Village Farms Income Fund

(formerly Hot House Growers Income Fund)

Management's Discussion and Analysis

Three and Six Months Ended June 30, 2007

August 15, 2007

Management's Discussion and Analysis

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

Introduction

This management's discussion and analysis ("MD&A") should be read in conjunction with the unaudited consolidated financial statements and accompanying notes of Village Farms Income Fund (the "Fund"), for the three and six months ended June 30, 2007. The information provided in this MD&A is current to August 15, 2007 unless otherwise noted.

Village Farms 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 on 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, the operations of VFCLP were conducted through Hot House Growers Inc.

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 VFLP and HHGI, (ii) the acquisition by VFLP'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), and the receipt of CAD$20 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 - defined below 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 (as defined below) 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 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 participating preferred shares allow the VF Owners to receive distributions on the same basis and in the same amounts as if they were ordinary unitholders and are exchangeable through a staged release: one-third after six months; one-third after twelve months and one-third after twenty-four months. If exchanged for Units, the participating preferred shares would represent approximately a 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 the Subscription Receipt to CCHI immediately prior to the closing of the transactions provided for under the Acquisition Agreement (collectively, the "Transaction") 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. A total of 2,134,042 Units 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. The Class C shares were issued by Village Farms Canada Inc. on closing of the Transaction in replacement of the Class A shares and common shares of HHGI formerly held by CCHI.

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 in connection with the Transaction.

In the MD&A, "Village Farms" refers to the business carried on by the Fund and its subsidiaries prior to or subsequent to the completion of the Transaction, as the context requires.

Presentation of Information

The October 18, 2006 acquisition has been accounted for using the purchase method of accounting, with Agro Power Development, Inc. ("APDI"), the parent company of VFLP, being the acquirer for accounting purposes. This MD&A is therefore presented as if APDI had acquired HHGI. All historical amounts prior to October 18, 2006 are from APDI and do not include any results of HHGI.

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.

Business Overview

Management believes that Village Farms is the largest producer, marketer and distributor of premium-quality, greenhouse grown tomatoes, bell peppers and cucumbers in North America. Village Farms operates sophisticated, highly intensive agricultural greenhouse facilities in British Columbia, Texas and Pennsylvania. It markets and distributes the premium product produced in these facilities, as well as those produced under exclusive arrangements with other greenhouse producers, predominantly in Mexico, under its Village Farms® brand name, primarily to retail supermarkets and dedicated fresh food distribution companies. Village Farms markets and distributes throughout the United States, Canada, Mexico and Japan, and currently operates seven distribution centres located across the United States and Canada.

Village Farms embraces sustainable agriculture and environmentally friendly growing practices by:

- utilizing integrated pest management techniques that use "beneficial bugs" to control unwanted pests. The use of natural biological control technology keeps plants and their products virtually free of chemical agents. The process includes regular monitoring techniques for threat identification, development of appropriate, tailored response strategies and the execution of these strategies;
- capturing rainwater from various greenhouse roofs for irrigation purposes;
- recycling water and nutrients during the production process;
- growing plants in natural medium, including coconut fibre, rock wool and wood chips, as opposed to growing in the soil and depleting nutrients; and
- using dedicated environmental control computer systems which monitor and control almost all aspects of the growing environment, thereby maximizing the efficient use of energy.

Village Farms' assets include ten greenhouses providing 1,029,866 square metres (261 acres) of growing space in Canada and the United States. All of Village Farms' greenhouses are constructed of glass, aluminum and steel, and are located on land owned or leased by Village Farms. In November 2006, VFLP opened a 5,400 square meter research facility in order to conduct testing of new growing technologies and methods. The Fund has commenced selling the crop that is grown at the research facility. VFLP also has exclusive marketing agreements with growers in Mexico that currently have approximately 125,000 square meters of growing area. An additional

grower that processes approximately 30,000 square meters of growing area is expected to start harvesting in fall 2007.

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 allocation at October 18, 2006 has been revised to reflect the increased value of the land as a result of the sale and increased the value of the assets held for sale by $6.8 million and reduced the value of property plant and equipment by $6.8.

The following table outlines Village Farms' greenhouse facilities:

	Growing Area		
Greenhouse Facility	**Square Metres**	**Acres**	**Products Grown**
Marfa, TX (3 greenhouses)	318,460	82	Beefsteak tomatoes, tomatoes on-the-vine
Fort Davis, TX	156,530	40	Tomatoes on-the-vine
Ringgold, PA	38,277	10	Tomatoes on-the-vine
Delta, BC (3 greenhouses)	441,168	110	Tomatoes on-the-vine, cherry tomatoes, beefsteak tomatoes, bell peppers
Abbotsford, BC (2 greenhouses)	75,431	19	Bell peppers and cucumbers
Total	1,029,866	261	

Crop Cycles

The growing cycle at Village Farms' greenhouse facilities occurs over a 14-month period.

Northern Facilities

The Canadian and Ringgold, PA facilities begin in October of one year and extend through December of the next year. To start, seeds are purchased and sent to an external propagator in October. Meanwhile, harvesting for the previous year's crop concludes in November. These plants are removed from the greenhouse and replaced with new seedlings from October's propagation. In early January, the pollination process begins and fruit typically begins to appear on the vines towards the end of January. The timing of growth and ripening of the fruit depends upon a number of factors, including variety and light levels, which vary from year to year. Harvesting of early varieties begins in late February or early March and reaches peak volumes during the months of June, July and August. In September, volumes begin to decrease and continue to decline until harvesting is completed in late November.

Southern Facilities

The Texas facilities begin in May of one year and extend through July of the next year. To start, seeds are purchased and sent to an external propagator in May. Meanwhile, harvesting for the previous year's crop concludes in July. These plants are removed from the greenhouse and replaced with the new seedlings from May's propagation. In August, the pollination process begins and fruit typically begins to appear on the vines. The timing of growth and ripening of the fruit depends the on variety of the fruit. Harvesting begins in September. In order to maintain the highest level of quality and yield, a second crop is planted alongside the original crop in January. In March, the second crop begins to harvest fruit and the original crop is removed.

Marketing

Village Farms is a leading marketer of premium quality, value added, branded greenhouse grown produce in the North America, and is a significant producer of beefsteak, tomatoes on-the-vine and cherry tomatoes at its facilities in Canada and the United States. Village Farms also purchases and distributes tomatoes, bell peppers and cucumbers in the United States produced by other greenhouse growers located in the United States, Canada and Mexico. Village Farms maintains high standards of food safety and requires the same of its exclusive contract growers, while providing on-time, effective and efficient distribution.

The Fund strives to continually exceed the expectations of its customers by providing consistently superior product including adding new product varieties and packaging innovations.

The Fund has distribution capabilities that it believes exceed those of any competitor in the North American greenhouse vegetable industry. With distribution centres in New York, Texas, Florida, Pennsylvania, Illinois, Washington and British Columbia, the Fund provides its customers with flexibility in purchasing. Historically, Village Farms has had an on-time delivery record of 99.1%, while maintaining competitive freight rates that management of Village Farms believes to be among the best in the industry**.**

The marketing strategy is to strategically position the Fund to be the supplier of choice for retailers offering greenhouse produce by focusing on the following:

- **Year Round Supplier.** Year round production capability of the Fund enhances customer relationships, resulting in more consistent pricing.
- **Quality and Food Safety.** Sales are made directly to retailers which ensures control of the product from seed to customer and results in higher levels of food safety, shelf life and quality control. Food safety is an integral part of the Fund's operations, and management believes that it has led and currently leads the industry in adopting Good Agricultural Practises. This program is modeled after the U.S. Food & Drug Administration's Good Manufacturing Practices using the Primus Labs® format and third party auditors. All the Fund's packing facilities have recently undergone successful comprehensive food safety audits by Primus Labs®.
- **Quality Packaging and Presentation.** Product is selected at a uniform size and picked at the same stage of vine ripeness. The packaging for the product is "display ready", ensuring retail customers have a full view of the product on the supermarket shelf.
- **Direct Sale to Retail Customers.** Greenhouse produce (produce grown by the Fund plus third party produce) is sold to directly supermarket chains, including Albertson's Inc., Fred Meyer, HEB Grocery Company, Loblaw Companies, Market Basket, Meijer, Inc., Overwaitea Food Group, Publix Super Markets, Inc., Richfoods, Inc., Safeway Inc., Safeway Canada, Wegmans Food Markets Inc., Weis Markets and Whole Foods Market.
- **Excellence in Customer Service and Logistics.** Logistics and distribution capability are key factors in ensuring fresh high quality product to meet consumer demands. Management of Village Farms believes it has a competitive advantage through its logistics and distribution network which includes strategically located distribution centres.

On February 6, 2007, the Fund was issued an agency license by the British Columbia Vegetable Marketing Commission ("BCVMC"). This approval authorizes the Fund to buy and sell produce grown in British Columbia for trade. Village Farms now markets, sells, and distributes all of its products, including product sold under exclusive marketing arrangements with its Mexican greenhouse operations.

Non-GAAP Measures

References in this MD&A to "EBITDA" are to earnings before interest, taxes, depreciation, amortization, foreign currency exchange gains and losses on translation of long-term debt, and unrealized gains on the changes in the value of derivative instruments and non-controlling interest. EBITDA is a cash flow measure that is not recognized by generally accepted accounting principles in Canada ("GAAP") and does not have standardized meanings prescribed by GAAP. Therefore, EBITDA may not be comparable to similar measures presented by other issuers. Investors are cautioned that EBITDA should not be construed as an alternative to net income or loss determined in accordance with GAAP as an indicator of the Fund's performance or to cash flows from operating, investing and financing activities as measures of liquidity and cash flows. As the Fund distributes substantially all of its cash on an ongoing basis (after providing for certain amounts described elsewhere in this MD&A), management believes that EBITDA is a useful measure in evaluating the performance of the Fund and in determining whether to invest in Units of the Fund.

References to "distributable cash" are to net income before interest, taxes depreciation, amortization, foreign currency exchange gains and losses on translation of long-term debt, unrealized gains on changes in the fair value

of derivative instruments, non-controlling interest and after debt servicing costs and any reserves that are deemed to be reasonable and necessary for the operation of the Fund. Distributable cash is not a recognized measure under GAAP and the Fund's method of calculation of distributable cash may differ from methods used by other entities. Accordingly, distributable cash as presented may not be comparable to similar measures presented by other entities. Management considers distributable cash a meaningful measure of operating performance because the Fund finances all growth and major capital expansion or replacement either with debt or the issuance of new Units. As such, distributable cash measures the return on investment to Unitholders and helps illustrate how well the Fund is performing.

The Fund suspended cash distributions to Unitholders effective with the June 2006 distribution, in light of its weaker results in the first half of the year. For the 2007 year, consistent with its previously announced distribution policy, the Fund intends to make distributions to Unitholders equal to 50% of the cash otherwise available for distribution, and the remaining 50% of that cash will be used to pay down debt.

On August 4, 2006, the Canadian Securities Administrators ("CSA") issued Staff Notice 52-306 (Revised) — *Non-GAAP Financial Measures*, with the only revision to the notice being a clarification of the CSA's expectations regarding the presentation of distributable cash. That notice states: "We expect distributable cash disclosure to include a reconciliation to the most directly comparable measure calculated in accordance with GAAP. In staff's view, the most directly comparable measure calculated in accordance with GAAP is cash flows from operating activities as presented in the issuer's financial statements. For clarity, cash flows from operating activities includes changes during the period in non-cash working capital balances". In view of the historical EBITDA and distributable cash disclosures presented by the Fund, management of Village Farms believes that the presentation of distributable cash based on net income, as described in the second paragraph above, is more useful to a Unitholders' assessment of the Fund's results and the impact of the Transaction going forward. As contemplated by the CSA notice, this MD&A includes a presentation of distributable cash based on cash flows from operating activities.

Quarterly Results of Operations

Consolidated Financial Performance

(in thousands of US dollars, except per Unit amounts)	For the three months ended		For the six months ended	
	June 30, 2007	July 2, 2006	June 30, 2007	July 2, 2006
Revenue	$32,883	$16,034	$57,323	$46,858
Gross profit	1,435	($2,259)	8,936	7,227
Selling, general and administrative	2,745	1,941	5,483	3,698
Interest, net	1,545	151	3,149	342
Other income	(236)	(2)	(466)	(9)
Net earnings	(1,884)	(2,642)	1,031	1,748
EBITDA (1)	279	(3,320)	6,548	5,291
Earnings per Unit basic and diluted	($0.05)	($0.10)	$0.03	$0.07

(1) EBITDA is not a recognized earnings measure and does not have standardized meanings prescribed by GAAP. Therefore, EBITDA may not be comparable to similar measures presented by other issuers. See "Non-GAAP Measures". Management believes that EBITDA is a useful supplemental measure in evaluating the performance of the Fund.

Results of Operations for the Three Months Ended June 30, 2007 Compared to the Three Months Ended July 2, 2006

Revenue

Revenue for the three month period ended June 30, 2007 increased $16,849 or 105% to $32,883 from $16,034 for the three month period ended July 2, 2006. The increase is primarily due to the addition of revenues of $15 million from the VFCLP facilities which are not included in the prior year results and an increase of 1.9 million

pounds produced by VFLP facilities, offset by a decrease of $1.1 million of revenues from VFLP's Mexican marketing partners.

Gross Profit

Gross profit for the three month period ended June 30, 2007 increased $3,694 to $1,435 from ($2,259) for the three month period ended July 2, 2006, primarily due the increase in revenue discussed above. Gross profit margins increased to 4% from (14%).

Selling, General and Administrative

Selling, general and administrative expenses for the three month period ended June 30, 2007 increased $804 or 41% to $2,745 from $1,941 for the three month period ended July 2, 2006. The increase is due to the inclusion of general and administrative expenses for VFCLP and the Fund, as well as the addition of sales, logistics and quality control personnel as a result of the expanded sales and marketing responsibilities due to the elimination of the third party sales and marketing relationship, for the VFCLP-grown product. These expenses are not included in the prior year period results.

Interest, Net

Interest, net for the three month period ended June 30, 2007 increased $1,394 to $1,545 from $151 for the three month period ended July 2, 2006. The increase is a result of the approximately $55 million of additional debt balances incurred as a result of the Transaction.

Other Income

Other income for the three month period ended June 30, 2007 increased $234 to $236 from $2 for the three month period ended July 2, 2006. The increase was primarily due to a gain on the cancellation of a capital lease.

Net loss

Net loss for the three month period ended June 30, 2007 decreased $759 or 29% to $1,884 from $2,634 for the three month period ended July 2, 2006. The decrease was primarily due to an increase in gross profit of $3,694 offset by interest, net of $1,394, a decrease in income tax recovery of $641 and an increase in selling, general and administrative expenses of $804.

EBITDA

EDITDA for the three month period ended June 30, 2007 increased $3,599 to $279 from ($3,320) for the three month period ended July 2, 2006, primarily due to the increase in gross profit discussed above. See the EBITDA calculation in "Reconciliation of Net Earnings to EBITDA."

Results of Operations for the Six Months Ended June 30, 2007 Compared to the Six Months Ended July 2, 2006

Revenue

Revenue for the six month period ended June 30, 2007 increased $10,465 or 22% to $57,323 from $46,858 for the six month period ended July 2, 2006. The increase is primarily due to revenues of $15 million from the VFCLP facilities which are not included in the prior year results, offset by a decrease of $5 million of revenues from VFLP's Mexican marketing partners.

Gross Profit

Gross profit for the six month period ended June 30, 2007 increased $1,709 or 24% to $8,936 from $7,227 for the

six month period ended July 2, 2006, primarily due to the increase in revenue discussed above. Gross profit margins remained constant.

Selling, General and Administrative

Selling, general and administrative expenses for the six month period ended June 30, 2007 increased $1,785 or 48% to $5,483 from $3,698 for the six month period ended July 2, 2006. The increase is due to the inclusion of general and administrative expenses for VFCLP and the Fund, as well as the addition of sales, logistics and quality control personnel as a result of the expanded sales and marketing responsibilities due to the elimination of the third party sales and marketing relationship, for the VFCLP-grown product. These expenses are not included in the prior year period results.

Interest, Net

Interest, net for the six month period ended June 30, 2007 increased $2,807 to $3,149 from $342 for the six month period ended July 2, 2006. The increase is a result of the approximately $54.8 million of additional debt balances incurred as a result of the Transaction.

Other Income

Other income for the six month period ended June 30, 2007 increased $457 to $466 from $9 for the six month period ended July 2, 2006. The increase was primarily due to the receipt of a $184 dividend from the US senior lender who is an agricultural cooperative bank owned by its borrowers and a gain on the cancellation of a capital lease.

Net Income

Net income for the six month period ended June 30, 2007 decreased $717 or 41% to $1,031 from $1,748 for the six month period ended July 2, 2006. The decrease was primarily due to an increase in interest, net of $2,807, an increase in selling, general and administrative expenses of $1,785, offset by an increase in gross profit of $1,709 and a gain on foreign exchange of $1,734.

EBITDA

EDITDA for the six month period ended June 30, 2007 increased $1,257 or 24% to $6,548 from $5,291 for the six month period ended July 2, 2006, primarily due to the increase in gross profit discussed above. See the EBITDA calculation in "Reconciliation of Net Earnings to EBITDA."

Selected Balance Sheet Data

	June 30, 2007	December 31, 2006
Total assets	$104,802	$114,611
Total liabilities	($82,060)	($90,923)
Non-controlling interest	($3,610)	($3,610)
Unitholders' equity	($19,132)	($20,078)

Reconciliation of Net Earnings to EBITDA

Management believes that EBITDA is an important measure in evaluating the historical performance of the Fund. However, EBITDA is not a recognized earning measure under GAAP and does not have standardized meanings prescribed by GAAP. Accordingly, EBITDA may not be comparable to similar measures presented by other issuers. Readers of this MD&A are cautioned that EBITDA should not be construed as alternatives to net earnings or loss determined in accordance with GAAP as indicators of the Fund's performance, or cash flows from operating activities as a measure of liquidity and cash flow. The Fund defines and has computed EBITDA

as described under "Definitions of EBITDA and Distributable Cash". The following table is the calculation of net income to EBITDA:

	For the three months ended		For the six months ended	
	June 30, 2007	July 2, 2006	June 30, 2007	July 2, 2006
Net earnings	($1,884)	($2,633)	$1,031	$1,757
Add:				
Amortization	1,729	869	3,352	1,744
Foreign currency exchange gain on translation of long-term debt	(45)	-	(1,734)	-
Interest expense	1,545	151	3,149	342
Income taxes	(1,066)	(1,707)	750	1,448
EBITDA	$279	($3,320)	$6,548	$5,291

Distributable Cash

Distributable cash is not a defined term under Canadian generally accepted accounting principles, nor does it have a standard, agreed-upon meaning. Consequently, distributable cash may not be directly comparable to distributable cash reported by other income funds or similar issuers. See "Non-GAAP Measures".

The Fund declared distributions to unitholders and participating preferred shareholders for the six months ended June 30, 2007, totalling CAD$2.2 million or CAD$0.06 per Unit and participating preferred share.

Below is a reconciliation of cash flow from operating activities to distributable cash for the three and six month period ended June 30, 2007 with a comparison to the prior year period:

	For the three months ended		For the six months ended	
	June 30, 2007	July 2, 2006	June 30, 2007	July 2, 2006
Cash flow from operating activities	($198)	$3,425	($4,193)	$10,896
Add (deduct): net change in non-cash operating working capital	(633)	(5,278)	9,420	(6,155)
Cash flow	(831)	(1,853)	5,227	4,741
Principal payments on long-term debt	(6,963)	(840)	(7,523)	(1,680)
Proceeds from land sale used to pay-down long-term debt	6,885	-	6,885	-
Distributable cash	($909)	($2,693)	4,589	$3,061

Liquidity

The Fund expects to provide for adequate financing to maintain and improve its property, plant and equipment and to fund working capital needs for the foreseeable future from cash flows from operations and, as needed, from additional borrowings under its credit facilities or other long-term facilities including capital leases.

Capital resources

	Maximum	Outstanding June 30, 2007
CAD Operating Loan (i)	$10,400	$1,857
CAD Capital Loan (ii)	54,790	48,303
CAD FX Facility (iii)	-	-
US Operating Loan (iv)	5,000	-
US Capital Loan (v)	17,100	17,100
Other long-term debt	30	30

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;
(ii) a non-revolving variable rate capital loan of up to CAD$64.5 million 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, $48,303 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 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 of up to $17,575 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 two years. 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 VFLP, 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 VFLP to satisfy certain affirmative and negative covenants including a minimum debt service coverage and current ratio. In addition, VFLP will be permitted to declare and pay distributions of up to 50% of distributable income as defined therein. At June 30, 2007, VFLP was in compliance with all covenants.

As of June 30, 2007, VFLP 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's 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.

Contractual Obligations and Commitments

Information regarding the Fund's contractual obligations at June 30, 2007 is set forth in the table below:

	Total	1 year or less	2-3 years	4-5 years	More than 5 years
Long-term debt	$65,432	$3,741	$8,630	$45,461	$7,600
Capital leases	1,080	247	520	313	-
Operating leases	564	187	143	30	204
Total	$67,076	$4,175	$9,293	$45,804	$7,804

Capital Expenditures

During the six months ended June 30, 2007 the Fund's operating subsidiaries purchased approximately $1,785 in capital assets. These purchases were financed primarily from cash and capital leases.

The Fund's management, as part of its strategic initiatives to reduce future operating costs and support growth, has budgeted for the financing of capital expenditures from a combination of cash flows from operations and sale of existing assets, as appropriate.

Summary of Quarterly Results

For the three months ended:

(in thousands of U.S. dollars, except per unit amounts)	Jun 30, 2007	Mar 31, 2007	Dec 31, 2006	Oct 1, 2006	Jul 2, 2006	Apr 2, 2006	Jan 1, 2006	Oct 2, 2005
Revenue	$32,883	$24,440	$29,950	$7,815	$16,034	$30,825	$20,737	$9,053
Net earnings (loss)	(1,884)	2,914	(101)	(678)	(2,634)	4,391	1,188	(1,709)
Basic and diluted earnings (loss) per Unit	($0.05)	$0.08	$0.00	($0.03)	($0.10)	$0.17	$0.05	($0.07)

As described under "Presentation of Information", the foregoing presentation reflects the historical results of the Fund's U.S. operations, with 11 weeks of the Fund's Canadian operations included for the quarter ended December 31, 2006 and the full six months of the Fund's Canadian operations included for the quarter ended June 30, 2007. The peak production period of the Fund's Canadian operations is in the summer months, with no production

during the winter season. As a result, prices for products from the Fund's Canadian operations have historically followed a seasonal trend of higher prices at the start and end of its crop year, with lower prices in the summer months when the supply of product is greatest. Conversely, the Fund's U.S. operations year round production allows it to realize higher margins during the October through March period, when the reduced supply of greenhouse produce in North America generally results in higher produce prices. The complementary nature of the growing seasons of the Fund's Canadian and U.S. operations is expected by management of the Fund to contribute to more predictable and stable cash flows for the Fund throughout the year.

Market for Securities

The Fund’s Units are traded on the Toronto Stock Exchange under the symbol VFF.UN (previously traded under the symbol VEG.UN prior to November 1, 2006.) The following table summarizes the high and low sales prices of the Units and the trading volume for the periods indicated, as reported by the Toronto Stock Exchange.

2006	High	Low	Units traded
January	6.25	5.55	309,043
February	5.85	5.40	247,322
March	6.09	5.35	220,555
April	5.84	5.05	529,042
May	5.34	3.60	301,240
June	4.23	2.61	226,371
July	3.39	2.75	349,377
August	3.10	2.55	290,434
September	3.02	2.30	209,406
October	3.10	2.11	1,169,488
November	2.85	2.50	552,809
December	3.00	2.66	2,203,228
2007			
January	3.21	2.68	395,100
February	3.20	3.05	285,137
March	3.17	2.85	186,307
April	3.20	2.90	448,679
May	3.62	3.11	211,856
June	3.55	3.25	69,001
July	3.47	3.28	145,990
August 1st - 13th	3.28	3.12	20,195

Outlook

The Fund continues to complete cost containment initiatives which it believes have resulted from the Transaction. The majority of these synergies will be realized during those quarters which reflect sales from VFCLP, being primarily the second and third quarters of the 2007 fiscal year.

In the absence of any detrimental weather conditions negatively impacting field production, product pricing is expected to continue trending downward which is consistent with prior years. With continued improvements in production processes, crop mix, and seed varieties, it is anticipated that production yields will continue to increase.

For the 2007 year, the Fund intends to make distributions to Unitholders equal to 50% of the cash otherwise available for distribution and the remaining 50% of that cash will be used to pay down debt.

Internal Control over Financial Reporting

As of June 30, 2007, an evaluation of the design of the Fund's disclosure controls and procedures, as defined in the Multilateral Instrument 52-109 - *Certification of Disclosure in Issuers' Annual and Interim Filings* issued by the Canadian Securities Administrators, was carried out under the supervision of and with the participation of management, including the CEO and the CFO. Based on the evaluation, the CEO and the CFO concluded that these controls and procedures are effective as of such date.

Our management, including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") of VF Canada GP Inc. is responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. There was no change in the Fund's internal control over financial reporting that occurred during the period ended June 30, 2007 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Risks and Uncertainties

Product Pricing

The greenhouse vegetable industry is highly competitive and sensitive to changes in the price of greenhouse tomatoes, bell peppers and cucumbers. The price of greenhouse produce is affected by many factors including supply and demand, negotiations between buyers and sellers, quality and general economic conditions, all of which could have a material adverse effect on the financial condition of the Fund. Demand for the Fund's products is subject to fluctuations resulting from adverse changes in general economic conditions, evolving consumer preferences, nutritional and health related concerns and public reaction to food spoilage or food contamination issues. General supply of tomatoes, bell peppers and cucumbers is subject to fluctuations relating to weather, insects and plant disease. There can be no assurance that consumption will continue to increase or that present consumption levels will be maintained. If consumer demand for greenhouse produce stops growing or decreases, the Fund's financial condition and results of operations may be materially adversely affected.

Maintain Profitability

The Fund's ability to continue to generate comparable net earnings is based, in part, on its ability to maintain its low cost structure to sustain its EBITDA margins. These margins are dependent upon the Fund's ability to continue to profitably sell produce and to be the supplier of choice to its customers. The failure to develop and successfully adapt new products at favourable margins or any increase in cost of goods or operating costs could have a material adverse effect on the financial condition, results of operations, and cash available for distributions of the Fund.

Risks Inherent in the Agricultural Business

The Fund involves the growing of greenhouse produce, an agricultural product. As such, the business of the Fund is subject to the risks inherent in the agricultural business, such as weather, insects, plant diseases and similar agricultural risks. Although the Fund grows its products in climate controlled greenhouses, carefully monitors the growing conditions within its greenhouses with trained personnel and maintains insurance against such losses, there can be no assurance that natural elements will not have a material adverse effect on the production of its products.

Vulnerability to Rising Energy Costs

The Fund's greenhouse operations consume considerable energy for heat and carbon dioxide production, and are vulnerable to rising energy costs. Energy costs have shown volatility, which has and may continue to adversely impact the Fund's cost structure. Should the cost of energy continue to rise, and should the Fund face difficulties in sustaining price increases or further increasing prices to offset the impact of increasing fuel costs, gross profit margins could be adversely impacted.

Competition

The greenhouse vegetable industry in North America is highly competitive. The Fund faces competition from numerous greenhouse operators throughout North America and, to a lesser extent, Europe. Some of the Fund's competitors have strong economic resources and are well established as suppliers to the markets in which the Fund's products are sold. Accordingly, such competitors may be better able to withstand volatility within the industry and throughout the economy as a whole while retaining significantly greater operating and financial flexibility than the Fund. There can be no assurance that the Fund will be able to compete successfully against its current or future competitors or that such competition will not have a material adverse effect on the Fund's financial condition and results of operations and the amount of cash available for distribution to Unitholders.

Labour

The Fund's operations are labour intensive, particularly during peak harvest months. In Canada, most of the Fund's labour is supplied by contract labour suppliers on short term contracts. There can be no assurance that the Fund will be able to source sufficient skilled labourers in the future. In the case of the facilities in Texas, most of the Fund's labour is documented workers located in Mexico who cross the US border on a daily basis into Texas. There can be no assurance that the Fund would not be impacted by any decision relating to control of the U.S./Mexican border. Any shortage of such labour could restrict the ability of the Fund to operate its greenhouses and to distribute its product to its customers. Efforts by labour unions to organize the Fund's employees could divert management attention and increase the Fund's operating expenses. Labour unions may make attempts to organize the Fund's non-unionized employees. Management is not aware of any activities relating to union organizations at any of its greenhouse facilities. Management cannot predict which, if any, groups of employees may seek union representation in the future.

Foreign Exchange Exposure

The Fund estimates that approximately 80%-85% of its sales will be recorded in U.S. dollars, although free cash flow available for distribution by the Fund and cash distributions paid per Ordinary Unit will be denominated in Canadian dollars. Any foreign currency hedge arrangements the Fund enters into following completion of the Transaction may not protect it against any losses which may occur as a result of a fluctuation in the U.S. / Canadian dollar exchange rate. In addition, competitive pressures may significantly constrain the ability of the Fund to implement price increases to offset any reduction in Canadian dollar-reported revenues as a result of changes in exchange rates. As a result, such fluctuations may have a material adverse impact on the Fund's financial results and the amount of free cash flow available for distribution to Unitholders.

Key Executives

The Fund will depend heavily on the members of its management team and their departure could cause its operating results to suffer. The future success of the Fund will depend on, among other things, its ability to keep the services of these executives and to hire other highly qualified employees at all levels. The Fund will compete with other potential employers for employees, and it may not be successful in hiring and keeping the services of executives and other employees that it needs. The loss of the services of, or the Fund's inability to hire, executives or key employees could hinder its business operations and growth.

Risk of U.S. Taxation of Canadian Entity Under Employment Arrangements

Under the *US-Canada Income Tax Convention between Canada and the United States of America with Respect to Taxes on Income and on Capital*, a Canadian resident will be subject to U.S. income taxation with respect to the business profits of such Canadian resident attributable to a "permanent establishment" of such Canadian resident located in the United States. A Canadian resident will be treated as maintaining a permanent establishment ("PE") in the United States if, among other situations, an agent of the Canadian resident (other than an independent agent acting in the ordinary course of its business) has, and habitually exercises in the United States, authority to conclude contracts in the name of the Canadian resident.

While the employment agreements between the VF Owners and VF Canada GP and VFLP, respectively, have been structured in a manner to prevent VF Canada GP from maintaining a PE in the United States, the Internal Revenue Service ("IRS") or another U.S. taxing authority may take a contrary position. If the IRS or another U.S. taxing authority were to successfully challenge the employment structure, the income of VF Canada GP would be subject to United States income tax to the extent such income was attributable to the U.S. PE. The consequence of such taxation would be a reduction in the cash available to VF Canada GP for distributions and ultimately a reduction in the distributable cash of the Fund available for distributions to Unitholders.

Transfer Pricing

Pursuant to an annual sales agreement, VF Canada GP has agreed to sell all of its excess inventory to VFLP for resale in the United States. VF Canada GP and VFLP intend to take the position that the amounts charged by VF Canada GP for such inventory represents the fair market value of the goods sold. The IRS or another U.S. taxing authority may, however, challenge the pricing as being in excess of fair market value. If the IRS or another taxing authority were successful in challenging the pricing, VFLP's U.S. taxable income would be increased to reflect the lowered price of goods sold. The consequence of the additional tax payable on this income would be a reduction in the cash available to VFLP for distributions and ultimately a reduction in the distributable cash of the Fund available for distributions to Unitholders.

Uninsured and Underinsured Losses

The Declaration of Trust requires that the Fund obtain and maintain at all times insurance coverage in respect of potential liabilities of the Fund and the accidental loss of value of the assets of the Fund from risks, in those amounts, with those insurers, and on those terms as the Trustees consider appropriate, taking into account all relevant factors including the practices of owners of similar assets and operations.

Management believes that the insurance coverage that is maintained by the Fund, in the form of comprehensive property and casualty insurance, is with coverages and amounts at a prudent level to repair or replace any assets physically damaged or destroyed, including coverage for resultant business interruption losses or extra expenses sustained, and to cover in respect of claims for bodily injury or property damage arising out of assets or operations. However, not all risks are covered by insurance, and no assurance can be given that insurance will be consistently available or will be consistently available on an economically feasible basis or that the amounts of insurance will at all times be sufficient to cover each and every loss or claim that may occur involving the assets or operations of the Fund. In particular, damage caused by an accidental or natural disaster to any or all of the Fund's key production facilities may result in significant costs of replacement and loss of business that may not be fully recoverable under any insurance policy.

Governmental Regulations

The Fund's operations are governed by a broad range of federal, state, provincial and local environmental, health and safety laws and regulations, permits, approvals, common law and other requirements that impose obligations relating to, among other things: worker health and safety; the release of substances into the natural environment; the production, processing, preparation, handling, storage, transportation, disposal, and management of substances (including liquid and solid, non-hazardous and hazardous wastes and hazardous materials); and the prevention and remediation of environmental impacts such as the contamination of soil and water (including groundwater). Failure by the Fund to comply with applicable laws, rules, regulations and policies may subject the Fund to civil or regulatory proceedings, including fines, injunctions, administrative orders or seizures, which may have a material adverse effect on the Fund's financial condition and results of operations. Also, as a result of the above requirements, the Fund's operations and ownership, management and control of property carry an inherent risk of environmental liability (including potential civil actions, compliance or remediation orders, fines and other penalties), including with respect to the disposal of waste and the ownership, management, control or use of transport vehicles and real estate. Compliance with all such laws and future changes to them is material to the Fund. The Fund has incurred and will continue to incur, significant capital and operating expenditures to comply with such laws. Future discovery of previously unknown environmental issues, including contamination of property underlying or in the vicinity of the Fund's present or former properties or manufacturing facilities, could

require the Fund to incur material unforeseen expenses. All of these risks and related potential expenses may have a material adverse effect on the Fund's financial condition and results of operations.

Risks Associated with Cross Border Trade

Approximately 80-85% of Canadian product by sales value is exported to the U.S. Markets in the U.S. and other countries may be affected from time to time by trade rulings and the imposition of customs, duties and other tariffs. There can be no assurance that the Fund's financial condition and results of operations will not be materially adversely affected by trade rulings and the imposition of customs duties or other tariffs in the future. Furthermore, there is no assurance that further trade actions will not be initiated by U.S. producers of greenhouse or field grown vegetables. In addition, increased security at the U.S.-Canada border since September 11, 2001 has caused greater delays when crossing the border. Any prolonged disruption in the flow of Village Farms' product across the U.S.-Canada border could have an adverse effect on the Fund's financial condition and results of operations.

Growth

The Fund may not be able to successfully manage its growth. The Fund's growth strategy will place significant demands on its financial, operational and management resources. In order to continue its growth, it will need to add administrative, management and other personnel, and make additional investments in operations and systems. The Fund may not be able to find and train qualified personnel, or do so on a timely basis, or expand its operations and systems to the extent, and in the time required.

Control of the Fund

Pursuant to the Fund's governance arrangements, following the completion of the Transaction, the Class A Unitholder of the Fund, at the direction of the designated directors who are appointed by the VF Owners, will be entitled to designate one of the four members of the board of Trustees (the "Designated Trustee") so long as the VF Owners hold the Threshold Equity Interest (as defined in the amended and restated governance agreement). The Designated Trustee will also be entitled to designate three of the seven members of the board of directors of VF Canada GP so long as the VF Owners hold an equity interest in the Fund of at least 30% of the outstanding Units (fully-diluted), including Units that may be acquired upon exercise of the exchange rights associated with the participating preferred shares. The number of members of the respective boards that may be designated by the Class A Unitholder will decrease as the VF Owners' direct or indirect ownership of Units (calculated in accordance with the foregoing sentence) falls below specified levels.

As a result of its board representation rights, the Class A Unitholder will be able to influence the outcome of matters submitted to the boards of the Fund, HHGI and VF Canada GP for approval. So long as the Class A Unitholder is entitled to appoint the Designated Trustee, certain specified matters relating to the Fund, HHGI, VF Canada GP and the Fund's other subsidiary entities must be approved by the Designated Trustee and by over 50% of the directors of VF Canada GP appointed by the Designated Trustee, which will allow the VF Owners to influence the actions of the Fund, HHGI and the Fund's other subsidiary entities with respect to those specified matters. In addition, the Class A Unitholder will have approval rights respecting certain amendments to the constating documents of the Fund, HHGI and the Fund's other subsidiary entities.

Accounting Estimates

The Fund will be required to make accounting estimates and judgments in the ordinary course of business. Such accounting estimates and judgments the Fund must make in the ordinary course of business will affect the reported amounts of its assets and liabilities at the date of the financial statements and the reported amounts of its operating results during the periods presented. Additionally, the Fund will be required to interpret the accounting rules in existence as of the date of the financial statements when the accounting rules are not specific to a particular event or transaction. If the underlying estimates are ultimately proven to be incorrect, or if auditors or regulators subsequently interpret the Fund's application of accounting rules differently, subsequent adjustments could have a material adverse effect on its operating results for the period or periods in which the change is

identified. Additionally, subsequent adjustments could require the Fund to restate its financial statements. A restatement of the Fund's financial statements could result in a material change in the price of the Units.

Retail Consolidation

The Fund's top ten customers in the United States accounted for approximately 56% of its total revenue for fiscal year 2006. As a result of continuing retail consolidation, the Fund's retail customers grow larger and become more sophisticated enabling them to demand lower pricing and increased promotional programs. If the Fund is unable to use its scale, marketing expertise and market leadership position to respond to these trends, it may have a material adverse effect on its financial condition and results of operations.

Product Liability

As a producer of food products, the Fund is subject to potential product liabilities connected with its operations and the marketing and distribution of vegetable products, including liabilities and expenses associated with contaminated or unsafe product. There can be no assurance that the insurance against all such potential liabilities maintained by the Fund will always be adequate. In addition, even if a product liability claim was not successful or was not fully pursued, the negative publicity surrounding any such assertion could harm the Fund's reputation with its customers. The consequences of any of the foregoing events may have a material adverse effect on the Fund's financial condition and results of operations.

Technological Advances

It is possible that more economical or efficient greenhouse production technology than what is currently used by the Fund will be developed, thereby potentially adversely affecting the Fund's competitive position.

Transportation Disruptions

Due to the perishable and premium nature of the Fund's products, the Fund depends on fast and efficient road transportation to distribute its product. Any prolonged disruption of this transportation network could have an adverse effect on the Fund's financial condition and results of operations.

Restrictions on Potential Growth

The payout by the Fund of substantially all of its operating cash flow will make additional capital and operating expenditures dependent on increased cash flow or additional financing in the future. Lack of those funds could limit the future growth of the Fund and its cash flow.

Future Sales of Units by or on Behalf of the VF Owners

Following the completion of the Transaction, the VF Owners hold in aggregate 256,200 participating preferred shares representing approximately 66.3% of the Units of the Fund (on a fully-diluted basis) which can be exchanged for freely tradeable Units or the cash equivalent as follows: (i) one third after six months; (ii) an additional one third after 12 months; and (iii) the remaining one third after 24 months, thereby causing the issuance of additional Units. The VF Owners have also been granted certain registration rights by the Fund. If substantial amounts of Units are sold by or at the request of the VF Owners in the public market, the market price of the Units could fall. The perception among the public that these sales will occur could also produce such an effect.

Price Fluctuation

Units of publicly traded income funds do not necessarily trade at values determined solely by reference to the underlying value of their assets. One of the factors that may influence the market price of the Units is the annual yield of the Units. An increase in market interest rates may lead purchasers of Units to demand a higher annual yield and thus could adversely affect the market price of the Units. In addition, the market price of the Units may

be affected by changes in general market conditions, fluctuations in the market for equity or debt securities and numerous other factors outside the Fund's control.

Leverage, Restrictive Covenants and Capital Requirements

The ability of the Fund to make distributions, pay dividends or make other payments or advances is subject to applicable laws and contractual restrictions contained in the instruments governing any indebtedness of the Fund. The degree to which the Fund is leveraged could have important consequences to the Unitholders including: the Fund's ability to obtain additional financing for working capital, capital expenditures or acquisitions in the future may be limited; a significant portion of the Fund's cash flow from operations may be dedicated to the payment of the principal of and interest on its indebtedness, thereby reducing funds available for future operations; certain of the Fund's borrowings are at variable rates of interests, which exposes the Fund to the risk of increased interest rates; and the Fund may be more vulnerable to economic downturns and be limited in its ability to withstand competitor pressures. These factors may increase the sensitivity of distributable cash to interest rate variations. The credit facilities contain numerous restrictive covenants that limit the discretion of the Fund's management with respect to certain business matters. These covenants place significant restrictions on, among other things, the ability of the Fund to create liens or other encumbrances, to pay distributions or make certain other payments, investments, loans and guarantees and to sell or otherwise dispose of assets and merge or consolidate with another entity. In addition, the credit facility contains a number of financial covenants that require the Fund to meet certain financial ratios and financial condition tests. A failure to comply with the obligations in the credit facility could result in a default which, if not cured or waived, could result in a termination of distributions by the Fund and permit acceleration of the relevant indebtedness. If the indebtedness under the credit facility were to be accelerated, there can be no assurance that the assets of the Fund would be sufficient to repay in full that indebtedness. There can be no assurance that future borrowings or equity financing will be available to the Fund, or available on acceptable terms, in an amount sufficient to fund the Funds needs.

The ability of the Fund to pay distributions or make other payments or advances (which will support distributions on the Units to be paid by the Fund) will be subject to applicable laws and contractual restrictions contained in the instruments governing the indebtedness of those entities (including the credit facilities). The degree to which the Fund is leveraged could have important consequences to the Unitholders including: the Fund's ability to obtain additional financing for working capital, capital expenditures or acquisitions in the future may be limited; a significant portion of the Fund's cash flow from operations may be dedicated to the payment of the principal of and interest on its indebtedness, thereby reducing funds available for future operations; certain of the Funds borrowings will be subject to variable rates of interest, which will expose the Fund to the risk of increased interest rates; and the Fund may be more vulnerable to economic downturns and be limited in its ability to withstand competitor pressures. These factors may increase the sensitivity of distributable cash to interest rate variations. The ability of the Fund to remain competitive, sustain its growth and expand its operations will require large amounts of cash. The Fund expects to obtain this cash from its operating cash flow, and borrowings under available credit facilities. However, the Fund may require additional equity or debt financing to fund its growth and debt repayment obligations.

If the Fund undertakes acquisitions or expands its operations, its capital expenditures may increase. The increase in expenditures may reduce the Fund's working capital and require it to finance working capital deficits. These factors, together with those discussed above, could substantially increase the Funds operating costs and therefore impair its ability to invest in its existing or new facilities. The Fund may need to refinance its available credit facilities or other debt and there can be no assurance that the Fund will be able to do so or be able to do so on terms as favourable as those presently in place. If the Fund is unable to refinance these credit facilities or other debt, or is only able to refinance these credit facilities or other debt on less favourable and/or more restrictive terms, this may have a material adverse effect on the Fund's financial position, which may result in a reduction or suspension of cash distributions to Unitholders. In addition, the terms of any new credit facility or debt may be less favourable or more restrictive than the terms of the existing credit facilities or other debt, which may indirectly limit or negatively impact the ability of the Fund to pay cash distributions.

Income Tax – Canada

On June 22, 2007, new tax rules regarding the taxation of publicly traded trusts (including income trusts such as the Fund) and partnerships (other than certain land estate investment trusts) were enacted (the "SIFT Rules"). Under the SIFT Rules, certain income earned by a publicly traded trust or partnership to which the SIFT Rules apply is taxed in a manner similar to income earned by a corporation and distributions or allocations, as the case may be, of such income made by these entities to investors is taxed in a manner similar to dividends from taxable Canadian corporations. The deemed dividend is eligible for the enhanced dividend tax credit if paid or allocated to a resident of Canada. The SIFT Rules are effective for the 2007 taxation year for trusts and partnerships that commence public trading after October 31, 2006, but will generally be delayed until the 2011 taxation year for trusts and partnerships that were publicly traded prior to November 1, 2006, provided that certain restrictions regarding undue expansion are complied with. The SIFT Rules are not expected to have an immediate impact on the Fund's tax treatment or distribution policy or the tax treatment of distributions, if any, by the Fund to investors.

The trading market and price for the Units may be adversely affected by the SIFT Rules and subject to continuing volatility in response to the SIFT Rules or governmental actions affecting income trusts.

Income Tax Matters – United States

The Fund has taken the position that the corporate inversion rules of Section 7874 of the Code did not apply to the Transaction. However, there can be no assurance that the IRS will not assert that the Transaction constitutes an inversion subject to these rules. If the IRS were to successfully assert that these corporate inversion rules do apply to the Transaction, adverse U.S. federal income tax consequences to the Fund could result. In particular, the application of these rules could cause an increase in U.S. federal income taxes payable by the Fund's U.S. entities or the Fund, and thereby reduce after-tax cash flow available for distribution to the Unitholders.

The corporate inversion rules of section 7874 of the Code generally will apply to the acquisition of a U.S. corporation by a foreign corporation if the following three conditions are satisfied: (a) the foreign corporation acquires, directly or indirectly, substantially all of the properties held, directly or indirectly, by the U.S. corporation; (b) following the acquisition, the foreign corporation, together with all members of the foreign corporation's "expanded affiliated group" (generally defined as all corporations, whether foreign or U.S., connected to the foreign corporation by a chain of more than 50% common ownership, based on vote and value), does not conduct substantial business activities in the country in which the foreign corporation is organized when compared to the total worldwide business activities of the foreign corporation and all members of the foreign corporation's expanded affiliated group; and (c) following the acquisition, the former shareholders of the U.S. corporation own at least 60%, by vote or value, of the stock of the foreign corporation (by reason of holding stock of the U.S. corporation). Recently issued Treasury Regulations provide a facts and circumstances test and a safe harbor test to determine whether the foreign corporation's expanded affiliated group has substantial business activities in the acquiring foreign corporation's country of formation compared with the total business activities of such expanded affiliated group.

If, after the inversion transaction, the former shareholders of the U.S. corporation own 60% or more of the new foreign parent corporation, but less than 80% of the shares of the new foreign parent corporation, section 7874 of the Code generally limits the use of certain favourable tax attributes (e.g., net operating losses and foreign tax credits) by the U.S. corporation that is acquired. Specifically, these favourable tax attributes may not be used to offset income or gain recognized by the U.S. corporation from any transfer, within 10 years after the inversion, of stock or other property (excluding inventory), if such transfer either (a) occurs as part of the inversion or (b) occurs after the inversion and is to a "foreign related person" (as defined in section 7874(d)(3) of the Code). In addition, these favourable tax attributes may not be used to offset income received or accrued by the U.S. corporation within 10 years after the inversion from the license of any property, if such license either (a) occurs as part of the inversion or (b) occurs after the inversion and is to a "foreign related person".

If, after the inversion transaction, the former shareholders of the U.S. corporation own 80% or more of the new foreign parent corporation, the new foreign parent corporation is treated as a U.S. corporation for U.S. federal

income tax purposes. The new foreign parent corporation would be required to file U.S. federal income tax returns and would be subject to U.S. federal income taxes. The Fund believes that section 7874 of the Code did not apply to the Fund. However, should the IRS successfully argue that it does apply, then the VF Owners, would be treated as holding more than 60% but less than 80% of the units of the Fund as a result of the Transaction.

Potential U.S. Permanent Establishment of VF Canada, VFCLP, and VFOT

Under the U.S.-Canada Income Tax Convention Between Canada and the United States of America with Respect to Taxes on Income and on Capital, signed September 26, 1980, as amended, a Canadian resident generally will be deemed to maintain a U.S. "permanent establishment" if an agent of the Canadian resident acting within the U.S. (other than an agent of independent status acting in the ordinary course of its business) has, and habitually exercises in the U.S., authority to conclude contracts in the name of the Canadian resident.

Due to the presence of certain employees of VF Canada in the U.S., VF Canada, VFCLP, and VFOT may be deemed to maintain a U.S. permanent establishment. In the event that such a U.S. permanent establishment does exist, VF Canada, VFCLP, and VFOT generally will be required to file U.S. federal income tax returns and will be subject to U.S. federal income tax with respect to the business profits allocable to such permanent establishment.

Financial and Other Instruments

Village Farms uses financial and other instruments to control costs and to bring a measure of certainty to some costs that can vary. In the past year, forward contracts for natural gas were utilized to bring certainty to the cost of this supply, as well as an interest rate swap to lower the effective interest cost. Associated with these instruments is the risk that the price or rate obtained through the instrument will be higher than the price or rate at any particular point in time. These risks are managed by obtaining and acting upon professional advice regarding the instrument in question; however, inherent with the use of these instruments is the risk that losses will occur. Gains and losses arising from the periodic translation of financial instruments, including the interest rate swap and foreign currency forward contracts, are recorded as such in the consolidated statement of operations of the Fund. The commodity purchase contracts are carried at cost less accumulated amortization and are reviewed for impairment if conditions indicate that impairment might exist. The critical assumptions used in the impairment tests are a comparison of forward commodity prices at the time of the impairment test relative to the price prevailing in each contract.

Off-Balance Sheet Arrangements

The Fund does not have any off-balance sheet arrangements.

Critical Accounting Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. The Fund's most significant estimates are inventory valuation, accounts receivable allowance for doubtful accounts and the assessment of the useful lives and recoverable values of its long-lived assets. Actual results could differ materially from those estimates.

Changes in Accounting Policies

The Fund utilizes Canadian generally accepted accounting principles in preparation of these consolidated financial statements.

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.

Fiscal period

Effective January 1, 2007, the Fund and all of its subsidiaries will operate under a calendar fiscal year with a year-end date of December 31 of each year.

The 2006 fiscal period for APDI was thirteen weeks which ended on April 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.

Forward-looking Statements

Certain statements contained in this MD&A constitute "forward-looking statements". When used herein, the words "may", "would", "could", "will", "intend", "should", "expect", "plan", "anticipate", "believe", "estimate", "predict", "potential", "continue" and similar expressions are intended to identify forward-looking statements. Such statements involve known and unknown risks, uncertainties and other factors that could cause actual results or events to differ materially from those anticipated in such forward-looking statements. Although the forward-looking statements contained in this MD&A are based upon what management of Village Farms believe to be reasonable assumptions, prospective investors cannot be assured that actual results will be consistent with these forward-looking statements. In evaluating these forward-looking statements, prospective investors should specifically consider various factors, including, but not limited to, the risks and uncertainties discussed under "Risks and Uncertainties" and elsewhere in this MD&A. These forward-looking statements are made as of the date of this MD&A. The Fund assumes no responsibility for the accuracy and completeness of the forward-looking statements and undertakes no obligation, except as required under applicable law, to publicly update or revise any forward-looking statements.

Public Securities Filings

The Fund's 2006 annual financial statements, annual information form and other public documents are available through the Canadian Securities Administrators' System for Electronic Document Analysis and Retrieval (SEDAR) website at www.sedar.com.