

Village Farms Income Fund

(formerly Hot House Growers Income Fund)

Annual Consolidated Financial Statements

Year Ended

December 31, 2007

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INDEPENDENT AUDITORS' REPORT

To the Unitholders of Village Farms Income Fund

We have audited the consolidated balance sheets of Village Farms Income Fund (formerly Hot House Growers Income Fund) as at December 31, 2007 and 2006 and the consolidated statements of earnings, accumulated earnings and cash flows for each of the years in the two year period ended December 31, 2007. These consolidated financial statements are the responsibility of the fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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, 2007 and 2006 and the results of its operations and its cash flows for each of the years in the two year period ended December 31, 2007 in accordance with Canadian generally accepted accounting principles.

/s/ PricewaterhouseCoopers LLP

Chartered Accountants

Vancouver, Canada
March 25, 2008

PricewaterhouseCoopers refers to the Canadian firm of PricewaterhouseCoopers LLP and the other member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

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

	<u>December 31, 2007</u>	<u>December 31, 2006</u>
Assets	(note 1)	(note 1)
Current assets:		
Cash and cash equivalents	\$1,620	\$7,302
Accounts receivable	11,662	8,597
Other receivables (note 9)	769	1,161
Inventories	11,210	11,093
Assets held for sale (note 2,6)	-	6,127
Prepays and deposits	458	408
Future income taxes (note 12)	-	265
	25,719	34,953
Property, plant and equipment (note 5)	71,701	74,528
Intangible assets (note 8)	2,687	4,081
Other assets	885	1,049
Total assets	\$100,992	\$114,611
 Liabilities and unitholders' equity		
Current liabilities:		
Operating line of credit (note 8)	\$3,313	\$0
Accounts payable and accrued liabilities	10,727	11,541
Distributions payable	365	-
Current maturities of long-term debt (note 8)	3,148	2,646
Related party payable (note 9)	-	2,222
Current obligations under capital leases (note 11)	261	254
Total current liabilities	17,814	16,663
Long-term debt (note 9)	57,963	70,339
Obligations under capital leases (note 10)	865	1,068
Future income taxes (note 12)	2,728	2,852
Total liabilities	79,370	90,922
Non-controlling interest (note 13)	3,610	3,610
Unitholders' equity:		
Trust units (note 16)	20,190	20,190
Accumulated distributions	(4,079)	-
Accumulated earnings	1,846	(166)
Cumulative translation adjustment	55	55
Total unitholders' equity	18,012	20,079
Total liabilities and unitholders' equity	\$100,992	\$114,611

Commitments and contingencies (note 16)
Subsequent event (note 21)

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 United States dollars)

	<u>December 31, 2007</u> (note 1)	<u>December 31, 2006</u> (note 1)
Accumulated earnings - Beginning of year	(\$166)	\$22,642
Earnings for the year	2,407	1,065
Dividends declared to VF Owners (note 2)	-	(28,155)
Cumulative translation adjustment	-	55
Adoption of new accounting standards (note 3)	(395)	
Adjustment on reverse takeover accounting	-	4,227
Accumulated earnings - End of year	<u>\$1,846</u>	<u>(\$166)</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 United States dollars, except for units outstanding and per unit/share amounts)

	<u>December 31, 2007</u>	<u>December 31, 2006</u>
	(note 1)	(note 1)
Net sales	\$113,755	\$84,601
Cost of sales	95,529	70,178
Gross profit	<u>18,226</u>	<u>14,423</u>
Selling, general and administrative expenses	11,079	8,522
Interest, net	5,614	1,382
Foreign exchange (gain) loss	(987)	1,049
Amortization of intangible assets	1,394	289
Other income, net	(771)	145
Gain on sale of asset (note 6)	(1,303)	-
Earnings before income taxes	<u>3,200</u>	<u>3,036</u>
Provision for income taxes (note 12)	793	1,971
Net earnings	<u>2,407</u>	<u>1,065</u>
Net income per Unit/share-basic	<u>\$0.07</u>	<u>\$0.04</u>
Weighted average number of units/shares outstanding-basic	<u>36,349,305</u>	<u>27,185,470</u>
Net income per Unit/share-diluted	<u>\$0.06</u>	<u>\$0.04</u>
Weighted average number of units/shares outstanding-diluted	<u>38,707,345</u>	<u>27,185,470</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 United States dollars)

	<u>December 31, 2007</u>	<u>December 31, 2006</u>
	(note 1)	(note 1)
Cash flows from operating activities:		
Net earnings	\$2,407	\$1,065
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	6,575	4,181
Loss on sale of marketable securities	-	152
Gain on sale of property	(1,303)	-
Future income taxes	140	1,679
Changes in non-cash working capital (net of effects of acquisition - note 2)	(3,653)	4,714
Net cash provided by operating activities	4,166	11,791
Cash flows from investing activities:		
Purchases of available for sale securities	-	(261)
Proceeds from sales of available for sale securities	-	6,708
Purchases of property, plant and equipment	(4,156)	(3,803)
Proceeds from sale of property, plant and equipment	9,232	-
Capitalized transaction cost	-	(464)
Net cash provided by (used in) investing activities	5,076	2,180
Cash flows from financing activities:		
Proceeds from (payments on) short-term debt	3,253	(5,499)
Proceeds from (payments on) long-term debt	(11,814)	15,459
Payments on obligations under capital leases	(196)	(64)
Cash payments to APDI shareholders (note 2)	(2,222)	(25,933)
Dividend payments to Unitholders and PPS holders (note 2)	(3,714)	-
Net proceeds from Rights Offering and private placement of Subscription Receipts	-	8,126
Other	(231)	-
Net cash used in financing activities	(14,924)	(7,911)
Effect of foreign currency translation	-	260
Net increase (decrease) in cash and cash equivalents	(5,682)	6,320
Cash and cash equivalents beginning of year	7,302	982
Cash and cash equivalents end of year	\$1,620	\$7,302
Supplemental cash flow information:		
Interest paid	\$5,811	\$1,731
Income taxes paid	\$895	\$259

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

VILLAGE FARMS INCOME FUND
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007

(in thousands of United States dollars, except per Unit/share amounts and unless otherwise noted)

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, 2007 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 CAD\$10 million. The Subscription Receipt entitled CCHI to receive, following the earlier of the date of completion of a rights offering (the "Rights Offering") or notice given by CCHI that the Fund's obligation to make the Rights Offering is terminated, cash in the amount of the gross proceeds of the Rights Offering, if any, and that number of Units which would have a value equal to the balance of CAD\$10 million less the cash paid, calculated based on a price of CAD\$2.76 per Unit. In December 2006 a total of 2,134,042 Units of the Fund were subscribed for under the Rights Offering for gross proceeds of CAD\$5.89 million.

With the completion of the Rights Offering and the exchange by CCHI of the Subscription Receipt for cash and Units, CCHI holds 1,489,147 Units and 2,358,040 Class C shares (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 United States dollars, except per Unit/share amounts and unless otherwise noted)

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 13).

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

The Fund restructured its existing indebtedness and borrowed an additional CAD\$20 million of which CAD\$5 million was used to pay down the CAD Operating Loan (as defined below) (note 9). 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:

<i>In thousands of CAD\$</i>	
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:

<i>In thousands of CAD\$</i>	
Accounts receivable	\$9,583
Inventories	1,890
Prepaid expenses and deposits	387
Property, plant and equipment	54,942
Assets held for sale	7,137
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>

VILLAGE FARMS INCOME FUND
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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(in thousands of United States dollars, except per Unit/share amounts and unless otherwise noted)

¹ Pursuant to the Acquisition Agreement, APDI received CAD\$1,000 from the Fund to reimburse professional fees incurred during the acquisition process.

The assets held for sale has been increased by CAD\$4,137 from the initial purchase price allocation to reflect the net proceeds for the sale of the asset and property, plant and equipment value has been decreased by the same amount.

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

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. During 2006 the fiscal year for VFLP was a 52-week period ending on the Sunday nearest December 31.

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.

Change in Reporting Currency

In fiscal 2007, the Fund changed its reporting currency from Canadian dollars ("CAD") to United States dollars ("USD") to provide more relevant information considering its sales in USD and operation in the United States. The functional currency for the Canadian operations has changed from CAD to USD; due to the majority of its sales and expenses are conducted in USD. The Fund used the current rate method to translate the CAD financial statements into USD for the current and prior periods. Under this method, assets and liabilities are translated into USD at the exchange rate in effect at the end of the year and revenue and expenses are translated at the average monthly rates. Gains and losses arising from the translation are included in the cumulative translation account.

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(in thousands of United States dollars, except per Unit/share amounts and unless otherwise noted)

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 and are classified as held for trading.

Accounts Receivable

Accounts receivable are measured at amortized cost and 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 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.

VILLAGE FARMS INCOME FUND
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(in thousands of United States dollars, except per Unit/share amounts and unless otherwise noted)

Foreign Currency Translation

The components of the consolidated statements of earnings related to foreign operations are translated to USD using average exchange rates in effect during the accounting period. The components of the consolidated balance sheets related to foreign operations or operations denominated in a currency other than USD are translated at the exchange rate in effect at the balance sheet date. Exchange gains or losses arising from the translation of the foreign operations' financial statements are deferred and reported as foreign currency translation adjustment, which is included in unitholders' equity on the accompanying consolidated balance sheets.

Financial Instruments

Recognition and measurement

On January 1, 2007, the Fund adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Sections 3855 "Financial Instruments – Recognition and Measurement", 3861 "Financial Instruments – Disclosure and Presentation", 3865 "Hedges", 1530 "Comprehensive Income", and 3251 "Equity", for fiscal years beginning on or after October 1, 2006 retrospectively without restatement.

Section 3855 establishes standards for the recognition and measurement of all financial instruments, provides a characteristics-based definition of a derivative financial instrument, provides criteria to be used to determine when a financial instrument should be recognized, and provides criteria to be used when a financial instrument is to be extinguished. Under this standard, all financial instruments are required to be measured at fair value on initial recognition. Measurement in subsequent periods depends on whether the financial instrument has been classified as held-for-trading, held-to-maturity, available-for-sale, loans and receivables, or other financial liabilities. The Fund has implemented the following classifications for its financial instruments:

- a) Short-term liquid investments included in cash and cash equivalents have been classified as held-for-trading.
- b) The Fund's accounts receivable and other receivables are measured at amortized cost.
- c) The Fund's accounts payable and accrued liabilities and distributions payable have been classified as other financial liabilities and are measured at amortized cost.
- d) The Fund's long-term debt has been classified as other financial liabilities.

Financial assets and liabilities classified as held-for-trading are measured at fair value at each reporting period with changes in fair value in subsequent periods included in net earnings. Held-to-maturity assets are measured at amortized cost.

i) Derivative financial instruments:

In accordance with Section 3855, the Fund classifies derivative financial instruments that have not been designated as hedges for accounting purposes as held-for-trading, and values them at fair value each period with changes recorded in other income. The Fund has not designated any derivative financial instruments as hedges.

ii) Comprehensive income:

Section 1530 establishes standards for reporting and displaying comprehensive income. Comprehensive income is defined as the change in equity (net assets) from transactions and other events from non-owner sources. Other comprehensive income is defined as revenues, expenses, gains and losses that, in accordance with primary sources of GAAP, are recognized in comprehensive income, but exclude from net income. No comprehensive income was recorded by the Fund during the year.

VILLAGE FARMS INCOME FUND
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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(in thousands of United States dollars, except per Unit/share amounts and unless otherwise noted)

iii) Financing charges:

The adoption by the Fund of Section 3855 resulted in it writing off to equity transaction costs relating to long-term debt of \$395. These costs were previously deferred as other assets on the Fund's balance sheet. The Fund recognizes financing charges that reflect the cost to obtain new debt financing as an expense in the period incurred and financing charges that reflect the cost to obtain new equity financing as a reduction in net proceeds as incurred.

iv) Contract for the purchase or delivery of non-financial items:

Contracts for the purchase or sale of non-financial items that contain net settlement provisions may meet the definition of non-financial derivatives under Section 3855. Unless an entity documents its basis for concluding that the purpose of entering into those contracts was for receipt of delivery of those non-financial items according to its expected purchase, sale or usage requirements, all contracts that qualify as non-financial derivatives will be recorded in the balance sheet at fair value with changes in fair value recorded in earning.

Effective January 1, 2007, the Fund documented its basis for concluding that the purpose of entering into certain purchase and sale contracts for the purchase of natural gas was for receipt and delivery of those non-financial items in accordance with its expected purchase, sale or usage requirements and consequently the contract are not accounted for as a non-financial derivate.

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 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 real 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 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.

VILLAGE FARMS INCOME FUND
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(in thousands of United States dollars, except per Unit/share amounts and unless otherwise noted)

4 INVENTORY

	<u>December 31, 2007</u>	<u>December 31, 2006</u>
Crop inventory	\$10,997	\$10,766
Purchased produce inventory	213	327
	<u>\$11,210</u>	<u>\$11,093</u>

5 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consists of the following:

	<u>December 31, 2007</u>	<u>December 31, 2006</u>
Cost		
Land	\$5,230	\$5,322
Leasehold and land improvements	2,033	1,512
Greenhouses and buildings	57,125	55,625
Greenhouse equipment	27,348	24,028
Machinery and equipment	2,060	2,715
Construction in progress	48	2,523
	<u>93,844</u>	<u>91,725</u>
Accumulated amortization		
Leasehold and land improvements	838	688
Greenhouses and buildings	12,902	10,025
Greenhouse equipment	7,482	5,879
Machinery and equipment	921	605
	<u>22,143</u>	<u>17,197</u>
Net book value		
Land	5,230	5,322
Leasehold and land improvements	1,195	824
Greenhouses and buildings	44,223	45,600
Greenhouse equipment	19,866	18,149
Machinery and equipment	1,139	2,110
Construction in progress	48	2,523
	<u>\$71,701</u>	<u>\$74,528</u>

Capital lease assets of \$1,133 at December 31, 2007 and December 31, 2006 and accumulated amortization on these assets of \$216 and \$45 are included within greenhouse equipment.

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

6 ASSETS HELD FOR SALE

In October 2006, the Fund closed its facility in Pitt Meadows at the conclusion of the 2006 growing season. Management decided to sell the land to pay down debt. In May 2007, the Fund sold the property for net proceeds of \$6,456. At December 31, 2006, prior to the sale, the property was classified as asset held for sale.

In 2007 Management decided that it should focus growing just tomatoes and in September 2007, the Fund executed a contract for the sale of the Abbotsford, British Columbia greenhouse facility. The facility had a book value of \$1,788 million. The Fund received net proceeds of approximately \$3,133. A gain on sale of asset of \$1,303 was realized.

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7 INTANGIBLE ASSETS

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

	<u>December 31, 2007</u>	<u>December 31, 2006</u>
Cost		
Natural gas forward purchase agreement (a)	\$2,627	\$2,627
Thermal energy supply agreement (b)	<u>1,735</u>	<u>1,735</u>
	4,362	4,362
Accumulated amortization		
Natural gas forward purchase agreement	1,551	260
Thermal energy supply agreement	<u>124</u>	<u>21</u>
	1,675	281
Net book value		
Natural gas forward purchase agreement	1,076	2,367
Thermal energy supply agreement	<u>1,611</u>	<u>1,714</u>
	<u>\$2,687</u>	<u>\$4,081</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, 2007 and December 31, 2006, long-term debt consists of the following:

	<u>December 31, 2007</u>	<u>December 31, 2006</u>
CAN Operating Loan (i)	\$3,313	\$-
CAN Capital Loan (ii)	44,961	54,875
CAN FX Facility (iii)	-	-
US Operating Loan (iv)	-	-
US Capital Loan (v)	16,150	18,050
Other long-term debt	-	60
	<u>61,111</u>	<u>72,985</u>
Less current maturities	<u>(3,148)</u>	<u>(2,646)</u>
Long-term portion	<u>\$57,963</u>	<u>\$70,339</u>

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

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Canadian Credit Facilities

The Canadian credit facilities include:

- (i) a revolving variable rate operating loan of up to CAD\$12,000 with a term of 364 days (the "CAN Operating Loan"). As at December 31, 2007, \$3,313 was drawn on the CAN Operating Loan;
- (ii) a non-revolving variable rate capital loan of \$44,961 which matures on October 31, 2011 (the "CAN Capital Loan"); and
- (iii) a foreign exchange contracts facility for the purchase and/or sale of U.S. funds (the "CAN FX Facility").

Interest payable on Canadian funds borrowed under the CAN Operating Loan and the CAN 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 CAN Operating Loan and the CAN 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 CAN Operating Loan is subject to annual renewal by the bank. Subject to acceleration upon an event of default, the outstanding balance of the CAN Capital Loan will be repayable by way of 48 equal monthly installments of principal and interest (based on an amortization of the CAN 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 CAN Capital Loan and all unpaid accrued interest to be paid in full on October 31, 2011.

Accrued interest payable on the CAN loans as at December 31, 2007 was \$266 and \$274 at December 31, 2006 and these amounts are included accounts payable and accrued liabilities. As at December 31, 2007, the interest rate is 6.85% and 7.13% at December 31, 2006. The interest expense for the years ended December 31, 2007 and December 31, 2006 are \$4,700 and \$731 respectively. At December 31, 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 CAN Operating Loan. As at December 31, 2007, \$44,961 and \$3,313 is outstanding in respect of the CAN Capital Loan, and the CAN Operating Loan, respectively and no borrowings are outstanding in respect of the CAN 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 CAN 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, 2007 and 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 \$16,150 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 that commenced in 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, 2007, borrowings under the term loan facility are subject to fixed

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rates of interest, on varying principal amounts, ranging from 6.05% to 6.206%, with expiration dates between three months and fifteen months. The total fixed portion of the term loan facility is US\$13.1 million. The interest rate on the unfixed portion is LIBOR plus 2.50% (6.99% as at December 31, 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.

Accrued interest payable on the US loan as at December 31, 2007 was \$90 and \$97 at December 31, 2006 and these amounts are included in accounts payable and accrued liabilities. As at December 31, 2007, the interest rate is 6.99% and 7.87% at December 31, 2006. The interest expense for the years ended December 31, 2007 and December 31, 2006 are \$1,135 and \$1,169 respectively. At December 31, 2007, VFCLP was in compliance with all covenants. 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, 2007 and 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, 2007 and 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 \$60 payable to a former vendor, which had monthly installments of \$5 through 2007.

The aggregate annual maturities of long-term debt as at December 31, 2007 are as follows:

2008	\$ 3,148
2009	3,148
2010	3,148
2011	43,117
2012	1,900
Thereafter	6,650
	<u>\$61,111</u>

9 RELATED PARTY TRANSACTIONS AND BALANCES

Pursuant to the Acquisition Agreement, the Fund has accrued \$2,222 as a payable to the VF Owners as at December 31, 2006 which was paid in January 2008, 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 CAD\$190, of which payment of CAD\$95 has been deferred over a minimum of two years. During fiscal 2007 CAD\$48 was paid. This fee was negotiated and approved by the Board of Trustees of HHGI.

The Fund sold approximately 225 acres of land in Marfa, Texas to an officer for \$188 in October 2006. The Fund sold the land for the same price per acre it purchased the land for in 2005.

The Fund paid realtor commission fees of CAD\$364 to a company that a trustee of the Fund is a director.

As at December 31, 2006 the Fund had a note receivable due from a former officer of CAD\$106 which is classified as other receivables. Payment was received in January 2007. The CAD\$106 amount was the net of the contractual severance payment due this officer offset by a balance due from this officer.

At December 31, 2007, included in other receivables is a \$379 note from an employee as a result of relocating for the Fund. The note is secured by real property; it is a non-interest bearing note to be paid from the proceeds of the sale of the real property that secures the note. The \$379 represents the amount the Fund paid on this employee's behalf.

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10 LEASE COMMITMENTS

Obligations Under Capital Leases

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

2008	\$ 353
2009	353
2010	353
2011	274
2012	17
Thereafter	-
Total minimum lease payments	<u>1,350</u>
Less amount representing interest	<u>(224)</u>
	1,126
Current portion	<u>261</u>
Long-term portion	<u>\$865</u>

These leases have interest rates ranging from 6% to 8.5%. The Fund has made payments of \$246 and \$82 for the years ended December 31, 2007 and December 31, 2006, respectively. Interest paid on capital leases amount to \$86 and \$28 for the years ended December 31, 2007 and December 31, 2006, respectively.

Operating Leases

As at December 31, 2007, the Fund has entered into certain operating lease commitments for land, office space and equipment through 2022. The future minimum lease payments as at December 31, 2007 are as follows:

2008	\$891
2009	945
2010	949
2011	897
2012	888
Thereafter	<u>1,103</u>
	<u>\$5,673</u>

Rent expense under the Fund's various operating lease agreements totaled \$222 and \$215 for the years ended December 31, 2007 and December 31, 2006, respectively, and is included in selling, general and administrative expenses.

11 FINANCIAL INSTRUMENTS

As indicated in note 3, the Fund adopted CICA Sections 3855 and 3865 on January 1, 2007. Section 3855 expanded on Section 3860 by prescribing when a financial instrument is to be recognized on the balance sheet and at what amount and how gains and losses are recognized. More specifically, the adoption of this section has resulted in the requirement for the Fund to mark to market all financial derivative instruments outstanding at the end of the reporting period.

Risks

The Fund, though its financial assets and liabilities, is exposed to various risk. The following analysis provides a measurement of risk as at December 31, 2007.

i) Credit risk

Credit risk is the risk that the Fund will incur a loss due to the failure by its customers or other parties to meet their contractual obligations. Financial instruments the potentially subject the Fund to significant concentrations of credit risk consist primarily of cash and cash equivalents and accounts.

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The Fund limits its exposure to credit risk by placing its cash and cash equivalents with high credit quality financial institutions.

The Fund's accounts receivable and other receivables do not have a customer who represents more than 10% of the balance as at December 31, 2007. The Fund believes that its accounts receivable risk is limited due to the high credit quality of its customers and the protection afforded to the Fund by the *Perishable Agricultural Commodities Act* ("PACA") for its sales in the United States. PACA fosters trading practices in the marketing of fresh and frozen fruits and vegetables in interstate and foreign commerce. It prohibits unfair and fraudulent practices and provides a means of enforcing contracts. Under the PACA, anyone buying or selling commercial quantities of fruit and vegetables must be licensed by the U.S. Department of Agriculture. Historical write-offs have represented less than 1% of sales. The maximum amount of credit risk exposure is limited to the carrying amount of the balances on the financial statements.

ii) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund is exposed to interest rate risk on its bank debt, for which the interest rates charged fluctuate based on the LIBOR rate. Interest is compounded daily at LIBOR plus 2.0% for the Canadian credit facilities and LIBOR plus 2.5% for the US credit facilities. The Fund has limited its interest rate risk by entering into interest rate swaps for the CAN Capital Loan (effective January 25, 2008) and has fixed rate interest contracts for its US Capital Loan. At December 31, 2007 of the \$61,111 debt; \$13,100 was at a fixed rate of interest and as of January 25, 2008 \$53,100 of debt is at a fixed rate of interest.

iii) Liquidity risk

Liquidity risk is the risk that the Fund will not be able to meet its obligations as they fall due. The following are the contractual maturities of financial liabilities as at December 31, 2007:

<u>Financial liabilities</u>	<u>Contractual cash flows</u>	<u>0 to 12 months</u>	<u>12 to 24 months</u>	<u>After 24 months</u>
Accounts payable and accrued liabilities	\$10,727	\$10,727	\$-	\$-
Bank debt	61,111	3,148	3,148	54,815
Obligation under capital lease	1,126	261	282	583
Distributions payable	365	365	-	-
	<u>\$73,365</u>	<u>\$14,501</u>	<u>3,430</u>	<u>\$55,434</u>

It is the Fund's intention to meet these obligations through the collection of current accounts receivable and cash. If the current resources and cash generated from operation are insufficient to satisfy its obligations, the Fund may seek to sell additional equity or to arrange debt or other financing. In addition the Fund has available lines of credit of US\$5 million and CAD\$12 million (as at December 31, 2007, \$3,313 is outstanding).

iv) Fair values

The carrying value of accounts receivable, other receivables, accounts payable and accrued liabilities and bank debt approximate fair value due to their short-term nature.

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12 INCOME TAXES

The provision for income taxes consists of the following components:

	<u>December 31, 2007</u>	<u>December 31, 2006</u>
Current	\$653	\$415
Future	140	1,556
	<u>793</u>	<u>1,971</u>

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, 2007</u>	<u>December 31, 2006</u>
Future tax assets:		
Intangibles	\$268	\$58
Other assets	388	-
Non-capital and farm losses	8,311	8,196
Debt and unit issuance costs	482	1,087
Long term debt	(645)	70
Scientific research and experimental development expenditures	115	239
Investment tax credits	96	59
Alternative minimum tax payments	-	229
Valuation allowance	(6,429)	(9,389)
Net future tax assets	<u>2,586</u>	<u>549</u>
Future tax liabilities:		
Property, plant and equipment	(5,314)	(3,137)
Net future tax liability	<u>(\$2,728)</u>	<u>(\$2,588)</u>

Presented in the accompanying consolidated balance sheets as:

	<u>December 31, 2007</u>	<u>December 31, 2006</u>
Current future tax assets	\$-	\$264
Non-current future tax liabilities	(2,728)	(2,852)
Net future tax liability	<u>(\$2,728)</u>	<u>(\$2,588)</u>

The actual provision for income taxes reflected in the consolidated statements of earnings for the years ended December 31, 2007 and December 31, 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, 2007</u>	<u>December 31, 2006</u>
Expected tax provision at 34%	\$1,088	\$1,033
State taxes, net of federal benefit	-	93
Non-deductible items	657	96
Foreign exchange gains	(902)	-
Tax rate differences	2,538	(221)
Other	372	(49)
Change in valuation allowance	(2,960)	1,019
	<u>\$793</u>	<u>\$1,971</u>

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Non-capital and farms losses expire as follows:

	Canada	U.S. Federal	U.S. State	Total
2009	\$-	\$-	\$501	\$510
2010	-	-	3,359	3,359
2013	2,481	-	-	2,481
2014	7,765	-	-	7,765
2015	6,876	-	-	6,876
2016	656	-	-	656
2017	35	-	-	35
2020	-	-	2,578	2,566
2021	-	-	207	207
2025	5,607	-	-	5,607
2026	2,485	-	-	2,485
2027	3,414	-	-	3,414
	<u>\$29,318</u>	<u>\$-</u>	<u>\$6,645</u>	<u>\$35,963</u>

At December 31, 2006 VFLP had available net operating loss carryforwards (“NOL’s”) of approximately \$1,295, 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, 2007 and December 31, 2006, VFLP had available NOL's primarily in the states of Pennsylvania and New Jersey of approximately \$6,512 and \$10,323, 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.

At December 31, 2007 and December 31, 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.

13 NON-CONTROLLING INTEREST

	December 31, 2007		December 31, 2006	
	Number of shares	Amount	Number of shares	Amount
Class C shares of subsidiary	<u>2,358,040</u>	<u>\$3,610</u>	<u>2,358,040</u>	<u>\$3,610</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).

14 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:

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	<u>December 31, 2007</u>	<u>December 31, 2006</u>
Revenue		
United States	\$86,562	\$78,908
Canada	25,630	5,322
Other	1,563	371
	<u>\$113,755</u>	<u>\$84,601</u>

The Funds property, plant and equipment are located as follows:

	<u>December 31, 2007</u>	<u>December 31, 2006</u>
Property, plant and equipment		
United States	\$26,779	\$27,154
Canada	44,922	43,374
	<u>\$71,701</u>	<u>\$74,528</u>

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\$1,500, of which \$1,207 has been incurred as at December 31, 2007, including \$518 for year ended December 31, 2007 and \$14 for the year ended December 31, 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, 2007:

	<u>The Fund Units and exchangeable Units</u>	
	<u># of Units</u>	<u>Amount</u>
Unit capital – January 1, 2006	7,074,116	\$57,582
Elimination of value of Fund capital on reverse takeover	-	(57,582)
Common stock of APDI, net of treasury stock	601	2,398
Elimination of legal capital of APDI on reverse takeover	(601)	-
Deemed value of common shares of APDI exchanged for PPS's of US Holdings ¹	-	16,924
Costs of acquisition, net of reimbursement	-	452
Transfer of deficit, non-controlling interest and allocation of purchase deficiency on reverse takeover	-	(7,710)
Units issued on Rights Offering	2,134,042	5,056
Units issued on private placement for Subscription Receipts	1,489,146	3,528
Unit issuance costs	-	(458)
Unit capital – December 31, 2007 & December 31, 2006	<u>10,697,304</u>	<u>\$20,190</u>

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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.

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 CAD\$2.76 per Unit for gross proceeds of CAD\$10,000, and incurred issuance costs of CAD\$533.

During the 2007 fiscal year there was no change to the Unit capital.

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, 2007, 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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Adoption of New Accounting Standard

The Unitholders' equity balance consisted of the following:

	As at December 31,	
	2007	2006
Trust Units	\$20,190	\$20,190
Accumulated earnings	2,240	(166)
Cumulative Translation Adjustment	55	55
Adjustment from adoption of new accounting standard	(395)	-
Accumulated distributions	(4,079)	-
	\$18,011	\$20,079

17 DISTRIBUTIONS TO UNITHOLDERS

Distributions paid to Unitholders for the year ended December 31, 2007 and December 31, 2006 were as follows:

Paid per unit ¹ (in CAD\$)	December 31, 2007	December 31, 2006
January	\$-	\$0.03
February	0.01	0.03
March	0.01	0.03
April	0.01	0.03
May	0.01	0.03
June	0.01	0.03
July	0.01	-
August	0.01	-
September	0.01	-
October	0.01	-
November	0.01	-
December	0.01	-
	\$0.11	\$0.18

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

18 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:

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(in thousands of United States dollars, except per Unit/share amounts and unless otherwise noted)

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 during the years ended December 31, 2007 and 2006.

19 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 \$60 and \$55 for the years ended December 31, 2007 and December 31, 2006, respectively.

20 SUBSEQUENT EVENT

In January 2008, the Fund entered into five separate interest rate swaps with terms of one to five years. These agreements swapped a total of \$43.3 million of the Fund's debt from floating to fixed interest rate debt. The rates range from 3.2% to 3.7% plus the interest rate spread (2.0% as at December 31, 2007).