986**
Financing activities		
Change in bank indebtedness	(16,495)	18,777
Issuance of Trust Units, net	222	380
Long-term debt repayments	(11,189)	(157)
Deferred financing charges	(636)	-
Distributions paid to Trust Units	-	(16,678)
Distributions paid to Class B Exchangeable Units	-	(10,501)
	(28,098)	**(8,179)**
Investing activities		
Purchase of property, plant and equipment	(5,062)	(10,367)
Other assets	-	(650)
Proceeds from sale of property, plant and equipment	43	-
	(5,019)	**(11,017)**
Increase (decrease) in cash	**(5,790)**	**5,790**
Cash - beginning of period	**5,790**	**-**
Cash - end of period	**-**	**5,790**

Supplementary information

Income taxes paid	343	222
Interest paid	9,041	5,845

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

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

1. Description of the business

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

2. Summary of significant accounting policies

a) Basis of presentation

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

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

b) Use of estimates

The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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 cost, which approximates fair market value, due to the short-term nature of these instruments.

d) Inventories

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

2. Summary of significant accounting policies (continued)

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 would be reduced to its estimated fair value. Amortization is calculated using the straight-line method applied to the cost of the assets, at annual rates based on their estimated useful lives, as follows:

Buildings	20 - 40 years
Machinery and equipment	3 - 10 years
Equipment under capital lease	3 - 10 years
Other property and equipment	3 - 20 years

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

f) Future income taxes

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

g) Research and development

Research expenditures are expensed as incurred. Development expenditures are written off as incurred unless, in the view of management, the expenditures are incurred in the development of products or processes, which are expected to be commercially viable for a period that exceeds one year and have a long-term commercial future. In these cases, development costs are deferred and amortized over the estimated commercial life of the product or process on a straight-line basis, not to exceed five years.

h) Deferred financing charges

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

i) Goodwill

Goodwill reflects the price paid for the Menu business in excess of the fair market value of net tangible assets and identifiable intangible assets acquired. Menu operates as one reporting unit for purposes of allocating and evaluating goodwill. The Fund reviews goodwill on an annual basis or at any other time when events or changes have occurred that suggest an impairment of the carrying value. Impairment is recognized when the estimated fair value of the goodwill is lower than the carrying value.

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

2. Summary of significant accounting policies (continued)

j) Customer relationship

The customer relationship includes an exclusive agreement to supply a portion of a customer's canned wet pet food requirements in the United States and Canada. The customer relationship is carried at cost less accumulated amortization. Amortization is charged to cost of sales on a straight-line basis, over a ten-year period. The customer relationship is evaluated for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable. An impairment loss is recognized when estimated undiscounted cash flows expected to result from the customer relationship are less than the carrying value of the customer relationship. Should an impairment loss be recognized, the carrying value of the customer relationship would be reduced to its estimated fair value.

k) Foreign currency translation

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

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

l) Revenue recognition

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

The Fund enters into "take-or-pay" arrangements with certain customers, which require the customer to make payments to Menu if their purchases do not meet or exceed contracted volumes. These arrangements are reflected in sales - $477 and $1,454 for the quarter and year ended December 31, 2006, respectively (2005 - $601 and $1,122). At present the Fund has two such contracts that expire in September 2007 and December 2008.

m) Supplier rebates

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

n) Unit-based compensation

The Fund expenses awards made under its unit-based compensation plans in accordance with the fair value based method.

2. Summary of significant accounting policies (continued)

o) Derivative instruments

Any non-qualifying hedging derivative financial instruments are recognized in the consolidated balance sheet and measured at fair value, with changes in fair value recognized in net income as a charge or credit to selling, general and administrative expenses or financial expenses as appropriate.

p) Asset retirement obligations

The fair value of any liability for an asset retirement obligation is recognized in the period in which it is incurred, if a reasonable estimate of fair value can be made. The associated retirement costs are capitalized as part of the carrying amount of the long-lived assets and amortized over the life of the asset. As at December 31, 2006, the Fund has concluded that there were no asset retirement obligations associated with its assets.

3. Inventories

	As at December 31	
	2006	2005
	$	$
Raw materials and packaging	13,498	16,462
Finished goods	36,078	33,013
	49,576	**49,475**

4. Property, plant and equipment

	As at December 31, 2006		
	Cost	Accumulated amortization	Net
	$	$	$
Land	5,255	-	5,255
Buildings	44,174	6,752	37,422
Machinery and equipment	93,681	43,749	49,932
Other property and equipment	15,203	11,890	3,313
Equipment under capital lease	97	83	14
Construction-in-progress	1,798	-	1,798
	160,208	**62,474**	**97,734**

	As at December 31, 2005		
	Cost	Accumulated amortization	Net
	$	$	$
Land	5,248	-	5,248
Buildings	43,671	5,094	38,577
Machinery and equipment	90,563	32,275	58,288
Other property and equipment	14,069	9,619	4,450
Equipment under capital lease	97	81	16
Construction-in-progress	1,043	-	1,043
	154,691	**47,069**	**107,622**

5. Goodwill

When the Fund purchased its interest in Menu Foods Limited Partnership, $165,387 of the purchase price was assigned as goodwill in the consolidated financial statements. Under Canadian generally accepted accounting principles, goodwill is subject to an annual impairment test, which, for the Fund, takes place as at September 30th of each year. Since the Fund's units were trading at lower than their book value at September 30, 2005 and through December 31, 2005, the application of Canadian generally accepted accounting principles identified an impairment in the carrying value of goodwill. Following a fair value assessment of other assets, goodwill was written down by $70,295 during the quarter ended September 30, 2005 and by a further $23,120 during the quarter ended December 31, 2005. The annual impairment test as at September 30, 2006 did not identify any further impairment.

6. Other assets

	As at December 31, 2006		
	Cost	**Accumulated amortization**	**Net**
	$	$	$
Customer relationship	5,846	2,212	3,634
Deferred financing charges	1,871	695	1,176
Deferred long-term incentive plan (note 12)	518	518	-
	8,235	**3,425**	**4,810**

During the year, $614 in fully amortized deferred financing charges were removed from both cost and accumulated amortization.

	As at December 31, 2005		
	Cost	**Accumulated amortization**	**Net**
	$	$	$
Customer relationship	5,834	1,677	4,157
Deferred financing charges	1,842	925	917
Deferred long-term incentive plan (note 12)	518	218	300
	8,194	**2,820**	**5,374**

7. Bank indebtedness

The banking agreement provides the Fund with a US$30,000 operating facility of which $12,814 (US$10,995) was drawn upon as at December 31, 2006 (December 31, 2005 - $29,309 (US$25,201)). At December 31, 2006, the Fund has an outstanding letter of credit in the amount of $991 (US$850) (December 31, 2005 - $645 (US$555)) which further reduces the facility.

The Fund must adhere to certain restrictive covenants and required financial ratios in order to satisfy its obligations under the terms of its financing agreements with both its bankers and senior secured noteholders (note 8) (the "Lenders"). During 2005, the Fund was not in compliance with certain covenants contained in these agreements. The Fund obtained waivers of these breaches from its bankers and forbearance from its senior secured noteholders and on February 28, 2006 entered into amended agreements (the "Agreements") with its Lenders. The Agreements, among other things, define the terms and conditions governing the Fund's US$30,000 operating facility and US$85,000 senior secured notes facilities, going forward. The Fund is in compliance with its covenants at December 31, 2006. As part of these renegotiations, the Fund agreed to pay US$75 in fees to the bank, plus all associated legal expenses. The bank operating facility is a 364-day revolving term facility, which expires on February 27, 2007. Subsequent to year-end, the facility was renewed on similar terms until February 26, 2008.

7. Bank indebtedness (continued)

Pursuant to its amended banking agreement, when the Fund's total debt to EBITDA ratio (the "Leverage Ratio"), a non-GAAP measure that is defined in the amended banking agreement, is less than or equal to 3 to 1, this operating facility bears interest at Canadian prime rate (6.00% as at December 31, 2006), U.S. base rate (8.25% as at December 31, 2006) or Euro rate plus 1.50% (6.86% as at December 31, 2006) (the "Base Rates") depending on the currency advanced. When the Leverage Ratio increases above 3 to 1, but is less than or equal to 4 to 1 the Base Rates increase by 1%. Similarly, should the Leverage Ratio be greater than 4 to 1 the Base Rates increase by 1.25%. In addition, the Fund is precluded from paying distributions to its Unitholders at any time the Leverage Ratio exceeds 3 to 1.

Until the quarter ended September 30, 2006 the Fund's Leverage Ratio exceeded 3 to 1, and pursuant to the amended banking agreement, the Fund was required to use a portion of its excess cash to reduce indebtedness. The Fund was required to make a number of offers to the bank to reduce the operating facility. Each offer was declined. Subsequent to September 30, 2006, this requirement no longer applies.

The Fund has pledged, on a pari pasu 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.

8. Long-term debt

	As at December 31	
	2006	**2005**
	$	$
Senior secured notes (a)	87,587	98,855
Obligation under capital lease (b)	58	81
	87,645	98,936
Less: Current portion	27	24
	87,618	**98,912**

a) Senior secured notes

On October 31, 2003, the Fund closed a private placement offering for US$85,000 in floating rate senior secured notes. The notes are repayable on October 31, 2010, with interest payable quarterly. The Fund has pledged, on a pari pasu basis with its banker, as security for its senior secured notes, all moveable property and book debts and, in addition, has signed a general security agreement. The Fund must adhere to certain restrictive covenants and required financial ratios in order to satisfy its obligations under the terms of its financing arrangements with both its banker (note 7) and senior secured noteholders.

During 2005, the Fund was not in compliance with certain covenants contained in these agreements. The Fund obtained waivers of these breaches from its bankers and forbearance from its senior secured noteholders and on February 28, 2006 entered into amended Agreements with its Lenders. The Agreements, among other things, define the terms and conditions governing the Fund's US$85,000 senior secured notes facilities and US$30,000 operating facility, going forward. The Fund is in compliance with its covenants at December 31, 2006. As part of the renegotiations, the Fund agreed to pay, in 2006, US$468 in fees to the noteholders, plus all associated legal expenses.

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

8. Long-term debt (continued)

Pursuant to the terms of the amended agreement, when the Fund's Leverage Ratio is less than or equal to 3 to 1, the senior secured notes bear interest at floating rate, three-month LIBOR plus 155 basis points. When the Leverage Ratio increases above 3 to 1, but is less than or equal to 4 to 1, this rate increases to three-month LIBOR plus 255 basis points. Similarly, should the Leverage Ratio be greater than 4 to 1, this rate increases to three-month LIBOR plus 305 basis points. From January 1, 2006 until April 29, 2006 the interest rate was fixed at three-month LIBOR plus 355 basis points. In addition, the Fund is precluded from paying distributions to its Unitholders at any time the Leverage Ratio exceeds 3 to 1.

Until the quarter ended September 30, 2006 the Fund's Leverage Ratio exceeded 3 to 1, and pursuant to the terms of the amended agreement, the Fund was required to use a portion of its excess cash to reduce indebtedness. Accordingly, the Fund repaid US$7,489 to its noteholders. Subsequent to September 30, 2006, this requirement no longer applies. In addition, during the quarter ended December 31, 2006, the Fund made an offer of voluntary repayment that resulted in a further US$2,353 being repaid to the noteholders.

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 19).

b) Obligation under capital lease

The Fund entered into a capital lease in December 2002, collateralized by certain computer equipment. The lease, which was modified in December 2005, provides for blended monthly payments of $3 (2005 - $14).

Minimum lease payments:

	As at December 31	
	2006	**2005**
	$	$
2006	-	32
2007	32	32
2008	31	31
Total minimum lease payments	63	95
Less: Amounts representing interest at 10.40 % (6.60% - 2005)	5	14
Balance of obligation	58	81
Less: Current portion	27	24
	31	**57**

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

9. Class B Exchangeable Units

	Number of units	Carrying value $
Class B Exchangeable Units of MFLP		
December 31, 2004 as reported		81,363
Cumulative adjustment to opening balance		(4,121)
December 31, 2004 as adjusted	12,631,915	77,242
Conversion of Class B Exchangeable Units to Trust Units (note 10)	(1,498,260)	(9,166)
Foreign currency translation adjustment attributed to conversion		502
Share of net loss for the year		(34,036)
Share of foreign currency translation adjustment for the year		(752)
Distributions for the year		(6,522)
December 31, 2005	11,133,655	27,268
Conversion of Class B Exchangeable Units to Trust Units (note 10)	(1,236,431)	(3,700)
Foreign currency translation adjustment attributed to conversion		491
Share of net income for the year		3,699
Share of foreign currency translation adjustment for the year		65
December 31, 2006	**9,897,224**	**27,823**

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

In prior periods, all of the gains or losses arising from the translation of foreign subsidiaries was included in the foreign currency translation adjustment in unitholders' equity. Commencing in 2006, the foreign currency translation adjustment is allocated between the Class B Exchangeable units and unitholders' equity on a pro-rata basis. Prior year comparatives have been reclassified to conform to this presentation.

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

10. Trust Units

Authorized

Unlimited number of Trust Units
Unlimited number of Special Trust Units

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

10. Trust Units (continued)

Issued

	Number of units	Gross proceeds $	Issuance costs $	Net proceeds $
Trust Units				
December 31, 2004	16,140,236	171,672	11,300	160,372
Conversion of Class B Exchangeable Units during the quarter ended (note 9)				
September 30, 2005	1,498,260	9,166	-	9,166
Exercise of options during quarter ended (note 12)				
March 31, 2005	41,573	347	-	347
June 30, 2005	8,829	58	-	58
September 30, 2005	77,261	511	-	511
December 31, 2005	**17,766,159**	**181,754**	**11,300**	**170,454**
Conversion of Class B Exchangeable Units during the quarter ended (note 9)				
June 30, 2006	876,598	2,602	-	2,602
September 30, 2006	359,833	1,098	-	1,098
Exercise of options during the quarter ended (note 12)				
March 31, 2006	2,575	17	-	17
September 30, 2006	11,037	73	-	73
December 31, 2006	61,071	404	-	404
December 31, 2006	**19,077,273**	**185,948**	**11,300**	**174,648**

Special Trust Units

Special Trust Units are used solely for providing voting rights to the holders of Class B Exchangeable Units ("Class B Units") (note 9) and by their terms have voting rights of the Fund. Special Trust Units are not transferable separately from the Class B Units to which they relate. Conversely, the Special Trust Units will automatically be transferred upon a transfer of the associated Class B Units. Each Special Trust Unit entitles the holder thereof to a number of votes at any meeting of Unitholders and holders of Special Trust Units equal to the number of Units that may be obtained upon the exchange of the Class B Units to which the Special Trust 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 9,897,224 Special Trust Units outstanding as at December 31, 2006 (note 9).

Weighted average number of Units outstanding

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

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

10. Trust Units (continued)

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

	Quarter ended December 31, 2006	Quarter ended December 31, 2005
Weighted average number of Trust Units outstanding - basic	19,039,539	17,766,159
Weighted average number of Class B Units outstanding - basic (note 9)	9,897,224	11,133,655
Dilutive effect of options (note 12)	226,142	20,447
Weighted average number of units outstanding - diluted	**29,162,905**	**28,920,261**

	Year ended December 31, 2006	Year ended December 31, 2005
Weighted average number of Trust Units outstanding - basic	18,467,879	17,077,197
Weighted average number of Class B Units outstanding - basic (note 9)	10,444,172	11,761,693
Dilutive effect of options (note 12)	193,882	50,177
Weighted average number of units outstanding - diluted	**29,105,933**	**28,889,067**

11. Distributions

No distributions were declared on the Trust Units during the quarter and year ended December 31, 2006 (2005 - $1,776 ($0.1000 per unit) and $14,983 ($0.8900 per unit), respectively).

No distributions were declared on the Class B Units during the quarter and year ended December 31, 2006 (2005 (net of subordinated distributions) - $309 ($0.0277 per unit) and $6,522 ($0.5262 per unit), respectively).

12. Unit-based compensation

Unit option plan

During the quarter ended March 31, 2006, 959,296 unit options with an exercise price of $4.56 were granted to 41 employees and 6,000 unit options with an exercise price of $5.25 were granted to one employee. During the quarter ended June 30, 2006, 21,000 unit options with an exercise price of $5.00 were granted to one employee and 15,000 unit options with an exercise price of $4.56 were forfeited. During the quarter ended December 31, 2006, 21,000 unit options with an exercise price of $6.20 were granted to one employee, 6,000 unit options with an exercise price of $6.55 were granted to one employee and 42,000 unit options with an exercise price of $4.56 were forfeited. These options vest one-third annually over three years except for 238,148 which will vest after 36 months. All options will expire 39 months after the date of grant, if not exercised.

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 $80 and $272 were recognized for the quarter and year ended December 31, 2006, respectively, which was added to contributed surplus. Total compensation expense to be recognized under these awards is estimated to be $985.

The fair value of the Trust Unit options was determined using the Black-Scholes model, incorporating a 3.90% risk free interest rate, at a 34% volatility factor, 3.33% expected distributions and expected life 39 months. On this basis, each Trust Unit option was valued at $1.02.

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

12. Unit-based compensation (continued)

A summary of option activities since January 1, 2005 is as follows:

	Number of options	Range of exercise prices $	Weighted average exercise prices $
January 1, 2005	202,346	2.977	2.977
Exercise of options during quarter ended			
March 31, 2005	(41,573)	2.977	2.977
June 30, 2005	(8,829)	2.977	2.977
September 30, 2005	(77,261)	2.977	2.977
December 31, 2005	74,683	2.977	2.977
Options granted during quarter ended			
March 31, 2006	965,296	4.560-5.250	4.564
June 30, 2006	21,000	5.000	5.000
December 31, 2006	27,000	6.200-6.550	6.278
Options forfeited during quarter ended			
June 30, 2006	(15,000)	4.560	4.560
December 31, 2006	(42,000)	4.560	4.560
Exercise of options during quarter ended			
March 31, 2006	(2,575)	2.977	2.977
September 30, 2006	(11,037)	2.977	2.977
December 31, 2006	(61,071)	2.977	2.977
Ending balance	**956,296**	**4.560-6.550**	**4.622**

The outstanding options are summarized as follows:

	Options outstanding		Vested options outstanding	
	Number	Weighted average remaining life	Number	Weighted average remaining life
Exercise price				
4.560	902,296	29 months	-	
5.250	6,000	29 months	-	
5.000	21,000	32 months	-	
6.200	21,000	38 months	-	
6.550	6,000	38 months	-	
	956,296	**29.32 months**	**-**	

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

12. Unit-based compensation (continued)

Contributed surplus attributed to Trust Unit options

	2006	2005
	$	$
Opening balance	272	808
Compensation expense recognized for unit options	272	-
Options exercised	(272)	(536)
Ending balance	**272**	**272**

As the Trust Unit options are exercised, the associated contributed surplus is reclassified to Trust Units (note 10).

Long-term incentive plan

In 2003, the Fund adopted a discretionary long-term incentive plan (the "Incentive Plan") for the 2003, 2004 and 2005 financial years in which trustees, directors, officers and employees (collectively the "Participants") were all eligible to participate. Pursuant to the Incentive Plan, the Fund could contribute an amount, equal to 14.286% of the amount by which distributable cash, as defined by the Declaration of Trust for a calendar year exceeded $33,500 and $34,000 for the calendar years 2004 and 2005, respectively, to a trust on behalf of the Participants in the Incentive Plan. The trust would then purchase Units, on the open market, equal in value to the amount contributed. Units would be awarded to Participants based on determinations made by the Compensation and Corporate Governance Committee of Menu Foods GenPar Limited's Board of Directors (the "Committee").

Once purchased, the Committee would determine the number of Units acquired on behalf of each Participant based on the amount contributed to the Trust on their behalf. Units awarded vested over a three-year period, subject to the provisions of the Incentive Plan. If the employment of a Participant was terminated prior to the final vesting of the Units attributed to such Participant, such Participant's unvested Units were sold and the net proceeds returned to the Fund. In February 2005, 36,390 Trust Units were purchased for $518 for the benefit of 22 individuals of which 6,330 units had vested by December 31, 2005. The Compensation and Corporate Governance Committee determined that during the quarter ended March 31, 2006, all outstanding units vested to the participants and the Incentive Plan was replaced by the unit option plan discussed above. Consequently compensation expense of $300 was recognized.

13. Financial expenses

	Quarter ended December 31,	
	2006	2005
	$	$
Interest on senior secured notes	1,670	1,408
Interest on bank indebtedness	421	194
Interest on capital leases	1	2
Net (gain) loss on interest rate swap	(86)	133
Amortization of deferred financing costs	75	223
Other, net	7	87
	2,088	**2,047**

13. Financial expenses (continued)

	Year ended December 31,	
	2006	**2005**
	$	$
Interest on senior secured notes	7,488	5,057
Interest on bank indebtedness	1,622	1,106
Interest on capital leases	7	11
Net loss on interest rate swap	133	266
Amortization of deferred financing charges and associated costs	1,060	422
Other, net	17	54
	10,327	**6,916**

14. 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. If enacted, the proposals would apply to the Fund effective January 1, 2011 and would result in a portion of the Fund's income being subject to tax at the trust level.

Currently, 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 statement of operations and deficit reflects an effective rate that differs from the combined Canadian federal and provincial rates for the following reasons:

	Quarter ended December 31,	
	2006	**2005**
	$	$
Income (loss) before income taxes and non-controlling interest	4,224	(23,488)
Goodwill impairment loss	-	23,120
Income of the Fund subject to tax in the hands of recipients	-	(3,152)
Income (loss) of subsidiary entities subject to tax	4,224	(3,520)
Income taxes at statutory rate	1,457	(1,214)
Increase (decrease) resulting from:		
Effect of foreign tax rate	(777)	(3)
Valuation allowance	1,402	(166)
Other and permanent differences	(606)	339
	1,476	**(1,044)**

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

14. Income taxes (continued)

	Year ended December 31,	
	2006	**2005**
	$	**$**
Income (loss) before income taxes and non-controlling interest	13,680	(91,612)
Goodwill impairment loss	-	93,415
Income of the Fund subject to tax in the hands of recipients	-	(10,375)
Income (loss) of subsidiary entities subject to tax	13,680	(8,572)
Income taxes at statutory rate	4,717	(2,956)
Increase (decrease) resulting from:		
Effect of foreign tax rate	(2,139)	(2,209)
Valuation allowance	1,438	2,104
Other and permanent differences	(465)	150
	3,551	**(2,911)**

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

	As at December 31	
	2006	**2005**
	$	$
Current future income tax assets:		
Accounts receivable, accounts payable and accrued liabilities	335	290
Inventory provisions	1,322	1,411
	1,657	**1,701**
Long-term future income tax liabilities:		
Property, plant and equipment	15,272	16,849
Withholding tax on foreign retained earnings	652	331
Tax benefits of loss carry-forwards	(4,229)	(5,984)
Valuation allowance	4,229	2,790
Other	161	10
	16,085	**13,996**

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

15. Other expenses and income

Research and development expenses amounted to $64 and $258 for the quarter and year ended December 31, 2006 (2005 - $62 and $256), respectively. These expenses are included in cost of sales.

16. Obligations under operating leases

Future minimum payments under operating leases at December 31, 2006 are as follows:

	$
2007	878
2008	783
2009	561
2010	244
2011	4
Thereafter	-
	2,470

17. Employee benefit plans

The Fund sponsors a 401(K) retirement savings plan in the United States for all eligible employees and a registered defined contribution pension plan for all eligible Canadian employees. The Fund has no past service pension liabilities.

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

The total expense related to these plans was $375 and $1,579 for the quarter and year ended December 31, 2006 (2005 - $369 and $1,633), respectively.

18. 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 December 31,	
	2006	**2005**
	$	$
Sales		
Canada		
Domestic	13,315	10,342
Foreign	19,987	22,576
Intersegment transfers	3,297	4,675
	36,599	37,593
United States		
Domestic	57,131	55,661
Foreign	215	198
Intersegment transfers	25,256	29,316
	82,602	85,175
	119,201	122,768
Elimination of intersegment transfers	(28,553)	(33,991)
Discounts	(2,715)	(3,935)
	87,933	**84,842**

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

18. Segmented information (continued)

	Year ended December 31,	
	2006	**2005**
	$	$
Sales		
Canada		
Domestic	48,403	49,647
Foreign	96,096	79,561
Intersegment transfers	13,486	12,052
	157,985	141,260
United States		
Domestic	222,433	228,836
Foreign	989	898
Intersegment transfers	118,870	89,920
	342,292	319,654
	500,277	460,914
Elimination of intersegment transfers	(132,356)	(101,972)
Discounts	(11,725)	(12,010)
	356,196	**346,932**

	As at December 31	
	2006	**2005**
Property, plant and equipment	$	$
Canada	35,203	33,423
United States	125,005	121,268
	160,208	154,691
Less: Accumulated amortization	62,474	47,069
	97,734	**107,622**

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.

19. Financial instruments

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.

Foreign exchange and interest rate risks

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

As at December 31, 2006 and 2005 the Fund did not have any outstanding foreign currency forward contracts.

The Fund has fixed interest rates on a portion of its indebtedness (note 8). The marked-to-market value of the contract at December 31, 2006 resulted in an unrealized loss of $133 (2005 - $nil), which is included in accounts payable and in interest expense for the year ended December 31, 2006.

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

19. Financial instruments (continued)

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 and recoverable approximate their fair values because of the near maturity of these instruments. The carrying value of long-term debt bearing interest at variable rates (note 8) approximates its fair value because effective rates represent the rates that would be used to calculate fair value.

20. Economic dependence

The Fund has approximately 20.6%, 10.9% and 10.6% of its sales to its three largest customers. Other than these customers, the Fund does not have a significant exposure to any individual customer. 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.