

Village Farms Income Fund

(formerly Hot House Growers Income fund)

Interim Consolidated Financial Statements

Three and Six Months Ended June 30, 2007

Village Farms Income Fund (formerly Hot House Growers Income Fund)

Consolidated Balance Sheets
(In thousands of United States dollars)

Assets	<u>June 30, 2007</u> (unaudited)	<u>December 31, 2006</u> (note 2)
Current assets:		
Cash and cash equivalents	\$525	\$7,302
Accounts receivable	14,367	8,597
Other receivables	529	1,161
Inventories	9,716	11,093
Assets held for sale (note 5)	-	2,575
Prepays and deposits	1,324	408
Future tax assets	265	265
	<u>26,726</u>	<u>31,401</u>
Property, plant and equipment	73,087	78,079
Intangible assets	3,306	4,081
Other assets	1,683	1,050
Total assets	<u><u>\$104,802</u></u>	<u><u>\$114,611</u></u>
Liabilities and unitholders' equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$9,653	\$11,542
Related party payable	-	2,222
Distributions payable	341	-
Operation line of credit (note 6)	1,857	-
Current maturities of long-term debt (note 6)	3,741	2,646
Current obligations under capital leases (note 7)	247	254
Total current liabilities	<u>15,839</u>	<u>16,664</u>
Long-term debt (note 6)	61,691	70,339
Obligations under capital leases (note 7)	833	1,068
Future tax liability (note 8)	3,697	2,852
Total liabilities	<u>82,060</u>	<u>90,923</u>
Non-controlling interest	3,610	3,610
Unitholders' equity:		
Trust units	20,190	20,190
Accumulated earnings	919	(112)
Accumulated cash distributions	(1,996)	-
Cumulative translation adjustment	19	-
Total unitholders' equity	<u>19,132</u>	<u>20,078</u>
Total liabilities and unitholders' equity	<u><u>\$104,802</u></u>	<u><u>\$114,611</u></u>

Approved by the Board of Trustees

/s/ Gregory J.D. McKinstry, Trustee of the Fund

/s/ Christopher C. Woodward, Trustee of the Fund

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

Village Farms Income Fund (formerly Hot House Growers Income Fund)
Consolidated Statements of Accumulated Earnings
For the Six Months Ended
(In thousands of United States dollars)

	<u>June 30, 2007</u> (unaudited)	<u>July 2, 2006</u> (unaudited) (note 2)
Accumulated earnings - Beginning of period	(\$112)	\$22,643
Earnings for the period	1,031	1,757
Dividends declared to VF Owners	-	(4,000)
Accumulated earnings - End of period	<u><u>\$919</u></u>	<u><u>\$20,400</u></u>

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

Village Farms Income Fund (formerly Hot House Growers Income Fund)
Consolidated Statements of Earnings (unaudited)
For the Three Months Ended
(In thousands of United States dollars, except for units outstanding and per unit/share amounts)

	Three Months Ended		Six Months Ended	
	June 30, 2007	July 2, 2006 (note 2)	June 30, 2007	July 2, 2006 (note 2)
Net sales	\$32,883	\$16,034	\$57,323	\$46,858
Cost of sales	31,448	18,293	48,387	39,631
Gross profit	1,435	(2,259)	8,936	7,227
Selling, general and administrative expenses	2,745	1,941	5,483	3,698
Interest, net	1,545	151	3,149	342
Foreign exchange income	(45)	-	(1,734)	-
Amortization of intangible assets	376	-	723	-
Other income, net	(236)	(2)	(466)	(9)
Earnings before income taxes	(2,950)	(4,349)	1,781	3,196
Provision for income taxes	(1,066)	(1,707)	750	1,448
Net (loss) earnings for the period	(1,884)	(2,642)	1,031	1,748
Other comprehensive income	-	9	-	9
Comprehensive earnings for the period	(1,884)	(2,633)	1,031	1,757
Net income per unit/share-basic	(\$0.05)	(\$0.10)	\$0.03	\$0.07
Weighted average number of units/shares outstanding-basic	36,349,305	25,652,000	36,349,305	25,652,000
Net income per unit/share-diluted	(\$0.05)	(\$0.10)	\$0.03	\$0.07
Weighted average number of units/shares outstanding-diluted	38,707,345	25,652,000	38,707,345	25,652,000

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

Village Farms Income Fund (formerly Hot House Growers Income Fund)
Consolidated Statements of Cash Flows
For the Three and Six Months Ended
(In thousands of United States dollars)

	Three Months Ended		Six Months Ended	
	June 30, 2007	July 2, 2006	June 30, 2007	July 2, 2006
	(unaudited)	(unaudited) (note 2)	(unaudited)	(unaudited) (note 2)
Cash flows from operating activities:				
Net income	(\$1,884)	(\$2,642)	\$1,031	\$1,748
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	1,728	870	3,352	1,744
Loss on sale of marketable securities	-	(32)	-	-
Future income taxes	(675)	(49)	844	1,249
Changes in non-cash working capital (net of effects of acquisition)	633	5,278	-9,420	6,155
Net cash (used in) provided by operating activities	<u>-198</u>	<u>3,425</u>	<u>-4,193</u>	<u>10,896</u>
Cash flows from investing activities:				
Proceeds (purchases) of available for sale securities	-	8	-	(103)
Purchases of property, plant and equipment	(430)	(320)	(1,785)	(546)
Proceeds from sale of property, plant and equipment	<u>6,775</u>	<u>-</u>	<u>6,775</u>	<u>-</u>
Net cash proceeds (used in) investing activities	<u>6,345</u>	<u>(312)</u>	<u>4,990</u>	<u>(649)</u>
Cash flows from financing activities:				
Payments on short-term debt	(15)	-	(30)	-
Proceeds from operating line of credit	1,857	-	1,857	-
Payments of long-term debt	(6,963)	(840)	(7,523)	(1,680)
Payments of obligations under capital leases	(190)	(6)	(242)	(11)
Cash payments to APDI shareholders	-	-	-	(4,000)
Distributions paid	(1,028)	-	(1,655)	-
Other	177	(325)	-	(335)
Net cash used in financing activities	<u>(6,162)</u>	<u>(1,171)</u>	<u>(7,593)</u>	<u>(6,026)</u>
Effect of foreign currency translation	<u>137</u>	<u>-</u>	<u>19</u>	<u>-</u>
Net (decrease) increase in cash and cash equivalents	122	1,942	(6,777)	4,221
Cash and cash equivalents beginning of period	403	3,261	7,302	982
Cash and cash equivalents end of period	<u>\$525</u>	<u>\$5,203</u>	<u>\$525</u>	<u>\$5,203</u>
Supplemental cash flow information:				
Interest paid	<u>\$2,130</u>	<u>\$303</u>	<u>\$2,575</u>	<u>\$607</u>
Income taxes paid	<u>\$746</u>	<u>\$104</u>	<u>\$1,043</u>	<u>\$115</u>

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

Village Farms Income Fund (formerly Hot House Growers Income Fund)

Notes to Interim Consolidated Financial Statements (unaudited)

For the three and six months ended June 30, 2007 and July 2, 2006

1. Nature of operations

Village Farms Income Fund (formerly Hot House Growers Income Fund) (“VFF,” together with its subsidiaries, the “Fund”) is an unincorporated open-ended limited purpose trust established under the laws of the Province of British Columbia pursuant to a Declaration of Trust dated November 10, 2003 (as amended and restated October 18, 2006). The Fund was created to invest in the vegetable greenhouse production business, through the acquisition of a controlling interest in Hot House Growers Inc. (“HHGI”, renamed Village Farms Canada Inc. in connection with the Transaction, as defined below.) The Fund’s principal operating subsidiaries at June 30, 2007 are Village Farms Canada Limited Partnership (“VFCLP”) and Village Farms, L.P. (“VFLP”). Prior to the October 18, 2006 acquisition (note 3), the operations of VFCLP were conducted through HHGI.

The Fund, through its subsidiaries VFCLP and VFLP, owns and operates sophisticated, highly intensive agricultural greenhouse facilities in British Columbia, Texas and Pennsylvania, where it produces, markets and sells premium quality tomatoes, bell peppers and cucumbers.

2. Basis of presentation

Information is presented in thousands of United States dollars unless otherwise noted.

These interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles for interim financial statements and include the accounts of the Fund and its majority-owned subsidiaries. The disclosures contained in these unaudited interim consolidated financial statements do not include all requirements of generally accepted accounting principles for annual financial statements.

These interim consolidated financial statements follow the same accounting policies and methods of their application as the audited consolidated financial statements of the Fund for the year ended December 31, 2006.

The October 18, 2006 acquisition has been accounted for using the purchase method, with Agro Power Development, Inc. (“APDI”), the parent company of VFLP, being the acquirer for accounting purposes. In accordance with reverse takeover accounting, the consolidated balance sheet is a continuation of APDI and the comparatives presented are those of APDI. The purchase price discrepancy between the consideration deemed to have been paid by APDI over the preliminary underlying estimated fair value of the assets and liabilities of the Fund has been determined as follows:

In CAD \$	
Purchase consideration by APDI and estimated fair value of the Fund	\$19,716
Cost of acquisition – net of reimbursement ¹	<u>527</u>
	20,243
Less:	
Net assets of the Fund at book value	<u>51,098</u>
Deficiency	<u>(\$30,855)</u>
The deficiency has been applied to adjust the Fund’s assets as follows:	
Adjustment to inventory	(\$11)
Adjustment to intangible assets	1,181
Write-down of property, plant and equipment	<u>(32,025)</u>
	<u>(\$30,855)</u>

Village Farms Income Fund (formerly Hot House Growers Income Fund)

Notes to Interim Consolidated Financial Statements (unaudited)

For the three and six months ended June 30, 2007 and July 2, 2006

These consolidated financial statements reflect the assets and liabilities of HHGI at the assigned fair value as follows:

In CAD \$	
Accounts receivable	\$9,583
Inventories	1,890
Prepaid expenses and deposits	387
Property, plant and equipment	54,979
Assets held for sale	7,100
Intangible assets	5,081
Other assets	<u>107</u>
	79,127
Accounts payable and accrued liabilities	(7,081)
Operating line of credit	(6,407)
Capital leases	(1,429)
Long-term debt	<u>(43,967)</u>
	<u>\$20,243</u>

¹ Pursuant to the Acquisition Agreement, APDI received CAD\$1 million from the Fund to reimburse professional fees incurred during the acquisition process.

The assets held for sale has been increased by \$6.8 from the initial purchase price allocation to reflect the net proceeds for the sale of the asset and property, plant and equipment value has been decreased by the same amount.

Effective January 1, 2007 the Fund changed its reporting currency to the U.S. dollar from the Canadian dollar to more accurately represent the economic environment in which it operates.

Certain comparative figures have been reclassified to conform to current presentation.

These interim consolidated financial statements and related notes should be read in conjunction with the audited consolidated financial statements of the Fund for the year ended December 31, 2006.

In the opinion of management, all adjustments (which include reclassification and normal recurring adjustments) necessary to present fairly the consolidated financial position, consolidated results of operations and consolidated cash flows at June 30, 2007 and for all periods presented, have been made. The results of operations for the three month period ended June 30, 2007 are not necessarily indicative of the results for the full year ending December 31, 2007.

3. Accounting Changes and New Accounting Standards

Change in functional and reporting currency

Effective January 1, 2007, the functional currency of the Fund changed to the United States dollar. Concurrent with the change in its functional currency, the Fund adopted the United States dollar as its reporting currency. The consolidated financial statements of the Fund for the comparative period ended July 2, 2006 were originally prepared on a United States functional currency (note 2).

In making this change in reporting currency, the Fund followed the recommendations of the Emerging Issues Committee (“EIC”) of the Canadian Institute of Chartered Accountants (“CICA”), set out in EIC-130, “Translation Method when the Reporting Currency Differs from the Measurement Currency or there is a Change in the Reporting Currency”.

Village Farms Income Fund (formerly Hot House Growers Income Fund)

Notes to Interim Consolidated Financial Statements (unaudited)

For the three and six months ended June 30, 2007 and July 2, 2006

Financial Instruments, Hedges and Comprehensive Income

CICA Handbook section 3855, "Financial Instruments – Recognition and Measurement" and section 1530, "Comprehensive Income", became applicable to the Fund on January 1, 2007.

Section 3855 established standards for recognizing and measuring financial instruments and non-financial derivatives. The standard specifies how financial instruments should be recorded on the balance sheet and how gains and losses from the changes in fair value of financial instruments should be recognized. The standard effectively provides the option of carrying all financial instruments on the balance sheet at fair value. For certain financial instruments, such as derivatives, fair value recognition is mandatory while for others there is the option of using either fair value or amortized costs as the basis of measurement. With respect to financial instruments other than derivatives, the adoption of section 3855 did not have a material impact because the Fund's non-derivative financial instruments continue to be carried at amortized cost under the new accounting standard.

Section 1530 introduced the concept of comprehensive income and provides alternatives for the disclosure of other comprehensive income. Accumulated other comprehensive income is a new caption within the unitholders' equity section of the consolidated balance sheet. Other comprehensive income includes certain unrealized items affecting the carrying amounts of assets and liabilities that are not included in net income. The Fund has adopted this new standard effective January 1, 2007 on a prospective basis. Management is of the opinion that if any restatement of comparative financial statements was required, its effect would be minor.

4. Acquisition, reorganization, and debt restructuring

On October 18, 2006, the Fund completed a restructuring pursuant to an acquisition agreement (the "Acquisition Agreement") providing for (i) the combination of the businesses of VF LP and HHGI, (ii) the acquisition by VF LP's owners ("VF Owners") of an interest in a newly-formed subsidiary of the Fund (which is indirectly exchangeable for ordinary units of the Fund ("Units") or cash), the receipt of CAD\$20 million, and all cash in APDI and its subsidiaries in excess of average working capital of US\$10,450 (the working capital payment together with other purchase price adjustments pursuant to the terms of the Acquisition Agreement was CAD\$12.492 million), (iii) the application of proceeds from a private placement of a subscription receipt (the "Subscription Receipt") to Canagro Century Holdings Inc. ("CCHI"), and (iv) the application of drawings under a new senior credit facility (the "New Credit Facilities") with a Canadian chartered bank and certain other lenders entered into by VFCLP. This transaction (the "Transaction") has created North America's largest producer, marketer and distributor of greenhouse-grown produce.

Prior to the closing of the Transaction, there were 7,074,116 Units and 2,358,040 special voting units of the Fund issued and outstanding. In connection with the Subscription Agreement entered into contemporaneously with the Acquisition Agreement and a related Rights Offering (as defined below), the Fund issued 3,623,189 additional Units on December 22, 2006. In addition, following the completion of the Transaction, the VF Owners hold participating preferred shares ("PPS") of VF U.S. Holdings Inc. ("US Holdings") which, subject to certain limitations, may be exchanged for 25,652,000 Units or the cash equivalent. These PPS allow the VF Owners to receive distributions on the same basis and in the same amounts as if they were Unitholders and are exchangeable through a staged release: one-third after six months; one-third after 12 months, and one-third after 24 months. If exchanged for Units, the PPS would represent an approximate 66% interest in the Fund on a fully-diluted basis.

On August 23, 2006, the Fund, CCHI and the VF Owners entered into a transaction support and subscription agreement (the "Subscription Agreement"), under which the Fund agreed to issue a Subscription Receipt to CCHI immediately prior to the closing of the transactions provided for under the

Village Farms Income Fund (formerly Hot House Growers Income Fund)

Notes to Interim Consolidated Financial Statements (unaudited)

For the three and six months ended June 30, 2007 and July 2, 2006

Acquisition Agreement for consideration of CAD\$10 million. The Subscription Receipt entitled CCHI to receive, following the earlier of the date of completion of a rights offering (the "Rights Offering") or notice given by CCHI that the Fund's obligation to make the Rights Offering is terminated, cash in the amount of the gross proceeds of the Rights Offering, if any, and that number of Units which would have a value equal to the balance of CAD\$10 million less the cash paid, calculated based on a price of CAD\$2.76 per Unit. In December 2006, a total of 2,134,042 Units of the Fund were subscribed for under the Rights Offering for gross proceeds of CAD\$5.89 million.

With the completion of the Rights Offering and the exchange by CCHI of the Subscription Receipt for cash and Units, CCHI holds 1,489,147 Units and 2,358,040 Class C shares of Village Farms Canada Inc. (together with voting rights at the Fund level represented by 2,358,040 special voting units) exchangeable into 2,358,040 Units, representing approximately 9.9% of the Units on a fully-diluted basis as at June 30, 2007. The Class C shares were issued on closing of the Transaction in replacement of the Class A shares and common shares of HHGI formerly held by CCHI (note 12).

In conjunction with CCHI agreeing to make the CAD\$10 million commitment for the Subscription Receipt and to vote in favour of the Transaction, HHGI and the Fund amended the exchange agreement among the Fund, HHGI and CCHI dated December 23, 2003 so that CCHI may exchange its existing interest in HHGI for the underlying 2,358,040 Units at any time after December 23, 2008. CCHI will not receive any distributions in respect of this existing interest until the exchange for Units occurs. The unanimous shareholders agreement entered into by the Fund, HHGI and CCHI dated December 23, 2003 was also amended and restated accordingly in connection with the Transaction.

The Fund restructured its existing indebtedness and borrowed an additional CAD\$20 million of which CAD\$5 million was used to pay down the CAD Operating Loan (as defined below). With the completion of the Transaction, the Fund restructured its existing operations by transferring all of its Canadian operating assets into a new wholly-owned limited partnership, VFCLP, and eliminating the existing notes of HHGI held by the Fund.

Related Party Transactions

Certain elements of the Transaction, including the private placement of the Subscription Receipt with CCHI and amendments to the exchange agreement and the existing governance agreement, were "related party transactions" for the purposes of Ontario Securities Commission Rule 61-501- *Insider Bids, Issuer Bids, Business Combination and Related Party Transactions* and Regulation Q-27 "Respecting Protection of Minority Securityholders in the Course of Certain Transactions".

Prior to the completion of the Transaction, CCHI held 25% of the voting securities of the Fund and HHGI and was therefore deemed to be a related party of the Fund. As a result, the resolution passed at the unitholder meeting dated October 13, 2006 to approve the Transaction required and received the affirmative vote of a majority of votes cast in person or by proxy by all holders of voting securities other than CCHI, associates or affiliates of CCHI or their respective directors and officers.

In connection with the Transaction, a trustee of the Fund earned a fee of CAD\$190,000 of which payment of CAD\$95,000 has been deferred over a minimum of two years.

5. Asset held for sale

The Fund ceased operations at its facility in Pitt Meadows, British Columbia at the conclusion of the 2006 growing season. In May 2007, the Fund sold the property for net proceeds of \$6.8 million. Prior to the sale, the property was classified as asset held for sale. The purchase accounting equation implemented at October 18, 2006 has been revised to reflect the increased value of the land as a result of the sale (note 2.)

Village Farms Income Fund (formerly Hot House Growers Income Fund)

Notes to Interim Consolidated Financial Statements (unaudited)

For the three and six months ended June 30, 2007 and July 2, 2006

6. Operating line of credit and long-term debt

As at June 30, 2007 and December 31, 2006, long-term debt consists of the following:

	<u>June 30, 2007</u>	<u>December 31, 2006</u>
CAD Operating Loan (i)	\$1,857	\$-
CAD Capital Loan (ii)	48,302	54,875
CAD FX Facility (iii)	-	-
US Operating Loan (iv)	-	-
US Capital (v)	17,100	18,050
Other long-term debt	30	60
	<u>65,432</u>	<u>72,985</u>
Less current maturities	<u>(3,741)</u>	<u>(2,646)</u>
Long-term portion	<u>\$61,691</u>	<u>\$70,339</u>

Concurrent with the closing of the Transaction, the Fund restructured its bank debt, resulting in its previous debt facilities being replaced by:

Canadian Credit Facilities

The Canadian credit facilities include:

- (i) a revolving variable rate operating loan of up to CAD\$12 million with a term of 364 days (the “CAD Operating Loan”). As at June 30, 2007, \$1,857 was drawn on the CAD Operating Loan but has been netted against cash in these financial statements;
- (ii) a non-revolving variable rate capital loan which matures on October 31, 2011 (the “CAD Capital Loan”); and
- (iii) a foreign exchange contracts facility for the purchase and/or sale of U.S. funds (the “CAD FX Facility”).

Interest payable on Canadian funds borrowed under the CAD Operating Loan and the CAD Capital Loan is calculated by way of one or more of prime rate borrowings, credit instrument borrowings, (CAD\$) bankers’ acceptances borrowings, cost of funds borrowing, or any combination thereof. Interest payable on U.S. funds borrowed under the CAD Operating Loan and the CAD Capital Loan is calculated by way of one or more of U.S. base rate borrowings, credit instrument borrowings, (US\$) bankers’ acceptances borrowings, LIBOR borrowings, or any combination thereof. The CAD Operating Loan is subject to annual renewal by the bank. Subject to acceleration upon an event of default, the outstanding balance of the CAD Capital Loan will be repayable by way of 48 equal monthly installments of principal and interest (based on an amortization of the CAD Capital Loan in full over a period 20 years), commencing October 31, 2007 (until which date only interest is payable), with the balance of the CAD Capital Loan and all unpaid accrued interest to be paid in full on October 31, 2011. As at June 30, 2007, the interest rate is 8.09%. At June 30, 2007, VFCLP was in compliance with all covenants.

The Canadian credit facilities contain restrictive covenants that prevent the Fund from distributing cash to Unitholders if such a distribution would cause the Fund to breach the financial covenants of the CAD Operating Loan. As at June 30, 2007, \$48,302 is outstanding in respect of the CAD Capital Loan, and \$1,857 is outstanding in respect of the CAD Operating Loan and no borrowings are outstanding in respect of the CAD FX Facility. The Canadian credit facilities, in all cases, are senior in priority to the securities of VFCLP indirectly held by the Fund. On January 8, 2007, the remaining CAD Capital Loan was converted to US\$ at a rate of US\$1 to CAD\$1.1647.

As security for the borrowings, VFCLP has provided, among other things, promissory notes, a first mortgage on certain of the greenhouse properties, and general security agreements over its assets. The borrowings are subject to certain positive and negative covenants customary for loans on terms similar to

Village Farms Income Fund (formerly Hot House Growers Income Fund)

Notes to Interim Consolidated Financial Statements (unaudited)

For the three and six months ended June 30, 2007 and July 2, 2006

the Canadian credit facilities. VFCLP and certain of its direct and indirect subsidiaries, including APDI, have provided full recourse guarantees of the Canadian credit facilities and have granted security therefor.

VFCLP has secured a variable rate \$30 million U.S. dollar hedging facility. The Fund pays the bank interest on any foreign exchange contract liability not paid by the Fund on the due date thereof at a rate equal to 3% in excess of the Prime Rate, calculated monthly, not in advance, until paid in full. The Fund pays the bank all foreign exchange contract liabilities on demand by the bank and, until demanded, the Fund pays them as they fall due. As at June 30, 2007, no borrowings remain outstanding in respect of this facility.

United States Credit Facilities

The U.S. credit facilities include:

- (iv) a revolving variable rate operating loan of up to \$5,000 with a term of 364 days (the "US Operating Loan"); and
- (v) a non-revolving variable rate capital loan which matures on June 20, 2016 (the "US Capital Loan").

The US Capital Loan is amortized on a 10-year schedule, with quarterly principal payments of \$475. The term may be renewed beyond such date only upon amendment of the facility. As at June 30, 2007, borrowings under the term loan facility are subject to fixed rates of interest, on varying principal amounts, ranging from 6.05% to 6.206%, with expiration dates between eight months and twenty months. The total fixed portion of the term loan facility is \$13.1 million. The interest rate on the unfixed portion is LIBOR plus 2.50% (7.84% as at June 30, 2007). Interest on the US Capital Loan will be, at the Fund's option, seven day LIBOR plus the applicable margin, LIBOR plus the applicable margin or a quoted fixed rate. The applicable margin will be based on the Fund's ratio of long term debt to adjusted equity.

The interest rate on the US Operating Loan is LIBOR plus 2.25%. There were no borrowings outstanding under the US Operating Loan as at June 30, 2007.

APDI and its wholly owned subsidiary, Village Farms of Delaware, L.L.C., have guaranteed the obligations under the U.S. credit facilities agreement, and the borrowings are secured by a first lien and security interest in all of the assets of VFCLP, APDI and Village Farms of Delaware, L.L.C; accordingly, such obligations rank senior to the securities of VFCLP indirectly held by the Fund. The loan agreement requires VFCLP to satisfy certain affirmative and negative covenants including a minimum debt service coverage and current ratio. In addition, VFCLP will be permitted to declare and pay distributions of up to 50% of distributable income as defined therein. At June 30, 2007, VFCLP was in compliance with all covenants.

As of June 30, 2007, VFCLP also has long-term debt outstanding comprised of a note in the principal amount of \$30 payable to a former vendor, with monthly instalments of \$5 through 2007, including imputed interest at rates ranging from 5% to 8%.

In order to comply with a certain vendor requirement, as at June 30, 2007, the Fund has a stand-by letter of credit in the amount of \$490 against the US Operating Loan.

Village Farms Income Fund (formerly Hot House Growers Income Fund)

Notes to Interim Consolidated Financial Statements (unaudited)

For the three and six months ended June 30, 2007 and July 2, 2006

7. Lease commitments

Obligations Under Capital Leases

The Fund leases certain equipment and land under capital leases. Future minimum lease payments are as follows:

Remainder 2007	\$ 155
2008	291
2009	291
2010	291
2011	182
Thereafter	59
Total minimum lease payments	1,269
Less amount representing interest	(189)
	1,080
Current portion	247
Long-term portion	<u>\$833</u>

These leases have interest rates ranging from 6% to 8.5%. The Fund has made payments of \$77 and \$5 for the three months ended June 30, 2007 and July 2, 2006, respectively and \$134 and \$10 for the six months ended June 30, 2007 and July 2, 2006, respectively. Interest paid on capital leases amount to \$23 and \$3 for the three months ended June 30, 2007 and July 2, 2006, respectively and \$48 and \$5 for the six months ended June 30, 2007 and July 2, 2006, respectively.

Operating Leases

As at June 30, 2007, the Fund has entered into certain operating lease commitments for land, office space and equipment through 2022. The future minimum lease payments as at June 30, 2007 are as follows:

Remainder 2007	\$114
2008	108
2009	72
2010	47
2011	13
Thereafter	210
	<u>\$564</u>

Rent expense under the Fund's various operating lease agreements totaled \$55 and \$54 for the three months ended June 30, 2007 and July 2, 2006, respectively, and \$111 and \$110 for the six months ended June 30, 2007 and July 2, 2006, respectively, and is included in selling, general and administrative expenses.

8. Income tax

The provision for income taxes consists of the following components for the three and six months ended June 30, 2007 and July 2, 2006:

	For the three months ended		For the six months ended	
	June 30, 2007	July 2, 2006	June 30, 2007	July 2, 2006
Current	(\$588)	(\$66)	\$524	\$199
Future	(\$478)	(1,641)	226	1,249
	<u>(\$1,066)</u>	<u>(\$1,707)</u>	<u>\$750</u>	<u>\$1,448</u>

Village Farms Income Fund (formerly Hot House Growers Income Fund)

Notes to Interim Consolidated Financial Statements (unaudited)

For the three and six months ended June 30, 2007 and July 2, 2006

9. Geographic information

The Fund operates in one segment, where it produces, markets and sells premium quality tomatoes, bell peppers and cucumbers, with its primary operations in the United States and Canada. Revenue by the countries in which its customers are located is as follows:

	For the three months ended		For the six months ended	
	June 30, 2007	July 2, 2006	June 30, 2007	July 2, 2006
Revenue				
United States	\$19,186	\$14,828	\$41,797	\$44,412
Canada	13,525	1,206	15,143	2,446
Other	172	-	383	-
	<u>\$32,883</u>	<u>\$16,034</u>	<u>\$57,323</u>	<u>\$46,858</u>

10. Distributions to Unitholders

Distributions paid to Unitholders for the six months ended June 30, 2007 and July 2, 2006 were as follows:

Paid per unit ¹ (in CAD\$)	June 30, 2007	July 2, 2006
January	\$-	\$0.03
February	0.01	0.03
March	0.01	0.03
April	0.01	0.03
May	0.01	0.03
June	0.01	0.03
	<u>\$0.05</u>	<u>\$0.18</u>

¹ For distributions declared in the prior month for units and PPS on record at the end of the prior month.