

Village Farms Income Fund

Annual Consolidated Financial Statements

Year Ended

December 31, 2008

Auditors' Report

To the Unitholders of Village Farms Income Fund

We have audited the consolidated balance sheets of **Village Farms Income Fund** as at December 31, 2008 and 2007 and the consolidated statements of earnings and comprehensive earnings, accumulated earnings and cash flows for each of the years in the two-year period ended December 31, 2008. These consolidated financial statements are the responsibility of the company'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 company as at December 31, 2008 and 2007 and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2008 in accordance with Canadian generally accepted accounting principles.

(signed) PricewaterhouseCoopers LLP

Chartered Accountants

Vancouver, BC
March 17, 2009

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

	<u>December 31, 2008</u>	<u>December 31, 2007</u>
Assets	(note 1)	(note 1)
Current assets:		
Cash and cash equivalents	\$4,101	\$1,620
Accounts receivable	9,357	11,662
Other receivables (note 10)	567	769
Inventories (note 5)	11,438	11,210
Assets held for sale (note 4)	344	-
Prepays and deposits	544	458
	26,351	25,719
Property, plant and equipment (note 6)	70,489	71,701
Intangible assets (note 7)	1,508	2,687
Other assets	821	885
Total assets	\$99,169	\$100,992
 Liabilities and unitholders' equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$9,388	\$10,727
Distributions payable (note 22)	317	365
Operating line of credit (note 8)	-	3,313
Current maturities of long-term debt (note 8)	3,227	3,148
Current obligations under capital leases (note 11)	227	261
Total current liabilities	13,159	17,814
Long-term debt (note 8)	54,732	57,963
Derivatives (note 9)	2,801	-
Obligations under capital leases (note 11)	472	865
Future income taxes (note 14)	4,881	2,728
Total liabilities	76,045	79,370
Non-controlling interest (note 15)	-	3,610
Unitholders' equity:		
Trust units (note 20)	24,850	20,190
Accumulated distributions	(8,168)	(4,079)
Accumulated earnings	6,387	1,846
Cumulative translation adjustment	55	55
Total unitholders' equity	23,124	18,012
Total liabilities and unitholders' equity	\$99,169	\$100,992
Commitments and contingencies (note 19)		
Subsequent event (note 4)		
 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, 2008</u> (note 1)	<u>December 31, 2007</u> (note 1)
Accumulated earnings - Beginning of year	\$1,846	(\$166)
Net earnings	4,541	2,407
Adoption of new accounting standards (note 3)	-	(395)
Accumulated earnings - End of year	<u>\$6,387</u>	<u>\$1,846</u>

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

Village Farms Income Fund
Consolidated Statements of Earnings and Comprehensive Earnings
For the Years Ended
(In thousands of United States dollars, except for units outstanding and per unit/share amounts)

	<u>December 31, 2008</u>	<u>December 31, 2007</u>
	(note 1)	(note 1)
Net sales	\$133,099	\$113,755
Cost of sales	106,339	95,529
Gross profit	<u>26,760</u>	<u>18,226</u>
Selling, general and administrative expenses	14,334	11,079
Income from Operations	<u>12,426</u>	<u>7,147</u>
Interest expense, net	3,617	5,614
Foreign exchange loss (gain)	388	(987)
Amortization of intangible assets	1,173	1,394
Loss on derivatives (note 9)	2,801	-
Other (income), net (note 13)	(2,487)	(771)
(Gain) on sale of asset (note 4)	-	(1,303)
Earnings before income taxes	<u>6,934</u>	<u>3,200</u>
Provision for income taxes (note 14)	<u>2,393</u>	<u>793</u>
Net earnings and comprehensive earnings	<u>4,541</u>	<u>2,407</u>
Net income per Unit/share-basic	<u>\$0.12</u>	<u>\$0.07</u>
Weighted average number of units/shares outstanding-basic	<u>36,368,633</u>	<u>36,349,305</u>
Net income per Unit/share-diluted	<u>\$0.12</u>	<u>\$0.06</u>
Weighted average number of units/shares outstanding-diluted	<u>38,707,345</u>	<u>38,707,345</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, 2008</u>	<u>December 31, 2007</u>
	(note 1)	(note 1)
Cash flows from operating activities:		
Net earnings	\$4,541	\$2,407
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	6,456	6,575
Loss (gain) on sale of property	50	(1,303)
Loss on derivatives	2,801	-
Foreign exchange loss (gain)	35	-
Share based compensation	1,050	-
Future income taxes	2,153	140
Changes in non-cash working capital (note 16)	855	(3,653)
Net cash provided by operating activities	17,941	4,166
Cash flows from investing activities:		
Purchases of property, plant and equipment	(3,994)	(4,156)
Proceeds from sale of property, plant and equipment	-	9,232
Net cash provided by (used in) investing activities	(3,994)	5,076
Cash flows from financing activities:		
Proceeds (Payments on) from operating line of credit	(3,313)	3,253
Payments on long-term debt	(3,152)	(11,814)
Payments on obligations under capital leases	(427)	(196)
Cash payments to APDI shareholders (note 17)	-	(2,222)
Dividend payments to Unitholders and PPS holders (note 22)	(4,137)	(3,714)
Other	(402)	(231)
Net cash used in financing activities	(11,431)	(14,924)
Foreign exchange loss (gain)	(35)	-
Net increase (decrease) in cash and cash equivalents	2,481	(5,682)
Cash and cash equivalents beginning of year	1,620	7,302
Cash and cash equivalents end of year	\$4,101	\$1,620
Supplemental cash flow information:		
Interest paid	\$3,937	\$5,811
Income taxes paid	\$1,929	\$895

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

VILLAGE FARMS INCOME FUND
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2008

(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 (“VFF” and, together with its subsidiaries, the “Fund”) is an unincorporated open-ended limited purpose trust established under the laws of the Province of British Columbia pursuant to a Declaration of Trust dated November 10, 2003 (as amended and restated on October 18, 2006, in connection with the acquisition of Village Farms, L.P. (“VFLP”). The Fund’s principal operating subsidiaries at December 31, 2008 are Village Farms Canada Limited Partnership (“VFCLP”) and VFLP.

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

2 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 Fund and all of its subsidiaries have a December 31 year end.

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 sales allowances and the assessment of the useful lives and recoverable values of its long-lived assets. Actual results could differ materially from those estimates.

Reporting Currency

The Fund changed its reporting currency, in fiscal 2007, from Canadian dollars (“CAD”) to United States dollars (“USD”) to provide more relevant information considering its sales in USD and operations in the United States.

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 an 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.

VILLAGE FARMS INCOME FUND
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2008

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

Inventories

Inventories of Fund-grown produce consist of raw materials, labour 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, which is determined as sales less estimated cost of completion and cost to sell. 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, which approximates replacement cost

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.

Asset Impairment

Management reviews long-lived asset groups 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 group "held-for-use" is determined by comparing the carrying value of the asset group to the future undiscounted net cash flows expected to be generated from use of the asset group. If the asset group 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 group. 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 an energy supply agreement and is recorded at cost less accumulated amortization. Amortization is provided for on a straight-line basis over the life of the related contract.

Earnings per unit

Basic earnings per unit are computed using the weighted average number of common units outstanding during the period. The treasury stock method is used for the calculation of diluted earnings per unit. Under this method, the weighted average number of common units outstanding assumes that the proceeds to be received on the exercise of dilutive unit options are applied to repurchase common units at the average market price for the period. Unit options are dilutive when the average market price of the common units during the period exceeds the exercise price of the options.

Foreign Currency Translation

As of January 1, 2007, the Fund's and its subsidiaries' functional currency was determined to be USD. For the Fund's integrated foreign operations, monetary assets and liabilities are translated at year end exchange rates and other assets and

VILLAGE FARMS INCOME FUND
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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liabilities are translated at historical rates. Revenues, expenses and cash flows are translated at monthly average exchange rates. Gains and losses on translation of monetary assets and monetary liabilities are charged to earnings.

Financial Instruments

Recognition and measurement

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 initially measured at fair value and subsequently at amortized cost using the effective interest method less provisions for impairment.
- c) The Fund's accounts payable and accrued liabilities and distributions payable are initially measured at fair value and subsequently at amortized cost using the effective interest method.
- d) The Fund's long-term debt has been classified as other financial liabilities and initially measured at fair value and subsequently at amortized cost using the effective interest method.

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 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 earnings:

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

iii) Financing charges:

The adoption in 2007 by the Fund of Section 3855 resulted in it writing off to equity the 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 delivery 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 earnings.

VILLAGE FARMS INCOME FUND
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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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 collectability 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 its 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 commenced 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 earnings 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.

3 CHANGES IN ACCOUNTING POLICIES

Effective January 1, 2008, the Fund adopted the Canadian Institute of Chartered Accountants' new Handbook Sections; 3031 "Inventories", 1535 "Capital Disclosures", 3862 "Financial Instruments – Disclosures" and 3863 "Financial Instruments – Presentation". Handbook sections 3862 and 3863 replace section 3861 "Financial Instruments – Disclosure and Presentation". These recommendations have been incorporated into these audited consolidated financial statements.

Section 3031 – Inventories

This Section replaces section 3030 and provides guidance on the determination of cost and its subsequent recognition as an expense, including any write-down to net realizable value, and on the cost formulas that are used to assign costs to inventories. The recommendations also clarify that major spare parts are to be included in property, plant and equipment. Adoption of this section did not have a material impact on the Fund's financial statements.

Section 1535 – Capital Disclosures

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

This Section establishes standards for disclosing information about an entity's capital and how it is managed. Under this standard, the Fund is required to disclose qualitative and quantitative information that enables users of the financial statements to evaluate the Fund's objectives, policies and processes for managing capital (note 21).

Section 3862 – Financial Instruments – Disclosures

This Section requires entities to provide disclosure of quantitative and qualitative information in their financial statements that enable readers to evaluate (a) the significance of financial instruments for the entity's financial position and performance; and (b) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and management's objectives, policies and procedures for managing such risks (note 12).

Section 3863 – Financial Instruments – Presentation

This Section establishes standards for presentation of financial instruments and non-financial derivatives.

Future Accounting Changes

Goodwill and Intangible Assets

The CICA has issued new accounting recommendations for goodwill and intangible assets which establish standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets (including internally developed intangible assets). These recommendations were adopted by the Fund effective January 1, 2009. Goodwill and intangible assets that are not assets as defined by GAAP will be derecognized and charged to the equity of the Fund at that date. The Fund is currently evaluating the impact this standard will have on its consolidated financial statements.

International Financial Reporting Standards (IFRS)

In February 2008, the Canadian Accounting Standards Board confirmed that International Financial Reporting Standards will replace Canada's current generally accepted accounting principles for publicly accountable profit oriented enterprises effective January 1, 2011. The transition date of January 1, 2011 will require the restatement, for comparative purposes, of amounts reported for the year ended December 31, 2010. The Fund is presently evaluating the effect these standards will have on its consolidated financial statements.

4 ASSETS HELD FOR SALE

In February 2009, the Fund executed a contract for the sale of its greenhouse facility in Ringgold, Pennsylvania and entered into a marketing agreement with the buyer. The Fund will record a gain on sale of approximately \$150.

In September 2007, the Fund executed a contract for the sale of its Abbotsford, British Columbia greenhouse facility. The facility had a book value of \$1,788. The Fund received net proceeds of approximately \$3,133. A gain on sale of asset of \$1,303 was realized.

5 INVENTORY

	<u>December 31, 2008</u>	<u>December 31, 2007</u>
Crop inventory	\$11,356	\$10,997
Purchased produce inventory	82	213
	\$11,438	\$11,210

The cost of inventories recognized as expense and included in "cost of sales" for the year ended December 31, 2008 amounted to \$87,035 (December 31, 2007 - \$76,114).

VILLAGE FARMS INCOME FUND
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2008

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

6 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

	<u>December 31, 2008</u>	<u>December 31, 2007</u>
Cost		
Land	\$5,117	\$5,230
Leasehold and land improvements	2,033	2,033
Greenhouses and buildings	57,068	57,125
Greenhouse equipment	28,413	27,348
Machinery and equipment	2,341	2,060
Construction in progress	1,945	48
	<u>96,917</u>	<u>93,844</u>
Accumulated amortization		
Leasehold and land improvements	1,001	838
Greenhouses and buildings	15,474	12,902
Greenhouse equipment	8,692	7,482
Machinery and equipment	1,261	921
	<u>26,428</u>	<u>22,143</u>
Net book value		
Land	5,117	5,230
Leasehold and land improvements	1,032	1,195
Greenhouses and buildings	41,594	44,223
Greenhouse equipment	19,721	19,866
Machinery and equipment	1,080	1,139
Construction in progress	1,945	48
	<u>\$70,489</u>	<u>\$71,701</u>

Capital lease assets of \$1,133 at December 31, 2008 and December 31, 2007 and accumulated amortization on these assets of \$348 and \$216 are included within greenhouse equipment.

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

7 INTANGIBLE ASSETS

	<u>December 31, 2008</u>	<u>December 31, 2007</u>
Cost		
Natural gas forward purchase agreement (a)	\$2,627	\$2,627
Thermal energy supply agreement (b)	1,735	1,735
	<u>4,362</u>	<u>4,362</u>
Accumulated amortization		
Natural gas forward purchase agreement	2,627	1,551
Thermal energy supply agreement	227	124
	<u>2,854</u>	<u>1,675</u>
Net book value		
Natural gas forward purchase agreement	-	1,076
Thermal energy supply agreement	1,508	1,611
	<u>\$1,508</u>	<u>\$2,687</u>

- a) VFCLP held 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 expired on October 31, 2008. The estimated fair value of the contract at the date of the Fund's October 18, 2006 acquisition was included in intangible assets and was amortized on a straight-line basis over the remaining life of the contract.

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- 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 a 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, 2008 and December 31, 2007, debt consists of the following:

	<u>December 31, 2008</u>	<u>December 31, 2007</u>
CAN Operating Loan (i)	<u>\$-</u>	<u>\$3,313</u>
CAN Capital Loan (ii)	43,709	44,961
CAN FX Facility (iii)	-	-
US Operating Loan (iv)	-	-
US Capital Loan (v)	<u>14,250</u>	<u>16,150</u>
	<u>57,959</u>	<u>61,111</u>
Less current maturities	<u>(3,227)</u>	<u>(3,148)</u>
Long-term portion	<u>\$54,732</u>	<u>\$57,963</u>

Canadian Credit Facilities

The Canadian credit facilities include:

- (i) Revolving variable rate operating loan of up to CAD\$12 million with a term of 364 days (the "CAN Operating Loan");
- (ii) Non-revolving variable rate capital loan with a balance of \$43,709 with a maturity date on October 31, 2011 (the "CAN Capital Loan"); and
- (iii) Foreign exchange contracts facility for the purchase and/or sale of U.S. funds (the "CAN FX Facility").

Interest payable on funds borrowed under the Canadian credit facilities are calculated by way of one or more of Canadian Prime Rate borrowings, Credit Instrument borrowings, U.S. Base Rate borrowings, LIBOR borrowings, Bankers' Acceptances borrowings, Cost of Funds Borrowing, or any combination thereof.

The CAN Operating Loan is subject to annual renewal by the bank. The Fund as at December 31, 2008 used LIBOR borrowings to calculate interest payable. The outstanding balance of the CAN Capital Loan is repayable by way of 48 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, 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 Canadian credit facilities and loans as at December 31, 2008 was \$14 (December 31, 2007 - \$266) and these amounts are included in Accounts payable and accrued liabilities. As at December 31, 2008, the interest rate is 2.48% (December 31, 2007 - 6.85%). The Fund has entered into a fixed for floating rate interest rate swap as described in note 9. The interest expense for the year ended December 31, 2008 was \$2,776 (December 31, 2007 - \$4,700). During the years ended and at December 31, 2008 and 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.

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.

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

VFCLP and certain of its direct and indirect subsidiaries have provided full recourse guarantees of the Canadian credit facilities and have granted security therein. The Canadian credit facilities, in all cases, are senior in priority to the securities of VFCLP indirectly held by the Fund, which have been pledged as collateral. The carrying value of these securities pledged as collateral as at December 31, 2008 was \$70,489 (December 31, 2007 - \$70,165)

United States Credit Facilities

The U.S. credit facilities include:

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

The US Capital Loan is amortized on a 10-year schedule, with quarterly principal payments of \$475. The term may be renewed beyond June 20, 2016 only upon amendment of the facility. As at December 31, 2008, borrowings under the term loan facility are subject to fixed rates of interest, on varying principal amounts, ranging from 4.80% to 6.21%, with three month expiration dates. The total fixed portion of the term loan facility is \$14,000. The interest rate on the unfixed portion is LIBOR plus 2.50% (2.95% as at December 31, 2008). Interest on the US Capital Loan will be, at the Fund’s option, seven-day LIBOR plus the applicable margin, or the one, two, three or six month 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. As at December 31, 2008, the Fund used a quoted fixed rate and the seven day LIBOR plus the applicable margin.

Accrued interest payable on the US credit facilities as at December 31, 2008 was \$71 (December 31, 2007 - \$90) and these amounts are included in Accounts payable and accrued liabilities. As at December 31, 2008, the interest rate was 2.95% (December 31, 2007 - 6.99%). The interest expense for the year ended December 31, 2008 was \$908 (December 31, 2007 - \$1,135). At December 31, 2008, 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, 2008 and December 31, 2007.

All of the Fund’s U.S. subsidiaries 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 such subsidiaries; accordingly, such obligations rank senior to the securities of VFCLP indirectly held by the Fund. The carrying amount of these assets pledged as collateral as at December 31, 2008 was \$25,646 (December 31, 2007 – \$26,779). The loan agreement requires VFCLP to satisfy certain affirmative and negative covenants including a minimum debt service coverage and current ratio. In addition, VFCLP will be permitted to declare and pay distributions of up to 50% of distributable income as defined therein.

There is a difference between the CoBank loan document and the Fund’s definition of distributable income as defined therein. VFCLP asked for a waiver from CoBank due to this issue; as a result CoBank issued a waiver deferring the application of the distributable income calculation covenant to December 31, 2009, provided that the Fund converts to a corporation by December 31, 2009.

The aggregate annual maturities of long-term debt as at December 31, 2008 are as follows:

2009	\$ 3,227
2010	3,227
2011	42,955
2012	1,900
2013	1,900
Thereafter	4,750
	<u>\$57,959</u>

9 DERIVATIVES

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On January 17, 2008, the Fund entered into 5 fixed for floating interest rate swap agreements effective from January 25, 2008 through January 25, 2013 in the notional amount of \$43,300 in order to reduce the interest rate variability on its CAN Capital Loan. The Fund has effectively fixed its interest expense on its CAN Capital Loan at 5.66%. The Fund recognized a loss of \$2,801 for the year ended December 31, 2008 which represented the mark-to-market adjustment of the interest rate swap agreements. The Fund has not designated the swap agreements as a hedge for accounting purposes. The fair value of the interest rate swap agreements as at December 31, 2008 was a liability of (\$2,801). The interest rate swap agreements are as follows:

<u>Term</u>	<u>Amount</u>	<u>Interest Rate</u>
January 25, 2008 - January 28, 2009	\$1,200	5.36%
January 25, 2008 - January 28, 2010	\$1,200	5.20%
January 25, 2008 - January 28, 2011	\$1,200	5.32%
January 25, 2008 - January 28, 2012	\$1,200	5.50%
January 25, 2008 - January 28, 2013	\$38,500	5.70%

The interest rates in the above table include a 2% premium to LIBOR which will be adjusted downward upon satisfying certain ratio targets.

10 RELATED PARTY TRANSACTIONS AND BALANCES

In relation to the October 18, 2006 combination transaction, a trustee of the Fund earned a fee of CAD\$190, of which payment of CAD\$95 was deferred to fiscal 2007 and 2008. During fiscal 2008, CAD\$47 was paid and in 2007, CAD\$48 was paid. This fee was negotiated and approved by the Board of Trustees of Hot House Growers Income Fund ("HHGI"), the Fund's predecessor.

During fiscal 2007, the Fund paid realtor commission fees of CAD\$364 to a company of which a trustee of the Fund is a director.

Included in other receivables is a \$379 promissory note from an employee of the Fund in connection with a relocation at the request of 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 advanced on this employee's behalf in connection with the relocation.

11 LEASE COMMITMENTS

Obligations Under Capital Leases

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

2009	\$272
2010	272
2011	224
2012	11
2013	-
Thereafter	-
Total minimum lease payments	<u>779</u>
Less amount representing interest	<u>(80)</u>
	699
Current portion	<u>(227)</u>
Long-term portion	<u>\$472</u>

These leases have interest rates ranging from 6.0% to 8.5%. The Fund has made payments of \$241 during the year ended December 31, 2008 (December 31, 2007 - \$246). Interest paid on capital leases amount to \$70 during the year ended December 31, 2008 (December 31, 2007 - \$86).

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Operating Leases

As at December 31, 2008, 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, 2008 are as follows:

2009	\$829
2010	831
2011	779
2012	770
2013	595
Thereafter	331
	<u>\$4,135</u>

Rent expense under the Fund's various operating lease agreements totaled \$1,149 for the year ended December 31, 2008 (December 31, 2007 - \$222) and is included in cost of goods sold and selling, general and administrative expenses.

12 FINANCIAL INSTRUMENTS

As indicated in note 3, the Fund adopted CICA Sections 3862 and 3863 on January 1, 2008. There have been no changes in classification of financial instruments since December 31, 2007.

The following table summarizes the carrying value of the Fund's financial instruments:

	<u>December 31, 2008</u>	<u>December 31, 2007</u>
Held for trading (cash and Cash equivalents)	\$4,101	\$1,620
Receivables	9,357	11,662
Other financial liabilities	68,363	76,642

Interest income and other gains and losses from "held for trading" and "held to maturity" financial assets are recognized in interest expense and selling, general and administration. Interest income, expense and gains and losses from loans, receivables and other financial liabilities are recognized in interest expense, loss on derivatives and other income. The following table summarizes interest income and expense for the years ended December 31, 2008 and 2007:

	<u>December 31, 2008</u>	<u>December 31, 2007</u>
Interest income from - held for trading assets	\$68	\$223
Interest expense from - other financial liabilities	3,685	5,837

Risks

The Fund, through its financial assets and liabilities, is exposed to various risks. The following analysis provides a measurement of certain of these risks as at December 31, 2008. The Fund uses derivative financial instruments only for risk management purposes, not for generating trading profit.

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 that potentially subject the Fund to significant concentrations of credit risk consist primarily of cash and cash equivalents and accounts receivable.

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

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The Fund's accounts receivable and other receivables do not have a customer who represents more than 10% of the balance of such receivables as at December 31, 2008. 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* (the "PACA") for its sales in the United States, which represents approximately 75% of the Fund's sales. The PACA protection gives a claim filed under the PACA, first lien on all PACA assets (which includes cash and accounts receivable). The 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. 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.

Given the current economic environment, accounts receivable for each customer at year end were evaluated for collectability and an allowance for doubtful accounts has been estimated. A general provision is also taken based on the Fund's historic exposure to bad debts based on revenue. At December 31, 2008, the allowance for doubtful accounts balance was \$537(December 31, 2007 - \$371). In addition, the Fund recorded a bad debt expense of \$735 during the year ended December 31, 2008 (December 31, 2007 - \$145). The Fund wrote off \$371 in accounts receivable during fiscal 2008 for amounts previously provided for (December 31, 2007 - \$214) based on a review of the collectability of these amounts.

At December 31, 2008, 11.4% (2007 - 16.6%) of trade receivables were outstanding for more than 90 days, 10.0% (2007 - 12.1%) were outstanding for between 30 and 90 days and the remaining 78.5% (2007 - 71.3%) were outstanding less than 30 days. Trade receivables are considered past due based on the contract terms agreed to with a customer. As noted above, aged receivables that are past due are not considered impaired unless customer specific information indicates otherwise.

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 five interest rate swap agreements for the CAN Capital Loan and has fixed rate interest contracts for its US Capital Loan.

The Fund is exposed to interest rate risk on its bank debt for which interest rates charged fluctuate and the value of the related interest rate swap agreement. If interest rates had been 50 basis points higher (lower), the net income during the 2008 fiscal year would have been higher by \$144, \$217 in gain on derivatives partially offset by \$73 in additional interest expense (2007 - \$306 lower, \$306 in additional interest expense and nil in loss on derivatives).

iii) Foreign exchange risk

At December 31, 2008, the Canadian/US foreign exchange rate was CAD \$1.00 = \$0.8210 (2007- 0.9913). Assuming that all other variables remain constant, an increase of \$0.10 in the Canadian dollar would have the following impact on the ending balances of certain balance sheet items at December 31, 2007 and 2008, with the net foreign exchange gain or loss directly impacting net loss for fiscal 2008 and 2007.

	<u>December 31, 2008</u>	<u>December 31, 2007</u>
Financial assets		
Cash and Cash equivalents)	\$82	\$3
Trade accounts receivables	227	268
Financial liabilities		
Accounts payable and accrued liabilities	(263)	(464)
Operating line of credit	-	(331)
Obligations under capital lease	(85)	(113)
Net foreign exchange loss	<u>(39)</u>	<u>(637)</u>

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iv) 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, 2008:

<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	\$9,388	\$9,388	\$-	\$-
Bank debt	57,959	3,227	3,227	51,505
Obligation under capital lease	779	272	272	235
Distributions payable	317	317	-	-
	<u>\$68,443</u>	<u>\$13,2041</u>	<u>\$3,499</u>	<u>\$51,740</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 operations are insufficient to satisfy its obligations, the Fund may seek to issue additional equity or to arrange debt or other financing. In addition, the Fund has available lines of credit of US\$5,000 and CAD\$12 million (as at December 31, 2008, nil is outstanding on either line of credit).

v) Fair values

The carrying amount of short-term financial instruments, less provisions for impairment if applicable, is used to estimate the fair value of such instruments. The Fund's debt bears a variable interest rate and therefore its carrying value approximates its fair value. The fair value of derivatives is determined based on published interest rates and contractual terms of the interest rate swap agreements.

13 OTHER INCOME

The Fund had other income for the year ended December 31, 2008 of \$2,487 and \$771 for the year ended December 31, 2007. For the year ended December 31, 2008, the income primarily consisted of a \$1,128 vendor settlement, a \$609 sale of excess hedged natural gas, \$200 in government subsidies, a \$173 bank dividend and \$183 from back property taxes due from a tenant. For the year ended December 31, 2007, the income primarily consisted of, a \$187 bank dividend, \$248 of return of insurance premiums, a \$134 write-off of a capital lease, an \$82 vendor rebate and a \$48 sales tax refund paid on electricity.

14 INCOME TAXES

The provision for income taxes consists of the following components:

	<u>December 31, 2008</u>	<u>December 31, 2007</u>
Current	\$240	\$653
Future	2,153	140
	<u>2,393</u>	<u>793</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, 2008</u>	<u>December 31, 2007</u>
Future tax assets:		
Intangibles	\$348	\$268
Other assets	400	388
Non-capital and farm losses	5,787	8,311
Debt and unit issuance costs	45	482
Long term debt	388	(645)
Scientific research and experimental development expenditures	90	115
Investment tax credits	79	96
Capital losses	88	-
Valuation allowance	(5,753)	(6,429)
Net future tax assets	<u>1,472</u>	<u>2,586</u>
Future tax liabilities:		
Property, plant and equipment	(6,353)	(5,314)
Net future tax liability	<u><u>(\$4,881)</u></u>	<u><u>(\$2,728)</u></u>

Presented in the accompanying consolidated balance sheets as at:

	<u>December 31, 2008</u>	<u>December 31, 2007</u>
Current future tax assets	\$-	\$-
Non-current future tax liabilities	(4,881)	(2,728)
Net future tax liability	<u><u>(\$4,881)</u></u>	<u><u>(\$2,728)</u></u>

The actual provision for income taxes reflected in the consolidated statements of earnings for the years ended December 31, 2008 and December 31, 2007 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, 2008</u>	<u>December 31, 2007</u>
Expected tax provision at 31%	\$2,102	\$1,088
Non-deductible items	1,544	657
Foreign exchange gains	(2,059)	(902)
Derivatives loss	868	-
Tax rate differences	1,835	2,538
Other	(1,222)	372
Change in valuation allowance	(675)	(2,960)
	<u><u>\$2,393</u></u>	<u><u>\$793</u></u>

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Non-capital and farms losses expire as follows:

	Canada	U.S. State	Total
2010	\$2,012	\$1,894	\$3,906
2013	6,315	-	6,315
2014	4,456	-	4,456
2020	-	2,526	2,526
2021	-	207	207
2025	9,348	-	9,348
2027	1,206	-	1,206
2028	357	-	357
	<u>\$23,694</u>	<u>\$4,627</u>	<u>\$28,321</u>

Capital losses with no expiry are: \$48

At December 31, 2008 and December 31, 2007, VFLP had available net operating loss carryforwards (“NOLs”) primarily in the states of Pennsylvania and New Jersey of approximately \$4,627 and \$6,512, respectively, to reduce future state taxable income. The Pennsylvania NOLs expire in 2020 and 2021; the New Jersey NOLs expires in 2010.

At December 31, 2008 and December 31, 2007, the Fund provided a valuation allowance against its federal deferred tax asset based on its evaluation that it was more likely than not that these assets would not be realized.

15 NON-CONTROLLING INTEREST

	December 31, 2008		December 31, 2007	
	Number of shares	Amount	Number of shares	Amount
Class C shares of subsidiary	<u>0</u>	<u>\$nil</u>	<u>2,358,040</u>	<u>\$3,610</u>

The former owners of the HHGI 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 2006 combination transaction between HHGI and VFLP, 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.

On December 29, 2008, the holders of the Class C shares exchanged their 2,358,040 Class C shares for 2,358,040 units of the Fund.

16 CHANGES IN NON-CASH WORKING CAPITAL

	For the year ended December 31,	
	2008	2007
Accounts receivable	\$2,305	(\$3,065)
Inventories	(228)	(117)
Other current assets	202	392
Prepays and deposits	(86)	50
Accounts payable and accrued liabilities	<u>(1,338)</u>	<u>(813)</u>
	<u>\$855</u>	<u>(\$3,653)</u>

17 CASH PAYMENTS TO APDI SHAREHOLDERS

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In connection with the October 18, 2006, combination transaction with of Village Farms, L.P., the previous shareholders of ADPI were paid the remaining dividend of \$2,222 in January 2007.

18 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>For the year ended December 31,</u>	
	<u>2008</u>	<u>2007</u>
Revenue		
United States	\$100,191	\$86,562
Canada	32,085	25,630
Other	823	1,563
	<u>\$133,099</u>	<u>\$113,755</u>

The Fund's property, plant and equipment are located as follows:

	<u>December 31, 2008</u>	<u>December 31, 2007</u>
Property, plant and equipment		
United States	\$25,646	\$26,779
Canada	44,843	44,922
	<u>\$70,489</u>	<u>\$71,701</u>

19 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 (the "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 alleged that the nitrogen levels may be a result of fertilizer discharge from such 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 \$1,500, of which \$1,207 has been incurred as at December 31, 2008, including \$nil for the year ended December 31, 2008 and \$518 for the year ended December 31, 2007. Management 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 trustees, 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 trustees, directors and officers.

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20 TRUST UNITS AND EQUITY

The following is a summary of changes in unitholders' and shareholders' capital from January 1, 2007 to and including December 31, 2008:

	The Fund Units and exchangeable Units	
	# of Units	Amount
Unit capital – January 1, 2007 and December 31, 2007	10,697,305	\$20,190
PPSs converted into Fund Units	385,000	1,050
Class C shares converted into Fund Units	2,358,040	3,610
Unit capital – December 31, 2008	13,440,345	\$24,850

During the first quarter of 2008, an exchange of 3,850 participating preferred shares (“PPS”) for 385,000 ordinary units of the Fund (“Units”) was completed as part of a share based compensation arrangement (see below).

As at December 31, 2008, 252,670 PPSs remain outstanding and if exchanged for Units would represent an additional 25,267,000 Units.

On December 29, 2008, the holder of the 2,358,040 Class C shares of Village Farms Canada Inc. (“VF Canada”) exchanged all of these Class C shares for 2,358,040 Units.

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 PPSs carry rights to dividends from VF U.S. Holdings Inc. (“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 PPSs 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 therefore, 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 PPSs 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 PPSs 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 were 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 entitled the holder

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thereof to one vote at all meetings of voting unitholders. Special voting units were to be cancelled on the exchange for Fund Units with the Class C exchange as described above.

The Unitholders' equity balance consisted of the following:

	As at December 31,	
	2008	2007
Trust Units	\$24,850	\$20,190
Accumulated earnings	6,387	2,240
Cumulative Translation Adjustment	55	55
Adjustment from adoption of new accounting standard	-	(394)
Accumulated distributions	(8,168)	(4,079)
	\$23,124	\$18,012

Share-Based Compensation

During 2008, the owners of the PPS transferred 3,850 PPS to Fund employees in a one-time share-based compensation arrangement. The Fund employees were required to immediately convert all of the 3,850 the PPS into Units upon receipt. The conversion was to 385,000 Units with a fair value of \$1,050 at the time of the conversion.

21 CAPITAL DISCLOSURES

The Fund's objectives when managing capital are to safeguard its assets and maintain a competitive cost structure, continue as a going concern and provide returns to its unitholders in the form of distributions. In addition, the Fund works with all relevant stakeholders to ensure the safety of its operations and employees and remain in compliance with all environmental regulations.

The Fund's main objectives when managing capital are:

- to structure repayment obligations in line with the expected life of the Fund's principal revenue generating assets;
- to ensure the Fund has access to capital to fund contractual obligations as they become due and to ensure adequate cash levels to withstand deteriorating economic conditions; and
- to maintain the Fund's credit ratings to facilitate access to capital markets at competitive interest rates.

The Fund's capital is comprised of net debt and equity:

	December 31, 2008	December 31, 2007
Total bank debt	\$57,958	\$64,424
Less cash and cash equivalents	(4,101)	(1,620)
Net debt	53,857	62,804
Total equity	23,124	18,012
	\$76,981	\$80,816

Management determines the level of cash distributions based on the level of cash flow from operations before working capital changes less actual capital expenditures, a reserve for future major capital replacements and a contingency reserve. During each year, distributions are based on estimates of full year cash flow and capital spending; thus distributions may be adjusted as these estimates change. It is expected that normal seasonal fluctuations in working capital will be funded from cash resources or the revolving short-term credit facility, and will therefore not significantly affect distribution levels.

There is a difference between the CoBank loan document and the Fund's definition of distributable income as defined therein. VFPL asked for a waiver from CoBank due to this issue; as a result CoBank issued a waiver deferring the application of the distributable income calculation covenant to December 31, 2009, provided that the Fund converts to a

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corporation by December 31, 2009. During the year ended December 31, 2008, the Fund was in compliance with all other external capital requirements and covenants related to its debt facilities.

22 DISTRIBUTIONS TO UNITHOLDERS

Distributions paid to unitholders for the year ended December 31, 2008 and 2007 were as follows:

Paid per unit ¹ (in CAD\$)	<u>December 31, 2008</u>	<u>December 31, 2007</u>
January	\$0.01	\$-
February	0.01	0.01
March	0.01	0.01
April	0.01	0.01
May	0.01	0.01
June	0.01	0.01
July	0.01	0.01
August	0.01	0.01
September	0.01	0.01
October	0.01	0.01
November	0.01	0.01
December	0.01	0.01
	<u>\$0.12</u>	<u>\$0.11</u>

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

23 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 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:

<u>Percentage by which distributable cash per Unit exceeds base distribution threshold</u>	<u>Maximum portion of excess distributable cash available for LTIP payments</u>
0 to 5%	0%
Over 5% to 10%	10% 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, 2008 and 2007.

24 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

VILLAGE FARMS INCOME FUND
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2008

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

matches up to 25% of the first 6% of employee contributions. Matching contributions totaled \$63 and \$60 for the years ended December 31, 2008 and December 31, 2007, respectively.

Commencing July 1, 2008, VFCLP began sponsoring a Group Registered Retirement Savings Plan that provides that participating employees are eligible to make contributions. VFCLP matches up to 25% of the first 6% of employee contributions. Matching contributions totaled CAD\$4 for the year ended December 31, 2008.