

Village Farms Income Fund

(formerly Hot House Growers Income Fund)

Annual Consolidated Financial Statements

Year Ended

December 31, 2006

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INDEPENDENT AUDITORS' REPORT

To the Unitholders of Village Farms Income Fund

We have audited the consolidated balance sheet of **Village Farms Income Fund** (formerly Hot House Growers Income Fund) as at December 31, 2006 and the consolidated statement of earnings, accumulated earnings and cash flows for the year then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The consolidated financial statements as at and for the year ended January 1, 2006, prior to the adjustment for the correction in future income taxes as described in note 3, were audited by other auditors who expressed an opinion without reservation on those consolidated financial statements in their report dated February 10, 2006. We have audited the adjustments to the January 1, 2006 consolidated financial statements and in our opinion, such adjustments, in all material respects, are appropriate and have been properly applied.

/s/ PricewaterhouseCoopers LLP

Chartered Accountants

Vancouver, Canada
April 2, 2007

Village Farms Income Fund
Consolidated Balance Sheets
(In thousands of Canadian dollars)

Assets	<u>December 31, 2006</u> (note 1)	<u>January 1, 2006</u> (Restated - note 3) (note 1)
Current assets:		
Cash and cash equivalents	\$8,507	\$1,142
Marketable securities (note 4)	-	7,539
Accounts receivable	10,016	11,975
Other receivables	1,352	419
Inventories	12,924	8,524
Assets held for sale (note 6)	3,000	-
Prepays and deposits	476	1,215
Future income taxes (note 11)	308	252
	36,583	31,066
Property, plant and equipment (note 5)	90,962	31,227
Intangible assets (note 7)	4,754	-
Other assets	1,223	319
Total assets	\$133,522	\$62,612
 Liabilities and unitholders' equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$13,446	\$7,526
Related party payable (note 9)	2,589	-
Current maturities of long-term debt (note 8)	3,083	3,908
Current obligations under capital leases (note 10)	295	24
Total current liabilities	19,413	11,458
Long-term debt (note 8)	81,945	19,142
Obligations under capital leases (note 10)	1,244	162
Future income taxes (note 11)	3,323	2,722
Total liabilities	105,925	33,484
Non-controlling interest (note 12)	4,206	-
Unitholders' equity:		
Trust units (note 16)	23,521	-
Common stock	-	1
Contributed Surplus	-	11,045
Accumulated earnings	(130)	26,333
Treasury stock	-	(8,251)
Total unitholders' equity	23,391	29,128
Total liabilities and unitholders' equity	\$133,522	\$62,612
Commitments and contingencies (note 15)		
Subsequent event (note 8)		

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
Consolidated Statements of Accumulated Earnings
For the Years Ended
(In thousands of Canadian dollars)

	<u>December 31, 2006</u> (note 1)	<u>January 1, 2006</u> (Restated - note 3) (note 1)
Accumulated earnings - Beginning of year	\$26,333	\$21,826
Earnings for the year	1,208	4,507
Dividends declared to VF Owners (note 2)	(32,492)	-
Adjustment on reverse takeover accounting	4,821	-
Accumulated earnings - End of year	<u><u>(\$130)</u></u>	<u><u>\$26,333</u></u>

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

Village Farms Income Fund
Consolidated Statements of Earnings
For the Years Ended

(In thousands of Canadian dollars, except for units outstanding and per unit/share amounts)

	<u>December 31, 2006</u>	<u>January 1, 2006</u>
	(note 1)	(note 1)
Net sales	\$95,937	\$88,950
Cost of sales	79,582	72,641
Gross profit	<u>16,355</u>	<u>16,309</u>
Selling, general and administrative expenses	9,664	8,259
Interest, net	1,567	1,071
Foreign exchange loss	1,189	-
Amortization of intangible assets	328	-
Other, net	164	(204)
Earnings before income taxes	<u>3,443</u>	<u>7,183</u>
Provision for income taxes (note 11)	2,235	2,676
Net earnings	<u>1,208</u>	<u>4,507</u>
Net income per Unit/share-basic	<u>\$0.04</u>	<u>\$0.18</u>
Weighted average number of Units/shares outstanding-basic	<u>27,185,470</u>	<u>25,652,000</u>
Net income per Unit/share-diluted	<u>\$0.04</u>	<u>\$0.18</u>
Weighted average number of Units/shares outstanding-diluted	<u>27,663,538</u>	<u>25,652,000</u>

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

Village Farms Income Fund
Consolidated Statements of Cash Flows
For the Years Ended
(In thousands of Canadian dollars)

	<u>December 31, 2006</u>	<u>January 1, 2006</u>
	(note 1)	(note 1)
Cash flows from operating activities:		
Net earnings	\$1,208	\$4,507
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,739	4,170
Loss on sale of marketable securities	173	81
Future income taxes	1,956	2,277
Changes in non-cash working capital (net of effects of acquisition - note 2)	5,492	(831)
Net cash provided by operating activities	<u>13,568</u>	<u>10,204</u>
Cash flows from investing activities:		
Purchases of available for sale securities	(304)	(13,914)
Proceeds from sales of available for sale securities	7,815	11,425
Purchases of property, plant and equipment	(4,431)	(3,317)
Proceeds from sale of property, plant and equipment	-	310
Capitalized transaction cost	(541)	-
Net cash provided by (used in) investing activities	<u>2,539</u>	<u>(5,496)</u>
Cash flows from financing activities:		
Payments on short-term debt	(6,406)	-
Proceeds from (payments on) long-term debt	18,010	(4,062)
Payments on obligations under capital leases	(75)	(23)
Cash payments to APDI shareholders (note 2)	(29,903)	-
Change in restricted cash	-	3,204
Purchases of treasury stock	-	(8,578)
Net proceeds from Rights Offering and private placement of Subscription Receipts	9,467	-
Other	165	-
Net cash used in financing activities	<u>(8,742)</u>	<u>(9,459)</u>
Effect of foreign currency translation	<u>-</u>	<u>(47)</u>
Net increase (decrease) in cash and cash equivalents	7,365	(4,798)
Cash and cash equivalents beginning of year	1,142	5,940
Cash and cash equivalents end of year	<u>\$8,507</u>	<u>\$1,142</u>
Supplemental cash flow information:		
Interest paid	<u>\$1,963</u>	<u>\$1,483</u>
Income taxes paid	<u>\$294</u>	<u>\$383</u>

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

VILLAGE FARMS INCOME FUND
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006

(in thousands of Canadian dollars, except per Unit/share amounts)

1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

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 December 31, 2006 are Village Farms Canada Limited Partnership ("VFCLP") and Village Farms, L.P. ("VFLP"). Prior to the October 18, 2006 acquisition (note 2), 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. For the 2006 crop year, VFCLP marketed its production through B.C. Hot House Foods Inc.

Effective November 1, 2006, the Units of the Fund commenced trading on the Toronto Stock Exchange under the symbol VFF.UN. The Units had previously traded under the symbol VEG.UN.

2. 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 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), 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), (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's") 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's 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's 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 Acquisition Agreement for consideration of \$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 \$10 million less the cash paid, calculated based on a price of \$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 \$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 (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

VILLAGE FARMS INCOME FUND
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(in thousands of Canadian dollars, except per Unit/share amounts)

fully-diluted basis as at December 31, 2006. 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 \$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 \$20 million of which \$5 million was used to pay down the CAD Operating Loan (as defined below) (note 8). 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.

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:

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>

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

Accounts receivable	\$9,583
Inventories	1,890
Prepaid expenses and deposits	387
Property, plant and equipment	59,079
Assets held for sale	3,000
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\$1,000 from the Fund to reimburse professional fees incurred during the acquisition process.

VILLAGE FARMS INCOME FUND
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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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.

3. SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Fund and its wholly owned subsidiaries after elimination of inter-company transactions and balances, and are prepared in accordance with Canadian generally accepted accounting principles.

Fiscal Year

The fiscal year of the Fund ends on December 31. The fiscal year for VFLP is a 52-week or 53-week period ending on the Sunday nearest December 31 of each year. The 2006 and 2005 fiscal years for VFLP were 52 weeks.

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.

Use of 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.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on deposit and highly liquid short-term interest bearing securities with maturities at the date of purchase of three months or less.

Marketable Securities

Marketable securities are carried in the consolidated financial statements at fair value. Changes in value and realized gains and losses are included in net income.

Accounts Receivable

Accounts receivable are due within contractual payment terms and are stated at amounts due from customers net of an allowance for doubtful accounts. Credit is extended based on evaluation of a customer's financial condition. Accounts outstanding longer than the contractual payment terms are considered past due. The Fund determines its allowance by considering a number of factors, including the length of time trade accounts receivable are past due, the Fund's previous loss history and the customer's current ability to pay its obligation to the Fund. The Fund writes off accounts receivable

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(in thousands of Canadian dollars, except per Unit/share amounts)

when they become uncollectible, and payments subsequently received on such receivables are credited to the bad debt expense.

Inventories

Inventories of Fund-grown produce consist of raw materials, labor and overhead costs incurred less costs charged to cost of sales throughout the various crop cycles, which end at various times throughout the year. Growing crops are valued at the lower of cost or net realizable value. Cost of sales is based upon incurred and estimated costs to be incurred of each crop allocated to both actual and estimated future yields over each crop cycle. The cost of produce inventory purchased from third parties is valued at the lower of cost or net realizable value.

Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated amortization. Amortization is calculated using the straight-line method over the estimated useful life of the respective class of assets as follows:

<u>Classification</u>	<u>Estimated Useful Life</u>
Leasehold and land improvements	5-20 years
Greenhouses and buildings	12-30 years
Greenhouse equipment	5-30 years
Machinery and equipment	3-10 years

Leasehold and land improvements and assets held under capital leases are amortized on a straight-line basis over the shorter of the term of the lease or their estimated useful lives. Repairs and maintenance costs as well as other minor purchases are expensed as incurred. Construction in progress reflects the cost of assets under construction, which are not amortized until placed into service.

Management reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of the asset may not be fully recoverable. Recoverability of an asset "held-for-use" is determined by comparing the carrying value of the asset to the future undiscounted net cash flows expected to be generated from use of the asset. If the asset is considered to be impaired, the impairment to be recognized is measured by the amount that the carrying value of the asset exceeds the fair value of the asset. When management has committed to dispose of a long-lived asset, the asset identified for disposal is classified as "held-for-sale" and recorded at the lower of its carrying and fair value, and is no longer amortized.

Intangible Assets

Intangible assets consist of two energy supply agreements and are recorded at cost less accumulated amortization. Amortization is provided for on a straight-line basis over the life of the related contract. Management reviews the carrying value of intangible assets for impairment whenever events or changes in circumstances indicate that their carrying value may not be recoverable. Recoverability of intangible assets is determined by comparing the carrying value of the asset to the future undiscounted net cash flows expected to be generated from use of the asset. An impairment loss is recorded when it is determined that the carrying amount of these assets is not recoverable and exceeds their fair value.

Foreign Currency Translation

The Fund's United States operations are considered to be self-sustaining foreign operations and accordingly have been translated to Canadian dollars using the current exchange rate for the consolidated balance sheets and the average exchange rate for the period for the consolidated statements of earnings. Gains or losses resulting from the translation adjustments are deferred and recorded as a separate component of unitholders' equity. The consolidated balance sheets represent the Canadian dollar equivalents of the amounts in the consolidated financial statements of VFLP presented in United States dollars, converted at a rate of CAD\$1.165 to US\$1 as at December 31, 2006 and CAD\$1.163 to US\$1 as at January 1, 2006. The amounts in the consolidated statements of earnings and cash flows for the years ended December 31, 2006 and January 1, 2006 represent the Canadian dollar equivalents of amounts reported by VFLP converted at an average rate of CAD\$1.134 to US\$1 and CAD\$1.209 to US\$1, respectively.

VILLAGE FARMS INCOME FUND
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(in thousands of Canadian dollars, except per Unit/share amounts)

Deferred Financing Costs

Financing costs incurred to obtain long-term debt and other bank credit facilities are deferred and amortized on a straight-line basis over the term of the related debt.

Revenue Recognition

Revenue from produce sales is recognized when the product is delivered and title and risk of loss have passed to the customer, provided collectibility is reasonably assured. Net sales have been reduced by product returns and sales allowances.

Income Taxes

The Fund qualifies as a mutual fund trust under the Income Tax Act (Canada). The Fund is only taxable on income not allocated to unitholders. VFCLP and VFLP follow the asset and liability method, under which future tax assets and liabilities are recognized for the future tax consequences attributable to differences between financial statement carrying amounts of existing assets and liabilities and their respective tax bases using substantively enacted tax rates. Future tax assets are reduced by a valuation allowance when it is more likely than not that some portion or all of the future tax asset will not be realized.

On October 31, 2006, the Minister of Finance (Canada) announced tax proposals pertaining to the taxation of income distributed by publicly listed income trusts and the tax treatment of the trust distributions to their unitholders. Currently, the Fund does not pay tax on income it distributes to its unitholders. If enacted, the proposals would apply to the Fund effective January 1, 2011 and would result in the Fund income being subject to a tax at the trust level.

In addition, if the proposals are enacted as announced, it would result in the Fund accounting for future income taxes under the asset and liability method, whereby future income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of the existing assets and liabilities and their respective tax bases. Future income tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the substantive enactment date. Future tax assets would be recorded in the consolidated financial statements to the extent that realization of such benefits is more likely than not.

Derivative Financial Instruments

The Fund uses forward foreign exchange contracts and interest rate swaps to manage its exposure to fluctuating exchange rates and interest rates. The Fund does not designate and formally document these contracts as hedges at their inception. Accordingly, changes in the fair market value of foreign exchange and interest rate swap contracts are included in the consolidated statements of earnings as unrealized gains and losses in the period in which they occur.

Prior Year Restatement

The consolidated balance sheet as at January 1, 2006 and the statement of accumulated earnings have been restated. A valuation allowance of \$1,983 has been recorded against the United States federal deferred tax asset due to an incorrect calculation of the net operating loss carryforward in the 2001 fiscal year.

VILLAGE FARMS INCOME FUND
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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(in thousands of Canadian dollars, except per Unit/share amounts)

The effect of these adjustments as at January 1, 2006 and for the year then ended was as follows:

	<u>As restated</u>	<u>As Previously Reported</u>
Total assets	\$62,612	\$63,559
Total liabilities	\$33,484	\$32,448
Shareholders' equity	\$29,128	\$31,111

4. MARKETABLE SECURITIES

Cost and fair value of marketable securities at December 31, 2006 and January 1, 2006 are as follows:

	<u>December 31, 2006</u>	<u>January 1, 2006</u>
Cost	\$-	\$7,683
Gross unrealized losses	-	144
Total	<u>\$-</u>	<u>\$7,539</u>

The Fund's marketable securities consisted of investments in mutual funds which were carried in the financial statements at fair value. Unrealized holding losses on marketable securities were in the amount of \$144 for the year ended January 1, 2006. During 2006, VFLP sold all of these investments.

A summary of investment earnings recognized in other expenses, net in the consolidated statements of earnings is as follows:

	<u>December 31, 2006</u>	<u>January 1, 2006</u>
Realized losses on sale of marketable securities	(\$168)	(\$81)
Dividends	296	494
Total	<u>\$128</u>	<u>\$413</u>

VILLAGE FARMS INCOME FUND
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(in thousands of Canadian dollars, except per Unit/share amounts)

5. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consists of the following:

	<u>December 31, 2006</u>	<u>January 1, 2006</u>
Cost		
Land	\$6,200	\$2,120
Leasehold and land improvements	1,761	1,758
Greenhouses and buildings	69,041	32,871
Greenhouse equipment	27,993	9,372
Machinery and equipment	3,164	1,110
Construction in progress	2,837	186
	<u>110,996</u>	<u>47,417</u>
Accumulated amortization		
Leasehold and land improvements	801	643
Greenhouses and buildings	11,679	9,167
Greenhouse equipment	6,849	5,876
Machinery and equipment	705	504
	<u>20,034</u>	<u>16,190</u>
Net book value		
Land	6,200	2,120
Leasehold and land improvements	960	1,115
Greenhouses and buildings	57,364	23,704
Greenhouse equipment	21,041	3,496
Machinery and equipment	2,458	606
Construction in progress	2,939	186
	<u>\$90,962</u>	<u>\$31,227</u>

Capital lease assets of \$1,320 and \$0 and accumulated amortization on these assets of \$53 and \$0 are included within greenhouse equipment.

Amortization related to the greenhouse facilities is expensed in Cost of sales.

6. ASSETS HELD FOR SALE

The Fund ceased operations at its facility in Pitt Meadows, British Columbia at the conclusion of the 2006 growing season. The greenhouse has been disassembled and the Fund is currently marketing the 17 acres of land where the greenhouse previously resided. Assets being held for sale are no longer being amortized.

VILLAGE FARMS INCOME FUND
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(in thousands of Canadian dollars, except per Unit/share amounts)

7. INTANGIBLE ASSETS

The following assets were acquired in conjunction with the Transaction (note 2):

	<u>December 31, 2006</u>	<u>January 1, 2006</u>
Cost		
Natural gas forward purchase agreement (a)	\$3,060	\$-
Thermal energy supply agreement (b)	<u>2,021</u>	<u>-</u>
	5,081	-
Accumulated amortization		
Natural gas forward purchase agreement	303	-
Thermal energy supply agreement	<u>24</u>	<u>-</u>
	327	-
Net book value		
Natural gas forward purchase agreement	2,757	-
Thermal energy supply agreement	<u>1,997</u>	<u>-</u>
	<u>\$4,754</u>	<u>\$-</u>

- a) VFCLP holds a natural gas forward contract for the purchase of approximately 825,000 gigajoules (GJ) of natural gas. The contract commenced on January 1, 2004 and expires on October 31, 2008. The estimated fair value of the contract at the date of the Fund's October 18, 2006 acquisition is included in intangible assets and is being amortized on a straight-line basis over the remaining life of the contract.
- b) VFCLP has an agreement with the operator of a cogeneration facility to purchase thermal energy required for one of VFCLP's greenhouses (in excess of the thermal energy otherwise produced by the greenhouse). The contract expires on July 31, 2023. VFCLP also has the right of first refusal with respect to any excess methane gas conveyed to the cogeneration plant from an adjacent landfill. The estimated fair value of the contract was recorded as an intangible asset and is being amortized on a straight-line basis over the life of the contract.

8. LONG-TERM DEBT

As at December 31, 2006 and January 1, 2006, long-term debt consists of the following:

	<u>December 31, 2006</u>	<u>January 1, 2006</u>
CAD\$ Operating Loan (i)	\$-	\$-
CAD\$ Capital Loan (ii) (includes US-denominated loan of US\$16,488)	63,930	-
CAD\$ FX Facility (iii)	-	-
US\$ Operating Loan (iv)	-	-
US\$ Capital Loan (December 31, 2006 US\$18,050 and January 1, 2006 US\$19,700) (v)	21,028	22,910
Other long-term debt (December 31, 2006 US\$60 and January 1, 2006 US\$120)	<u>70</u>	<u>140</u>
	85,028	23,050
Less current maturities	<u>(3,083)</u>	<u>(3,908)</u>
Long-term portion	<u>\$81,945</u>	<u>\$19,143</u>

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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 \$12,000 with a term of 364 days (the “CAD Operating Loan”). As at December 31, 2006, \$4,927 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 of up to \$64,500 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 December 31, 2006, the interest rate is 7.13%. At December 31, 2006, 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 December 31, 2006, \$63,930 is outstanding in respect of the CAD Capital Loan, and no borrowings are outstanding in respect of the CAD Operating Loan and the CAD FX Facility, respectively. 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 US\$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 December 31, 2006, 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 \$18,050 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 US\$475 commencing March 2007 (for the previous two quarters, only interest is payable). The term may be renewed beyond such date only upon amendment of the facility. As at December 31, 2006, borrowings under the term loan facility are subject to fixed

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rates of interest, on varying principal amounts, ranging from 5.86% to 6.206%, with expiration dates between three months and two years. The total fixed portion of the term loan facility is US\$16.4 million. The interest rate on the unfixed portion is LIBOR plus 2.50% (7.87% as at December 31, 2006). 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 December 31, 2006.

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 December 31, 2006, VFLP was in compliance with all covenants.

As at December 31, 2006, VFLP also has long term debt outstanding comprising a note in the principal amount of US\$60 payable to a former vendor, with monthly installments of US\$5 through 2007.

The aggregate annual maturities of long-term debt as at December 31, 2006 are as follows:

2007	\$ 3,083
2008	5,410
2009	5,410
2010	5,410
2011	55,755
Thereafter	9,960
	<u>\$85,028</u>

9. RELATED PARTY TRANSACTIONS AND BALANCES

Pursuant to the Acquisition Agreement, the Fund has accrued \$2,589 as a payable to the VF Owners as at December 31, 2006 in respect of a working capital adjustment at October 18, 2006 (note 2).

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

The Fund sold approximately 225 acres of land in Marfa, Texas to an officer for US\$188 in October 2006.

As at December 31, 2006 the Fund had a note receivable due from a former officer of \$106. Payment was received in January 2007.

At January 1, 2006, included in other current assets are \$291 of notes from shareholders which had an interest rate of 4.29% and was paid in March 2006.

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10. LEASE COMMITMENTS

Obligations Under Capital Leases

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

2007	\$ 379
2008	369
2009	369
2010	368
2011	326
Thereafter	17
Total minimum lease payments	<u>1,828</u>
Less amount representing interest	<u>(289)</u>
	1,539
Current portion	<u>295</u>
Long-term portion	<u><u>\$1,244</u></u>

These leases have interest rates ranging from 6% to 8.5%. The Fund has made payments of \$93 and \$23 for the years ended December 31, 2006 and January 1, 2006, respectively. Interest paid on capital leases amount to \$32 and \$11 for the years ended December 31, 2006 and January 1, 2006, respectively.

Operating Leases

As at December 31, 2006, the Fund has entered into certain operating lease commitments for land, office space and equipment through 2022. The future minimum lease payments as at December 31, 2006 are as follows:

2007	\$251
2008	123
2009	81
2010	53
2011	14
Thereafter	238
	<u>\$760</u>

Rent expense under the Fund's various operating lease agreements totaled \$244 and \$228 for the years ended December 31, 2006 and January 1, 2006, respectively, and is included in selling, general and administrative expenses.

11. INCOME TAXES

The provision for income taxes consists of the following components:

	<u>December 31, 2006</u>	<u>January 1, 2006</u>
Current	\$471	\$399
Future	<u>1,764</u>	<u>2,277</u>
	<u><u>2,235</u></u>	<u><u>2,676</u></u>

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The net future tax liability and the approximate tax effect of each remaining type of temporary difference and carryforward are summarized as follows:

	<u>December 31, 2006</u>	<u>January 1, 2006</u>
Future tax assets:		
Intangibles	\$65	\$ -
Non-capital and farm losses	9,548	2,341
Debt and unit issuance costs	1,266	-
Long term debt	82	-
Scientific research and experimental development expenditures	279	-
Investment tax credits	69	-
Alternative minimum tax payments	267	276
Valuation allowance	<u>(10,938)</u>	<u>(1,983)</u>
Net future tax assets	638	634
Future tax liabilities:		
Property, plant and equipment	<u>(3,653)</u>	<u>(3,104)</u>
Net future tax liability	<u><u>(\$3,015)</u></u>	<u><u>(\$2,470)</u></u>

Presented in the accompanying consolidated balance sheets as:

	<u>December 31, 2006</u>	<u>January 1, 2006</u>
Current future tax assets	\$308	\$252
Non-current future tax liabilities	<u>(3,323)</u>	<u>(2,722)</u>
Net future tax liability	<u><u>(\$3,015)</u></u>	<u><u>(\$2,470)</u></u>

The actual provision for income taxes reflected in the consolidated statements of earnings for the years ended December 31, 2006 and January 1, 2006 differ from the amounts computed at the federal statutory tax rates. The principal differences between the statutory income tax expense and the effective provision for income taxes are summarized as follows:

	<u>December 31, 2006</u>	<u>January 1, 2006</u>
Expected tax provision at 34%	\$1,171	\$2,442
State taxes, net of federal benefit	105	106
Non-deductible items	109	
Tax rate differences	(251)	
Other	(54)	128
Temporary differences not tax effected	<u>1,155</u>	<u>128</u>
	<u><u>\$2,235</u></u>	<u><u>\$2,676</u></u>

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Non-capital and farms losses expire as follows:

	Canada	U.S. Federal	U.S. State	Total
2009	\$-	\$-	\$5,200	\$5,200
2010	-	-	3,913	3,913
2012	135	-	-	135
2013	2,316	-	-	2,316
2014	8,047	-	-	8,047
2015	6,794	-	-	6,794
2020	-	-	3,192	3,192
2021	-	1,480	241	1,721
2025	4,251	-	-	4,251
2026	2,758	-	-	2,758
	<u>\$24,301</u>	<u>\$1,480</u>	<u>\$12,546</u>	<u>\$38,327</u>

At December 31, 2006 and January 1, 2006, VFLP had available net operating loss carryforwards (“NOL’s”) of approximately \$1,480 and \$6,105, respectively, to reduce future U.S. federal taxable income. As a result of a treasury stock repurchase, the NOL’s utilization is limited under section 382 of the United States Internal Revenue Code. The NOL’s expire in 2021.

At December 31, 2006 and January 1, 2006, VFLP had available NOL’s primarily in the states of Pennsylvania and New Jersey of approximately \$12,546 and \$17,214, respectively, to reduce future state taxable income. The Pennsylvania NOL’s expire in 2020 and 2021; the New Jersey NOL’s expire in 2009 and 2010. The New Jersey NOL’s were subject to certain limitations in the year ended January 1, 2006.

At December 31, 2006 and January 1, 2006, the Fund provided a valuation allowance against its federal deferred tax asset based on its evaluation that there were uncertainties surrounding the realization of that asset.

12. NON-CONTROLLING INTEREST

	December 31, 2006		January 1, 2006	
	Number of shares	Amount	Number of shares	Amount
Class C shares of subsidiary	<u>2,358,040</u>	<u>\$4,206</u>	<u>-</u>	<u>-</u>

During the Fund’s acquisition of HHGI in December 2003, the former owners of the greenhouse operations retained a 25% economic interest in HHGI through ownership of the promissory note, 25% of the common shares and 2,358,040 Class A shares of HHGI. As per the Acquisition Agreement, the Class A shares and common shares of HHGI were exchanged for 2,358,040 Class C shares. Class C shares are not entitled to any dividends.

The holders of the Class C shares, through their ownership of special voting units of the Fund (note 16), are entitled to exchange one Class C share for one Unit of the Fund. Such an exchange will not be permitted until December 23, 2008 (note 2).

The non-controlling interest is no longer allocated any portion of the earnings due to no longer having a direct ownership interest in the operating company

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13. 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:

	<u>December 31, 2006</u>	<u>January 1, 2006</u>
Revenue		
United States	\$89,482	\$86,370
Canada	6,035	2,580
Other	420	-
	<u>\$95,937</u>	<u>\$88,950</u>

14. FINANCIAL INSTRUMENTS

Fair Values

The fair values of cash and cash equivalents, trade and other accounts receivable, accounts payable and accrued liabilities, and the operating line of credit approximate their carrying values due to their short-term nature. The fair values of long-term debt and capital lease obligations approximate their carrying values as interest rates for debt with similar terms at December 31, 2006 were substantially the same as prevailing market rates.

Commodity Price Risk

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.

The Fund enters into purchase contracts with approved creditworthy counterparties for natural gas and other commodities. Natural gas and other energy purchase agreements are carried at cost less accumulated amortization and are included in identifiable intangible assets.

Foreign Exchange and Interest Rate Risk

Following the Transaction, approximately 80%-85% of the Fund's sales are recorded in U.S. dollars, although free cash flow available for distribution by the Fund and cash distributions paid per 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 that 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.

Concentration of Credit Risk

Financial instruments that potentially subject the Fund to concentrations of credit risk consist principally of cash and cash equivalents and trade accounts receivable. At times, the balances of certain bank accounts maintained by the Fund exceed Federally insured limits. The Fund reduces its credit risk by placing its deposits with high credit quality financial institutions.

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Management believes that concentrations of credit risk with respect to trade receivables are limited due to the large number of customers comprising the Fund's customer base and short payment terms generally extended to customers. The Fund reduces its risk related to credit losses by closely monitoring the extension of credit to its customers while maintaining an appropriate allowance for doubtful accounts. On a periodic basis, the Fund evaluates its accounts receivable and adjusts its allowance for doubtful accounts based on its history of past write-offs and collections and current credit conditions.

Major Customer

One customer represented 15% and 18% of sales for the years ended December 31, 2006 and January 1, 2006, respectively, and 11% and 15% of accounts receivable at December 31, 2006 and January 1, 2006, respectively.

15. COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Fund receives notice of potential legal proceedings or is named as a defendant in legal proceedings. Management is of the opinion that the outcome of these uncertainties will not have a material adverse effect on the Fund's financial position.

During 2002, the Texas Commission on Environmental Quality ("TCEQ") advised the Fund that nitrogen levels exceeding the State threshold had been detected in its potable water at one of its Texas greenhouse facilities. The TCEQ alleges the nitrogen levels may be a result of fertilizer discharge from that Fund greenhouse or other local agricultural sources. The Fund has identified a solution for its three Texas greenhouse facilities, which would require a capital expenditure currently estimated at US\$1,200, of which US\$699 has been incurred as at December 31, 2006, including US\$14 for year ended December 31, 2006 and US\$70 for the year ended January 1, 2006. The Fund believes that there will be an ongoing economic benefit with this capital project. The TCEQ has advised the Fund that it will not assess any penalties at this time.

The Fund indemnifies its directors and officers against claims and damages that may be incurred in the performance of their services to the Fund. Liability insurance has been purchased with respect to the Fund's directors and officers.

16. TRUST UNITS AND EQUITY

The following is a summary of changes in unitholders' and shareholders' capital from January 1, 2006 to December 31, 2006:

	The Fund Units and exchangeable Units	
	<u># of Units</u>	<u>Amount</u>
Unit capital – January 1, 2006	7,074,116	\$67,083
Elimination of value of Fund capital on reverse takeover	-	(67,083)
Common stock of APDI, net of treasury stock	601,2556	2,794
Elimination of legal capital of APDI on reverse takeover	(601,2556)	-
Deemed value of common shares of APDI exchanged for PPS's of US Holdings ¹	-	19,716
Costs of acquisition, net of reimbursement	-	527
Transfer of deficit, non-controlling interest and allocation of purchase deficiency on reverse takeover	-	(8,983)
Units issued on Rights Offering	2,134,042	5,890
Units issued on private placement for Subscription Receipts	1,489,146	4,110
Unit issuance costs	-	(533)
Unit capital - December 31, 2006	<u>10,697,304</u>	<u>\$23,521</u>

¹ The common stock had a par value per share of \$0.001, of which 1,000 shares were authorized and 601,2556 shares were issued.

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Following the completion of the Transaction, the Fund indirectly owns all of the units of VFCLP, which holds the Canadian operations of the Fund, and all of the common shares of US Holdings, which is the holding company for the United States operations. The VF Owners received PPS's, which, subject to certain limitations, may be exchanged for Units or the cash equivalent (the "Exchange Rights") on a one-for-100 basis (subject to adjustment in certain circumstances). If these Exchange Rights were exercised in full for Units, the VF Owners would hold 25,652,000 Units.

On December 22, 2006, upon completion of the Rights Offering and a private placement of Subscription Receipts, the Fund issued an additional 2,134,042 and 1,489,146 Units, respectively, both at an offering price of \$2.76 per Unit for gross proceeds of \$10,000, and incurred issuance costs of \$533.

The VFLP had two classes of common stock, Class A and Class B shares. The difference between the classes is the right to elect members to the Board of Directors. As of January 1, 2006, all of the outstanding shares were Class B shares. During 2005, one shareholder surrendered 0.0444 of a share.

Effective January 31, 2005, the Company repurchased 100 shares of Class B common stock for \$1,273 and effective March 7, 2005, the Company repurchased 501 shares of Class A common stock for \$6,978.

Fund Units

An unlimited number of Units may be created and issued pursuant to the Declaration of Trust. Each Unit is transferable and represents an equal undivided beneficial interest in any distributions from the Fund, whether of net income, net realized capital gains or other amounts, and in any net assets of the Fund in the event of termination or winding up of the Fund. Each Unit entitles the holder thereof to one vote at all meetings of voting Unitholders.

Exchangeable Units

The holders of the PPS's carry rights to dividends from US Holdings concurrently and pro rata with distributions by the Fund on the Units, based on the number of Units that would be held by assuming the exercise in full of the Exchange Rights for Units, such that each holder of PPS's receives dividends as if such holder were a holder of Units of the Fund (the "Preferred Distribution") provided that if a corresponding cash dividend (the "Corresponding Cash Dividend") is not paid when called for, then the unpaid amount of such dividend shall accumulate from the date on which the corresponding distribution on Units is paid to the holders of outstanding Units and be paid out of funds legally available therefor, on the next date on which a dividend becomes payable, or such earlier date when, as and if declared by the board of directors of US Holdings. Upon a payment default of all or a portion of the Corresponding Cash Dividend, the holders of the PPS's shall be (i) entitled to receive 150% of the Corresponding Cash Dividend that would have been payable upon the occurrence of such default and (ii) until all unpaid amounts have been paid in full, (A) entitled to receive 150% of all future Corresponding Cash Dividends and (B) to appoint three of the four directors of US Holdings. The holders of US Holdings common shares shall only be entitled to distributions concurrently with the Preferred Distributions and only if the holders of the PPS's have received the Preferred Distribution. The VF Owners also indirectly control, through the designation of directors, the Class A Unit of the Fund, which entitles the holder to exercise certain governance rights, as well as voting and other rights as a Unitholder based on the aggregate number of Units that would be owned by the VF Owners assuming the exercise in full of the Exchange Rights for Units, such voting rights not to exceed a 45% voting interest in the Fund.

Special Voting Units of the Fund

The holders of special voting units are not entitled to any beneficial interest in any distribution from the Fund or in the net assets of the Fund in the event of termination or winding up of the Fund. Each special voting unit entitles the holder thereof to one vote at all meetings of voting unitholders. Special voting units are to be cancelled on the exchange for Fund Units. As at December 31, 2006, 2,358,040 special voting units have been issued; these units cannot be converted to Fund Units before December 23, 2008, the value of which is included in non-controlling interest.

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17. LONG-TERM INCENTIVE PLAN

The Fund has adopted a long-term incentive plan (the "LTIP") in which trustees, directors, officers and certain employees of the Fund and its subsidiaries are eligible to participate. Pursuant to the LTIP, the Fund will set aside a pool of funds based upon the amount by which the Fund's per Unit distributable cash exceeds certain per Unit distributable cash threshold amounts. The pool of funds will be notionally invested in Units of the Fund by dividing the amount allocated to each participant by the fair market value of the Units on the relevant distribution date. On the date of vesting, each notional unit will be redeemed by the payment of cash equal to the then fair market value of the Units. Participants will also be credited with the value of distributions by the Fund on notional units.

The LTIP will provide for awards that may be earned based on the amount by which distributable cash exceeds a base distributable cash threshold per Unit per annum. The percentage amount of that excess that forms the LTIP incentive pool will be determined in accordance with the table below:

Percentage by which distributable cash per Unit exceeds base distribution threshold	Maximum portion of excess distributable cash available for LTIP payments
0 to 5%	10%
Over 5% to 10%	15% of any excess over 5% to 10%
Over 10% to 20%	20% of any excess over 10% to 20%
Over 20%	25% of any excess over 20%

No Units were granted under this plan to December 31, 2006.

18. SAVINGS PLAN

VFLP sponsors a savings plan that is qualified under section 401(k) of the United States Internal Revenue Code and provides that participating employees are eligible to make contributions of 1% to 15% of their total salaries. VFLP matches up to 25% of the first 6% of employee contributions. Matching contributions totaled \$62 and \$80 for the years ended December 31, 2006 and January 1, 2006, respectively.