

Village Farms Income Fund

Management's Discussion and Analysis

Year Ended December 31, 2008

March 25, 2009

Management's Discussion and Analysis

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

Introduction

This management's discussion and analysis ("MD&A") should be read in conjunction with the audited consolidated financial statements and accompanying notes of Village Farms Income Fund (the "Fund"), for the year ended December 31, 2008. The information provided in this MD&A is current to March 25, 2009 unless otherwise noted.

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). The Fund was created to invest in the vegetable greenhouse production business, through the acquisition of a controlling interest in Village Farms Canada Inc. ("VF Canada"). The Fund's principal operating subsidiaries at December 31, 2008 are Village Farms Canada Limited Partnership ("VFCLP") and Village Farms, L.P. ("VFLP").

In this MD&A, "Village Farms" refers to the business carried on by the Fund and its subsidiaries.

Conversion Plans

The Fund is planning to convert from an income trust to a Canadian public corporation no later than December 31, 2009. The timing of the conversion date has been selected in order to facilitate the transaction in the most economical and feasible manner as a conversion date other than year end would result in additional tax compliance fees and other tax complications.

Distributions

The Fund's policy is to distribute annually to unitholders available cash provided by operations after cash required for capital expenditures, working capital reserves, growth capital reserves and other reserves considered advisable by the trustees of the Fund. In light of the ongoing uncertainties and challenging economic times, as well as to create a reserve for the cost of converting the Fund's income trust structure by the end of calendar year 2009 into a regular Canadian public corporation and its intent to accelerate its growth initiatives, the Trustees of the Fund believe it is prudent to conserve cash for these reasons and as such have reduced the monthly distribution to one-half cent per Unit effective March 2009.

Business Overview

Management believes that Village Farms is one of the largest producers, marketers and distributors of premium-quality, greenhouse-grown tomatoes, bell peppers and cucumbers in North America. This premium product as well as product produced under exclusive arrangements with other greenhouse producers is grown in sophisticated, highly intensive agricultural greenhouse facilities located in British Columbia and Texas and is marketed and distributed under its Village Farms® brand name, primarily to retail supermarkets and dedicated fresh food distribution companies. The Fund markets and distributes throughout the United States and Canada, with limited sales to Japan. It currently operates five distribution centres located across the United States and Canada. Since its inception, Village Farms has been guided by a sustainable agriculture policy which integrates three main goals – environmental health, economic profitability and social and economic equality.

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

- utilizing integrated pest management techniques that use "beneficial bugs" to control unwanted pests. The use of natural biological control technology keeps plants and their products virtually free of chemical agents. The process includes regular monitoring techniques for threat identification, development of appropriate, tailored response strategies and the execution of these strategies;

- capturing rainwater from various greenhouse roofs for irrigation purposes;
- recycling water and nutrients during the production process;
- growing plants in natural medium, including coconut fibre, rock wool and wood chips, as opposed to growing in the soil and depleting nutrients; and
- using dedicated environmental control computer systems which monitor and control virtually all aspects of the growing environment, thereby maximizing the efficient use of energy.

Village Farms' assets include seven greenhouses providing 916,158 square metres (232 acres) of growing space in Canada and the United States. All of Village Farms' greenhouses are constructed of glass, aluminum and steel, and are located on land owned or leased by Village Farms. In November 2006, VFLP opened a 5,400 square metre research facility in order to conduct testing of new growing technologies and methods. The Fund has commenced selling the crop that is grown at the research facility. VFLP also has exclusive marketing agreements with growers in Canada and Mexico that currently operate approximately 725,000 square metres of growing area.

The Fund is currently seeking financing for an additional 20 acre greenhouse facility in the United States. The greenhouse will employ the closed greenhouse system that Village Farms has been testing for the last two years in its research greenhouse. The Fund will not start construction until it has obtained an appropriate level of financing.

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

In 2007, the Fund sold its Pitt Meadows and Abbotsfort, British Columbia properties for net proceeds of \$6,456 and \$3,133, respectively. The net proceeds of these sales were used to pay down the CAN Capital Loan (as defined below.)

The following table outlines Village Farms' greenhouse facilities:

Greenhouse Facility	Growing Area		Products Grown
	Square Metres	Acres	
Marfa, TX (3 greenhouses)	318,460	82	Tomatoes on-the-vine, beefsteak tomatoes, specialty tomatoes
Fort Davis, TX	156,530	40	Tomatoes on-the-vine
Delta, BC (3 greenhouses)	441,168	110	Tomatoes on-the-vine, beefsteak tomatoes, specialty tomatoes
Total	916,158	232	

Crop Cycles

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

Northern Facilities

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

Southern Facilities

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

International Consulting

The Fund is currently discussing feasibility studies of the closed greenhouse system for companies outside of North America. The Fund's role would be to provide consulting services for the building and operation of these greenhouses.

Marketing

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

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

The Fund has distribution capabilities that it believes exceed those of any competitor in the North American greenhouse vegetable industry. With owned or leased distribution centres in New York, Texas, Pennsylvania, Washington and British Columbia, the Fund provides its customers with flexibility in purchasing. Historically, Village Farms has had an on-time delivery record of 99.2%, while maintaining competitive freight rates that management of Village Farms believes to be among the best in the industry.

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

- **Year Round Supplier.** Year round production capability of the Fund enhances customer relationships, resulting in more consistent pricing.
- **Quality and Food Safety.** Sales are made directly to retailers which ensures control of the product from seed to customer and results in higher levels of food safety, shelf life and quality control. Food safety is an integral part of the Fund's operations, and management believes that it has led and currently leads the industry in adopting Good Agricultural Practices. This program is modeled after the U.S. Food & Drug Administration's Good Manufacturing Practices using the Primus Labs® format and third party auditors. All the Fund's packing facilities have recently undergone successful comprehensive food safety audits by Primus Labs®. In December 2008 all the VFLP Texas greenhouse facilities received perfect (100%) food safety scores.
- **Quality Packaging and Presentation.** Product is selected at a uniform size and picked at the same stage of vine ripeness. The packaging for the product is "display ready", ensuring retail customers have a full view of the product on the supermarket shelf.
- **Direct Sale to Retail Customers.** Greenhouse produce (produce grown by the Fund plus third-party produce) is sold directly to supermarket chains, including Albertson's Inc., Associated Grocers, Associated Wholesale Grocers, Costco Wholesale, Fred Meyer, The Golub Corporation, Harris Teeter, HEB Grocery Company, The Kroger Co., Loblaw Companies, Market Basket, Mars Supermarkets, Meijer, Inc., Military Produce, Overwaitea Food Group, Publix Super Markets, Inc., Richfoods, Inc.,

Safeway Inc., Safeway Canada, Unified Western Grocers, Wakefern Food Corp., Wegmans Food Markets Inc., Weis Markets, Whole Foods Market, Winco Foods LLC and Woodman's Food Market.

- **Excellence in Customer Service and Logistics.** Logistics and distribution capability are key factors in ensuring fresh high quality product to meet consumer demands. Management of Village Farms believes it has a competitive advantage through its logistics and distribution network which includes strategically located distribution centres.

Village Farms markets, sells, and distributes all of its products, including products sold under exclusive marketing arrangements with its Canadian and Mexican greenhouse operations.

Results of Operations

Consolidated Financial Performance

	For the three months ended	
	December 31,	
	2008	2007
Revenue	\$30,422	\$31,959
Gross profit	6,860	9,542
Selling, general and administrative	3,749	3,356
Interest expense, net	845	1,110
Other cost	2,109	39
Net earnings	(1,090)	4,779
EBITDA (1)	6,077	8,660
Earnings per Unit basic	(\$0.03)	\$0.13
Earnings per Unit diluted	(\$0.03)	\$0.12

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

Results of Operations for the Three Months Ended December 31, 2008 Compared to the Three Months Ended December 31, 2007

Revenue

Revenue for the three month period ended December 31, 2008 decreased \$1,537 or 5% to \$30,422 from \$31,959 for the three month period ended December 31, 2007. The decrease in revenue is primarily due to lower selling prices for tomatoes, partially offset by an increase in revenues related to product sold on behalf of our exclusive partners.

The average selling price, for the three months ended December 31, 2008 versus the three months ended 2007; for tomatoes was a decrease of 15%, for peppers was a decrease of 12% and for cucumbers was a decrease of 16%. The price decrease in the fourth quarter 2008 was a result of average pricing returning to historical averages from an above price in the fourth quarter of 2007. For the three months ended December 31, 2008 tomato pounds sold for 2008 increased 11% over 2007; pepper pounds sold for the three months ended December 31, 2008 increased 8% over 2007 and cucumber pieces sold for three months ended December 31, 2008 decreased 16% over 2007.

Gross Profit

Gross profit for the three month period ended December 31, 2008 decreased \$2,682 to \$6,860 from \$9,542 for the three month period ended December 31, 2007. Gross profit margins decreased 7% to 23% for the three months ended December 31, 2008 from 30% for the three months ended December 31, 2007, primarily due to decreased selling prices for tomatoes due to market conditions as well as increased third party sales that have a lower gross profit margin.

Selling, General and Administrative Expenses

Selling, general and administrative expenses for the three month period ended December 31, 2008 increased \$393 or 12% to \$3,749 from \$3,356 for the three month period ended December 31, 2007. The increase is primarily due to planned increases in personnel costs, which include increased accruals for performance-based bonuses over 2007 levels and additional personnel.

Interest Expense, Net

Interest, net for the three month period ended December 31, 2008 decreased \$265 or 24% to \$845 from \$1,110 for the three month period ended December 31, 2007. The decrease is due to lower debt balances and lower borrowing costs.

Other Cost

Other cost for the three month period ended December 31, 2008 decreased \$2,072 to \$2,111 from \$39 for the three month period ended December 31, 2007. The decrease was primarily due to a \$3,228 non-cash loss on derivatives, partially offset by an increase in other income from a vendor settlement.

Net (loss) income

Net (loss) income for the three month period ended December 31, 2008 decreased \$5,869 to a loss of (\$1,090) from an income of \$4,779 for the three month period ended December 31, 2007. The decrease was primarily due to a decrease in gross profit of \$2,682 and a \$3,228 non-cash loss on derivatives.

Net income adjusted for the \$3,228 non-cash loss on derivatives would have been \$2,138 for the three months ended December 31, 2008, a decrease of \$2,641 from \$4,779 for the three month period ended December 31, 2007, which essentially is equal to the decrease in gross profit of \$2,682.

Income taxes

Income tax expense for the three month period ended December 31, 2008 was \$1,247, up from \$377 for the three month period ended December 31, 2007. Adjusting for the \$3,228 loss on derivatives, a non allowable tax deduction; the adjusted effective tax rate for the three month period ended December 31, 2008 is in line with historical rates.

EBITDA

EBITDA for the three month period ended December 31, 2008 decreased \$2,583 to \$6,077 from \$8,660 for the three month period ended December 31, 2007, primarily due to a decrease in gross profit. See the EBITDA calculation in "Reconciliation of Net Earnings to EBITDA."

Annual Results of Operations

Annual Consolidated Financial Performance

(in thousands, except per Unit amounts)

	For the year ended December 31,	
	2008	2007
Revenue	\$133,099	\$113,755
Gross profit	26,760	18,226
Selling, general and administrative	14,334	11,079
Interest Expense, net	3,617	5,614
Other cost (income)	1,875	(1,667)
Net earnings	4,541	2,407
EBITDA ⁽¹⁾	\$21,247	\$14,402
Earnings per Unit/share basic	\$0.12	\$0.07
Earnings per Unit/share diluted	\$0.12	\$0.06

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

Information on distributions for the ordinary units ("Units") of the Fund for the years 2008, 2007 and 2006 are discussed in "Distributable Cash" below.

Selected balance sheet data

	December 31, 2008	December 31, 2007
Total assets	\$99,169	\$100,992
Total liabilities	(\$76,045)	(\$79,370)
Non-controlling interest	-	(\$3,610)
Unitholders' equity	(\$23,124)	(\$18,012)

Results of Operations for the Year Ended December 31, 2008 Compared to the Year Ended December 31, 2007

Revenue

Revenue for the year ended December 31, 2008 increased \$19,344 or 17% to \$133,099 from \$113,755 for the year ended December 31, 2007. The increase in revenue is primarily due to strong selling prices for tomatoes as a result of favourable market conditions in the first and second quarters of 2008, an improved customer mix, an increase in Village Farms' production yields and an increase in revenues related to product sold on behalf of our exclusive partners.

The average selling price, for tomatoes for 2008 increased by 10% over 2007, for peppers for 2008 increased by 5% over 2007 and for cucumbers for 2008 decreased by 17% over 2007. Total tomato pounds sold for 2008 increased 4% over 2007; pepper pounds sold for 2008 increased 35% over 2007 and cucumber pieces sold in 2008 increased 39% over 2007.

Gross Profit

Gross profit for the year ended December 31, 2008 increased \$8,534 or 47% to \$26,760 from \$18,226 for the year ended December 31, 2007, due to the reasons outlined above. Gross profit margins rose 4% to 20% for the year ended December 31, 2008 from 16% for the year ended December 31, 2007.

Selling, General and Administrative Expenses

Selling, general and administrative expenses for the year ended December 31, 2008 increased \$3,255 or 29% to \$14,334 from \$11,079 for the year ended December 31, 2007. The increase is primarily due to planned increases in personnel costs which include a one-time stock compensation bonus of \$1050, increased accruals for performance-based bonuses over 2007 levels and additional personnel.

Interest Expense, Net

Interest, net for the year ended December 31, 2008 decreased \$1,997 or 36% to \$3,617 from \$5,614 for the year ended December 31, 2007. The decrease is due to lower average debt balances, in 2008 the average debt balance was \$60 million and in 2007 it was \$67 million as well as lower borrowing costs.

Other Cost (Income)

Other cost (income) for the year ended December 31, 2008 increased \$3,542 to a cost \$1,875 from income of \$1,667 for the year ended December 31, 2007. The increase was primarily due to a \$3,228 non-cash loss on derivatives, partially offset by an increase in other income from a vendor settlement.

Net Income

Net income for the year ended December 31, 2008 increased \$2,134 to \$4,541 from \$2,407 for the year ended December 31, 2007. The increase was primarily due to an increase in gross profit, a decrease in interest, net and an increase in other income, offset by an increase in selling, general and administrative expenses.

EBITDA

EBITDA for the year ended December 31, 2008 increased \$6,845 or 48% to \$21,247 from \$14,402 for the year ended December 31, 2007, primarily due to the increase in gross profit, partially offset by an increase in selling, general and administrative expenses. See the EBITDA calculation in "Reconciliation of Net Earnings to EBITDA."

Reconciliation of Net Earnings to EBITDA

Non-GAAP Measures

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

References to "distributable cash" are to net income before interest, taxes depreciation, amortization, foreign currency exchange gains and losses on translation of long-term debt, unrealized gains on changes in the fair value of derivative instruments, non-controlling interest and after debt servicing costs and any reserves that are deemed to be reasonable and necessary for the operation of the Fund. Distributable cash is not a recognized measure under GAAP and the Fund's method of calculation of distributable cash may differ from methods used by other entities. Accordingly, distributable cash as presented may not be comparable to similar measures presented by other entities. Management considers distributable cash to be a meaningful measure of operating performance because the Fund finances all growth and major capital expansion or replacement either with debt or the issuance of new

Units. As such, distributable cash measures the return on investment to unitholders and helps to illustrate how the Fund is performing.

On August 4, 2006, the Canadian Securities Administrators (“CSA”) issued Staff Notice 52-306 (Revised) — *Non-GAAP Financial Measures*, with the only revision to the notice being a clarification of the CSA’s expectations regarding the presentation of distributable cash. That notice states: “We expect distributable cash disclosure to include a reconciliation to the most directly comparable measure calculated in accordance with GAAP. In staff’s view, the most directly comparable measure calculated in accordance with GAAP is cash flows from operating activities as presented in the issuer’s financial statements. For clarity, cash flows from operating activities includes changes during the period in non-cash working capital balances”. As contemplated by the CSA notice, this MD&A includes a presentation of distributable cash based on cash flows from operating activities based upon recommendations contained in a Canadian Institute of Chartered Accountants’ (“CICA”) guidance issued in July 2007.

Reconciliation of Net Earnings to EBITDA

The following table is the calculation of net income to EBITDA:

<i>(in thousands, unaudited)</i>	For the three months ended		For the year ended	
	December 31,		December 31,	
	2008	2007	2008	2007
Net earnings	(\$1,091)	\$4,779	\$4,542	\$2,407
Add:				
Amortization	1,429	1,606	6,456	6,575
Foreign currency exchange (loss) gain	182	828	388	(987)
Interest expense	845	1,110	3,617	5,614
Income taxes	1,247	337	2,393	793
Stock compensation (a)	237	-	1,050	-
Derivatives	3,228	-	2,801	-
EBITDA	\$6,077	\$8,660	\$21,247	\$14,402

- (a) Reflecting a stock gift by the Fund’s majority owners to employees of the Fund’s operating subsidiaries during 2008. The Fund has taken a non-cash charge equal to the fair market value of the stock gift by the Fund’s majority owners.

Distributable Cash

The Fund has modified the presentation and calculation of distributable cash based on recommendations contained in the CICA's guidance issued in July 2007.

(in thousands dollars, except per Unit amounts, unaudited)	For the three months ended December 31,		For the year ended December 31,	
	2008	2007	2008	2007
Cash flow from operations	\$3,924	\$7,663	\$17,939	\$5,468
Less capital expenditures (a)	(1,288)	(892)	(3,994)	(4,156)
	2,636	6,771	13,945	1,312
Add (deduct) entity-specific adjustments:				
Non-recurring Transaction-related dividend (b)	-	-	-	2,222
Payment of Transaction expenses (c)	47	243	47	405
Short term (payment of) borrowing to finance capital expenditures	-	-	(3,313)	3,144
Sale proceeds of property	-	1,357	-	7,929
Long term debt payments	(794)	(3,817)	(3,152)	(11,814)
Standardized distributable cash –USD\$	1,889	4,554	7,527	3,198
Average exchange rate for period (d)	1.2122	0.9810	1.0660	1.0748
Standardized distributable cash – CAD\$	\$2,290	\$4,467	\$8,024	\$3,437
Distributions CAD\$ (e)	\$1,114	\$1,090	\$4,385	\$4,362
% of distributable cash	49%	24%	55%	127%
Standardized distributable cash per unit				
Weighted average number of units/shares outstanding-basic	36,426,198	36,349,305	36,368,683	36,349,305
Basic CAD\$	\$0.06	\$0.09	\$0.22	\$0.09
Weighted average number of units/shares outstanding-diluted	38,707,345	38,707,345	38,707,345	38,707,345
Diluted CAD\$	\$0.06	\$0.09	\$0.21	\$0.09
Cash distribution per unit/share				
Basis CAD\$	\$0.03	\$0.03	\$0.12	\$0.12
Diluted CAD\$	\$0.03	\$0.03	\$0.12	\$0.11

- (a) Capital expenditures correspond to the purchase of property, plant and equipment.
- (b) Payment of accrued dividend as per the October 2006 combination transaction.
- (c) Payment of accrued expenses related to the October 2006 combination transaction.
- (d) Represents the average daily closing rates of exchange between the U.S. and Canadian dollar for the respective periods.
- (e) Represents distributions approved and declared during the period by the Fund's Board of Trustees (the "Trustees").

The Fund reduced its monthly distributions to Unitholders effective March 2009 to CAD\$0.005 per Unit. In light of ongoing uncertainties and challenging economic times, and in order to create a reserve for the cost of converting the Fund's income trust structure into a Canadian public corporation and its intent to accelerate its growth initiatives, the Trustees believe it is prudent to conserve cash for these purposes.

Liquidity

Cash flows

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

For the year ended December 31, 2008, cash flows from operating activities before changes in non-cash operating working capital total \$17,086 (December 31, 2007- \$7,819).

Capital expenditures totalled \$3,994 for the year ended December 31, 2008 (December 31, 2007 - \$4,156).

The cash used in financing activities for the year ended December 31, 2008 totalled \$11,431 (December, 31, 2007 - \$14,924), and primarily consisted of debt payments of \$6,892 (December 31, 2007 - \$8,757); and cash dividend payments to unitholders and to PPS of \$4,137 (December 31, 2007 - \$5,936).

Capital resources

(in thousands)

	<u>Maximum</u>	<u>Outstanding December 31, 2008</u>
CAD Operating Loan (i)	CAD\$12,000	\$-
CAD Capital Loan (ii)	43,708	43,708
CAD FX Facility (iii)	-	-
US Operating Loan (iv)	5,000	-
US Capital Loan (v)	14,250	14,250

Canadian Credit Facilities

The Canadian credit facilities include:

- (i) Revolving variable rate operating loan of up to CAD\$12,000 with a term of 364 days (the “CAD Operating Loan”);
- (ii) Non-revolving variable rate capital loan with a balance of \$43,709 maturing on October 31, 2011 (the “CAD Capital Loan”); and
- (iii) Foreign exchange contracts facility for the purchase and/or sale of U.S. funds (the “CAD 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. As at December 31, 2008, the Fund used LIBOR borrowings to calculate interest payable. Subject to acceleration, upon an event of default, the outstanding balance of the CAN Capital Loan will be 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 agreement as described in note 9 of the financial statements. The interest expense for the years ended December 31, 2008 was \$2,776 (December 31, 2007 - \$4,700). At December 31, 2008 and 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.

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, 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. The carrying value of these assets 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 such date 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 years 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 United States entities 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 the Fund’s United States entities; 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 - \$27,243). The loan agreement requires VFCLP to satisfy certain affirmative and negative covenants including a minimum debt service coverage and current ratio. In addition, VFCLP will be permitted to declare and pay distributions of up to 50% of distributable income as defined therein. At December 31, 2008 and December 31, 2007, VFCLP was in compliance with all covenants.

Upon review of the CoBank loan documents the definition of distributable income differed from 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 convent to December 31, 2009, provided that the Fund converts to a corporation by December 31, 2009.

Contractual Obligations and Commitments

Information regarding the Fund's contractual obligations at December 31, 2008 is set forth in the table below:

<i>(in thousands of dollars)</i>	<u>Total</u>	<u>1 year or less</u>	<u>2-3 years</u>	<u>4-5 years</u>	<u>More than 5 years</u>
Long-term debt	\$57,958	\$3,227	\$6,454	\$43,527	\$4,750
Capital leases	699	227	460	12	-
Operating leases	4,135	829	1,610	1,365	331
Total	<u>\$62,792</u>	<u>\$4,283</u>	<u>\$8,524</u>	<u>\$44,904</u>	<u>\$5,081</u>

Capital Expenditures

During the three month period and year ended December 31, 2008, the Fund purchased approximately \$1,288 and \$3,994, respectively, of capital assets. These purchases were financed from cash from operations. Management, as part of its strategic initiatives to reduce future operating costs and support growth, has budgeted for the financing of capital expenditures from a combination of cash flows from operations and the sale of existing assets and borrowings, as considered appropriate.

Management expects new capital expenditures to support its strategic plan of achieving cost efficiencies through increased productivity of capital assets. Management may elect, where appropriate, to sell inefficient or non-strategic assets to produce cash to wholly or partially finance new capital expenditures. The Fund will also borrow to maintain, improve and replace capital assets when the return on such investments exceeds targeted thresholds for internal rates of return. There can be no assurance, however, that sources of financing will be available, or will be available on terms favourable to the Fund, or that these strategic initiatives will achieve adequate cost reduction in actual implementation or in light of the competitive pressures on the cost of raw materials and other factors of production. However, management believes that capital resources available to the Fund will be sufficient to support its capital expenditures.

During the three month period and year ended December 31, 2008, the Fund incurred \$436 and \$2,125, respectively, in costs to maintain its capital assets. Management estimates that approximately \$2,000 to \$2,500 of annual costs to maintain the capital assets.

Summary of Quarterly Results

For the three months ended:

<i>(in thousands, except per unit amounts, unaudited)</i>	Dec 31, 2008	Sep 30, 2008	Jun 30, 2008	Mar 31, 2008	Dec 31, 2007	Sep 30, 2007	Jun 30, 2007	Mar 31, 2007
Revenue	\$30,422	\$30,105	\$44,053	\$28,519	\$31,959	\$24,473	\$32,883	\$24,440
Net earnings (loss)	(1,090)	(1,704)	4,062	3,276	4,779	(3,404)	(1,883)	2,914
Basic earnings (loss) per Unit	(\$0.03)	(\$0.05)	\$0.11	\$0.09	\$0.13	(\$0.07)	(\$0.05)	\$0.08
Diluted earnings (loss) per Unit	(\$0.03)	(\$0.04)	\$0.10	\$0.08	\$0.12	(\$0.07)	(\$0.05)	\$0.08

The Fund's Canadian operations peak production period is in the summer months, with no production during the winter season. As a result, prices for products from the Fund's Canadian operations have historically followed a seasonal trend of higher prices at the start and end of its crop year, with lower prices in the summer months when the supply of product is greatest. Conversely, the Fund's U.S. operations year round production allows it to realize higher margins during the October through March period, when the reduced supply of greenhouse produce in North America generally results in higher produce prices. The complementary nature of the growing seasons of the Fund's Canadian and U.S. operations is expected by management of the Fund to contribute to more predictable and stable cash flows for the Fund throughout the year.

Financial Instruments and Risk Management

As described in this MD&A, the Fund adopted CICA sections 3862 and 3863 effective January 1, 2008. These new standards enhance disclosures with respect to financial instruments.

Risk Management

The Fund is exposed to the following risks as a result of holding financial instruments: market risk, credit risk, interest rate risk, foreign exchange risk and liquidity risk. The following is a description of these risks and how they are managed by the Fund.

Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in the market place.

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.

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 Funds 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 \$528 (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.

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 uses derivative instruments to reduce market exposures from changes in interest rates. The Fund uses derivative instruments only for risk management purposes and not for generating trading profits.

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. Due to historically low interest rates as at December 31, 2008 the Fund recorded a mark-to-market non-cash loss of \$2,801 on the Canadian interest rate swap agreements.

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 agreements. 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).

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>

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).

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.

Outlook

Overview

Management is committed to employing its strategies with the goal of continuously delivering value to its unitholders. Management's objective is continuous improvement, which equates to continuous revenue growth coupled with effective cost management. The Fund will continue to look for ways to expand its operations and increase its market share. The Fund's strengths include the following: organic growth, growth through strategic acquisition, growth through exclusive marketing agreements with other greenhouse operations, strong competitive position, a solid customer base and disciplined cost control. Management of the Fund remains committed to actively managing these strengths in the future.

Overall, management expects demand for produce to remain consistent with prior year. Gross margin on these products is expected to decrease due to a lower market price primarily from competition from Mexican growers. Management is focused on a stronger emphasis on retailer contracts and improvements in our channel mix to improve gross margin.

Management does not currently anticipate that recent developments in credit markets will have a material adverse effect on the Fund's current operations. The Fund is currently seeking financing for an additional 20 greenhouse facility; the current credit market may prevent the ability to raise the necessary financing. Management's assessment is based on current conditions and may be subject to change if the credit environment deteriorates further.

Growth expenditures

The Fund is currently seeking financing for an additional 20 acre greenhouse facility in the United States. The greenhouse will employ the closed greenhouse system that Village Farms has been testing for the last two years in its research greenhouse. The cost of the additional greenhouse facility is projected to be approximately \$17 million. The Fund will not start construction until it has obtained an appropriate level of financing.

Growth expenditures represent capital and greenhouse asset additions required to meet the demands of growth or expenditures that specifically benefit a future period or periods. For 2009, management expects to incur growth expenditures that will benefit a future period or periods and to grow the Fund's greenhouse operations.

Other

Taxation of income trusts

On October 31, 2006, the Minister of Finance (Canada) announced proposed changes to the income tax treatment of certain income earned by income trusts and distributions of such income to investors. The proposed legislation received royal assent on June 22, 2007 (the "SIFT Rules"). The SIFT Rules, which are generally effective for the 2011 taxation year, subject to certain conditions which may cause earlier application, make certain income earned by the Fund taxable in a manner similar to income earned by a corporation and distributions of such income to investors would be taxed as dividends from a taxable Canadian corporation.

Conversion Plans

The Fund is planning to convert from an income trust to a Canadian public corporation no later than December 31, 2009. The timing of the conversion date has been selected in order to facilitate the transaction in the most economical and feasible manner as a conversion date other than year end would result in additional tax compliance fees and other tax complications.

Financing strategic growth

One of management's principal objectives is to grow organically and through strategic acquisitions. Growth is dependent on the Fund's ability to access debt and equity in the capital markets. Any restrictions will affect the Fund's growth objective.

Distributions

The Fund's policy is to distribute annually to unitholders available cash provided by operations after cash required for capital expenditures, working capital reserves, growth capital reserves and other reserves considered advisable by the trustees of the Fund. In light of the ongoing uncertainties and challenging economic times, as well as to create a reserve for the cost of converting the Fund's income trust structure by the end of calendar year 2009 into a regular Canadian public corporation and its intent to accelerate its growth initiatives, the Trustees of the Fund believe it is prudent to conserve cash for these reasons and as such are reduced the monthly distribution to one-half cent per Unit effective March 2009.

Distributions are dependent on free cash flow available for distribution and other factors, including but not limited to the Fund's ability to access debt and equity being in the capital markets. The rate of distribution declared per Unit and by extension dividends on the participating preferred shares of VF U.S. Holdings Inc., is reviewed by the Trustees from time to time.

Internal Control over Financial Reporting

In order for the Fund to comply with its disclosure requirements under applicable securities laws, the Fund and its subsidiaries maintain certain controls and procedures that are designed to provide reasonable assurances that the information required to be disclosed in this MD&A and the related financial statements is properly recorded, processed, summarized and reported to the Trustees and the Audit Committee. The Fund is also required to design its internal controls over financial reporting ("ICFR") to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP.

For the period ended December 31, 2008, management of the Fund carried out an evaluation, under the supervision and with the participation of the Fund's principal financial officer and principal executive officer, of the effectiveness of its disclosure controls and procedures. For the reasons discussed below, management of the Fund does not believe that its controls and procedures were effective for the year ended December 31, 2008.

Management of the Fund and its subsidiaries, including the CEO and CFO of [Village Farms Canada GP Inc.], is responsible for establishing and maintaining ICFR, evaluating the effectiveness of ICFR at the most recent year end, and disclosing any change in ICFR that occurred during the most recently completed interim period ended on December 31, 2008 which materially affected, or is reasonably likely to materially affect, the Fund's ICFR. The Fund is unable to conclude that its ICFR is effective because the Fund and its subsidiaries have yet to properly test and document their ICFR. Additionally, the Fund unintentionally failed to properly report a stock grant in February 2008 in its quarterly financial statements for the period ended March 31, 2008.

Management of the Fund believes that the consolidated financial statements for the year ended December 31, 2008 to which this MD&A relates correctly present, in all material respects, the Fund's financial position, results of operations and cash flows for the period covered therein.

Risks and Uncertainties

The Fund is subject to various risks and uncertainties which are summarized below. Additional details are contained in the Fund's current Annual Information Form filed on SEDAR, which can be accessed electronically at www.sedar.com.

Risks Relating to the Fund

- Product Pricing
- Maintain Profitability
- Risks Inherent in the Agricultural Business

- Natural Catastrophes
- Vulnerability to Rising Energy Costs
- Competition
- Labour
- Foreign Exchange Exposure
- Key Executives
- Risk of U.S. Taxation of Canadian Entity Under Employment Arrangements
- Uninsured and Underinsured Losses
- Governmental Regulations
- Enforcement of Indemnities Against the VF Owners
- Risks Associated with Cross Border Trade
- Growth
- Control of the Fund
- Statutory Remedies
- Accounting Estimates
- Retail Consolidation
- Product Liability
- Technological Advances
- Transportation Disruptions
- Dependence Upon Credit Facilities
- Risks of Regulatory Change

Risks Related to the Structure of the Fund

- Cash Distributions Are Not Guaranteed and Will Fluctuate with the Fund Performance
- Nature of Units
- Redemption Right
- Dependence on Subsidiaries
- Restrictions on Potential Growth
- Dilution of Existing Unitholders
- Future Sales of Units by or on Behalf of the VF Owners
- Price Fluctuation
- Distribution of Securities on Redemption or Termination of the Fund
- Restrictions on Ownership of Units by Non Resident Holders
- Unitholder Liability
- Leverage, Restrictive Covenants and Capital Requirements

Risks Related to Tax

- Income Tax Matters — Canada
- Income Tax Matters — United States
- Potential U.S. Permanent Establishment of VF Canada GP, VFCLP and Village Farms Operating Trust
- Advances by VF Operations Canada Inc. to U.S. Holdings
- Participating Preferred Shares
- Transfer Pricing
- U.S. Real Property Holding Corporation

Off-Balance Sheet Arrangements

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

Critical Accounting Estimates

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.

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

Income Taxes

The Fund utilizes the assets and liability method of accounting for income taxes under which future income tax assets and liabilities are recognized for the estimated future income tax consequences attributable to differences between the financial statement carrying value amount and the tax basis of assets and liabilities. Management uses judgment and estimates in determining the appropriate rates and amounts in recording future taxes, giving consideration to timing and probability. Actual taxes could significantly vary from these estimates as a result of future events, including changes in income tax law or the outcome of reviews by tax authorities and related appeals. The resolution of these uncertainties and the associated final taxes may result in adjustment to the Fund's tax assets and tax liabilities.

Future income tax assets are recognized to the extent that realization is considered more likely than not. The Fund considers past results, current trends and outlooks for future years in assessing realization of income tax assets.

Impairment of Long-Lived Assets

Long-lived assets are tested for impairment whenever circumstances indicate that the carrying value may not be recoverable. When events or circumstances indicate that the carrying value of long-lived assets, other than indefinite life intangibles, are not recoverable, the long-lived assets are tested for impairment by comparing the estimate of future expected cash flows to the carrying amount of the assets or groups of assets. If the carrying value of long-lived assets is not recoverable from future expected cash flows, any loss is measured as the amount by which the asset's carrying value exceeds fair value and recorded in the period. Recoverability is assessed relative to undiscounted cash flows from the direct use and disposition of the asset or group of assets.

Fair value under GAAP is defined as "the amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act". Assessing the fair value of intangible assets requires significant management estimates on discount rates to be applied in the analysis and future cash flows to be generated by the assets, including the estimated useful life of the assets. Discount rates are determined with reference to estimated risk adjusted market rates of return for similar cash flows and were increased in 2008 reflecting a higher risk premium. The Fund performs sensitivity analysis on the discount rates applied. The discount rates used are subject to measurement uncertainty.

The Fund performed the asset recoverability tests using undiscounted cash flows and grouped the definite lived assets at the lowest level for which the Fund determined identifiable cash flows are largely independent of the

cash flows of other assets and liabilities. This was determined to be the Canadian and U.S. operations. The cash flow analysis did not extend beyond the remaining useful life of the assets which was estimated as the remaining amortization period of the greenhouse assets in the Canadian and U.S. operations. Internal forecasts were used to derive revenues, cost of sales and other expenditures associated with the Canadian and U.S. operations. The forecasts reflected the market price of tomatoes and gross margins percentages consistent with those that have historically been realized.

Due to the above noted considerations, which are based on the Fund's best available information, the Fund has not recorded any impairment charge on our long-lived assets in fiscal 2008. However, given the current state of the economy, the Fund expects to continue to perform asset recoverability tests in future periods.

Property and Equipment

Property and equipment is originally recorded at cost. Property under capital leases and the related obligation for future lease payments are initially recorded at an amount equal to the lesser of fair value of the property or equipment and the present value of those lease payments.

Property and equipment are depreciated to estimated residual values based on the straight-line method over their estimated service lives. Property and equipment under capital leases within variable interest entities are depreciated to estimated residual values over the life of the lease.

Intangible Assets

The intangible assets of the Fund were recorded at their estimated fair values at October 18, 2006. Intangible assets are subject to impairment tests under GAAP on an annual basis or when events or circumstances indicate a potential impairment. If the carrying value of such assets exceeds the fair values, the assets are written down to fair value. No write down was required as at December 31, 2008.

Changes in Accounting Policies

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

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

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

International Financial Reporting Standards

The Accounting Standards Board of the CICA announced on February 13, 2008 that Canadian generally accepted accounting principles for publicly accountable enterprises will be replaced with International Financial Reporting Standards ("IFRS") for fiscal years beginning on or after January 1, 2011.

Implementing IFRS will have an impact on accounting, financial reporting and supporting IT systems and processes. It may also have an impact on taxes, contractual commitments involving GAAP-based clauses (including debt covenants), long-term employee compensation plans and performance metrics. Accordingly, the Fund's implementation plan includes measures to provide extensive training to key finance personnel, to review relevant contracts and agreements and to increase the level of awareness and knowledge of management, the Trustees, the Fund's Audit Committee and investors. It is anticipated that additional resources will be engaged to ensure the timely transition to IFRS.

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 as at January 1, 2009. The Fund is currently evaluating the impact that 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.

In February 2008, the AcSB confirmed that IFRS will replace Canadian GAAP in 2011 for profit-oriented Canadian publicly accountable enterprises. The Fund will be required to report its results in accordance with IFRS starting in 2011. The Fund will formally commence an IFRS conversion project 2009. The Fund will invest in training and resources to ensure a timely and effective conversion. Regular reporting will be provided to the Fund's senior management and to the Audit Committee of the Board of Trustees. A diagnostic assessment will be initiated to examine the extent of the impact that the conversion may have on financial reporting, business processes, internal controls and information systems. The Fund's current plan is aimed in particular at identifying the differences between IFRS and the Fund's current accounting policies, as well as assessing the impact of various accounting alternatives offered pursuant to IFRS. In addition, a high level assessment of the Fund's Information Technology Systems and tax processes will be conducted. The financial impact of the transition to IFRS cannot be reasonably estimated at this time, however, there may be changes in accounting policies and these may impact the Fund's financial statements.

Related Party Transactions

In connection with the combination transaction of October 2006, a trustee of the Fund earned a fee of CAD\$190,000 of which payment of CAD\$95,000 has been deferred over a minimum of two years. Payments of CAD\$47,000 and CAD\$48,000 were made in October 2008 and October 2007, respectively.

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.

At December 31, 2008, included in other receivables is a \$379 promissory note from an employee of the Fund in connection with a relocation agreement. The note is secured by real property.

Outstanding Share and Unit Data

The beneficial interests in the Fund are currently divided into interests of two classes, described and designated as “Units” and the “Class A Unit”, respectively. An unlimited number of Units are issuable pursuant to the Second Amended and Restated Declaration of Trust, whereas only one Class A Unit has been authorized for issuance.

As of the date hereof, the Fund has outstanding 13,440,345 Units carrying the right to one vote at a meeting of voting unitholders of the Fund. As of the date hereof, the Fund also had outstanding one Class A Unit, carrying the right to vote as described in the Fund’s current Annual Information Form (the “AIF”).

As of the date hereof, VF U.S. Holdings Inc. currently has 252,670 Participating Preferred Shares outstanding which, if exchanged for Units of the Fund pursuant to certain exchange rights, would be exchangeable for 25,267,000 Units of the Fund.

For further details on the structure of the Fund or the rights attached to each of the above-mentioned securities, please refer to the Fund’s current AIF which is available electronically at www.sedar.com.

Forward-looking Statements

This MD&A contains certain “forward looking statements”. These statements relate to future events or future performance and reflect our expectations regarding our growth, results of operations, performance, business prospects, opportunities or industry performance and trends. These forward looking statements reflect our current internal projections, expectations or beliefs and are based on information currently available to us. In some cases, forward looking statements can be identified by terminology such as “may”, “will”, “should”, “expect”, “plan”, “anticipate”, “believe”, “estimate”, “predict”, “potential”, “continue” or the negative of these terms or other comparable terminology. A number of factors could cause actual events or results to differ materially from the results discussed in the forward looking statements. In evaluating these statements, you should specifically consider various factors, including, but not limited to, such risks and uncertainties as availability of resource, competitive pressures and changes in market activity, risks associated with U.S. and international sales and foreign exchange, regulatory requirements and all of the other matters discussed under “Risk” Factors and elsewhere in this MD&A. Actual results may differ materially from any forward looking statement. Although we believe that the forward looking statements contained in this MD&A are based upon reasonable assumptions, you cannot be assured that actual results will be consistent with these forward looking statements. These forward looking statements are made as of the date of this MD&A, and other than as specifically required by applicable law, we assume no obligation to update or revise them to reflect new events or circumstances.

Public Securities Filings

You may access other information about the Fund, including our current annual information form and our other disclosure documents, reports, statements or other information that we file with the Canadian securities regulatory authorities, through SEDAR at www.sedar.com.