

Village Farms Income Fund

Interim Consolidated Financial Statements

Three and Six Months Ended

June 30, 2008

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

| Assets | <u>June 30, 2008</u> (unaudited) | <u>December 31, 2007</u> |
|--|--|---------------------------------|
| Current assets: | | |
| Cash and cash equivalents | \$4,193 | \$1,620 |
| Accounts receivable | 16,422 | 11,662 |
| Other receivables (note 10) | 901 | 769 |
| Inventories | 9,281 | 11,210 |
| Prepays and deposits | 1,559 | 458 |
| | <u>32,356</u> | <u>25,719</u> |
| Property, plant and equipment (note 6) | 70,085 | 71,701 |
| Intangible assets (note 7) | 1,982 | 2,687 |
| Derivatives (note 9) | 807 | - |
| Other assets | 1,413 | 885 |
| Total assets | <u><u>\$106,643</u></u> | <u><u>\$100,992</u></u> |
| Liabilities and unitholders' equity | | |
| Current liabilities: | | |
| Operating line of credit (note 8) | \$5,031 | \$3,313 |
| Accounts payable and accrued liabilities | 10,462 | 10,727 |
| Distributions payable | 359 | 365 |
| Current maturities of long-term debt (note 8) | 3,180 | 3,148 |
| Current obligations under capital leases (note 11) | 261 | 261 |
| Total current liabilities | <u>19,293</u> | <u>17,814</u> |
| Long-term debt (note 8) | 56,368 | 57,963 |
| Obligations under capital leases (note 11) | 702 | 865 |
| Future income taxes (note 13) | 2,897 | 2,728 |
| Total liabilities | <u>79,260</u> | <u>79,370</u> |
| Non-controlling interest | 3,610 | 3,610 |
| Unitholders' equity: | | |
| Trust units (note 16) | 20,190 | 20,190 |
| Accumulated distributions | (6,248) | (4,079) |
| Accumulated earnings | 9,776 | 1,846 |
| Cumulative translation adjustment | 55 | 55 |
| Total unitholders' equity | <u>23,773</u> | <u>18,012</u> |
| Total liabilities and unitholders' equity | <u><u>\$106,643</u></u> | <u><u>\$100,992</u></u> |

Commitments and contingencies (note 15)

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 Six Months Ended
(In thousands of United States dollars)

| | Six Months Ended June 30, | |
|--|----------------------------------|--------------------|
| | 2008 | 2007 |
| | (unaudited) | (unaudited) |
| Accumulated earnings - Beginning of period | \$1,846 | (\$112) |
| Earnings for the period | 7,930 | 1,031 |
| Accumulated earnings - End of period | \$9,776 | \$919 |

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

Village Farms Income Fund
Consolidated Statements of Operations
(In thousands of United States dollars, except for units outstanding and per unit/share amounts)

| | <u>Three Months Ended June 30,</u> | | <u>Six Months Ended June 30,</u> | |
|---|------------------------------------|-------------------|----------------------------------|-------------------|
| | <u>2008</u> | <u>2007</u> | <u>2008</u> | <u>2007</u> |
| | (unaudited) | (unaudited) | (unaudited) | (unaudited) |
| Net sales | \$44,053 | \$32,883 | \$72,571 | \$57,323 |
| Cost of sales | <u>38,592</u> | <u>31,448</u> | <u>55,394</u> | <u>48,387</u> |
| Gross profit | 5,461 | 1,435 | 17,177 | 8,936 |
| Selling, general and administrative expenses | 3,204 | 2,745 | 6,406 | 5,483 |
| Interest, net | 918 | 1,545 | 1,878 | 3,149 |
| Foreign exchange income | 153 | (45) | 12 | (1,734) |
| Amortization of intangible assets | 356 | 376 | 704 | 723 |
| Gain on derivatives | (1,670) | - | (807) | - |
| Other income, net | <u>(883)</u> | <u>(236)</u> | <u>(1,057)</u> | <u>(466)</u> |
| Earnings before income taxes | 3,383 | (2,950) | 10,041 | 1,781 |
| Provision for income taxes | (679) | (1,066) | 2,111 | 750 |
| Net earnings for the period | <u>\$4,062</u> | <u>(\$1,884)</u> | <u>\$7,930</u> | <u>\$1,031</u> |
| Net income per unit/share-basic | <u>\$0.11</u> | <u>(\$0.05)</u> | <u>\$0.22</u> | <u>\$0.03</u> |
| Weighted average number of units/shares outstanding-basic | <u>36,349,305</u> | <u>36,349,305</u> | <u>36,349,305</u> | <u>36,349,305</u> |
| Net income per unit/share-diluted | <u>\$0.10</u> | <u>(\$0.05)</u> | <u>\$0.20</u> | <u>\$0.03</u> |
| Weighted average number of units/shares outstanding-diluted | <u>38,707,345</u> | <u>38,707,345</u> | <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
(In thousands of United States dollars)

| | <u>Three Months Ended June 30,</u> | | <u>Six Months Ended June 30,</u> | |
|---|------------------------------------|----------------|----------------------------------|----------------|
| | <u>2008</u> | <u>2007</u> | <u>2008</u> | <u>2007</u> |
| | (unaudited) | (unaudited) | (unaudited) | (unaudited) |
| Cash flows from operating activities: | | | | |
| Net income (loss) | \$4,062 | (\$1,884) | \$7,930 | \$1,031 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | | |
| Depreciation and amortization | 1,675 | 1,728 | 3,369 | 3,352 |
| Gain on derivatives | (1,670) | - | (807) | - |
| Future income taxes | 4 | (675) | 169 | 844 |
| Changes in non-cash working capital (net of effects of acquisition) | (2,483) | 633 | (4,323) | (9,420) |
| Net cash provided by (used in) operating activities | <u>1,588</u> | <u>(198)</u> | <u>6,338</u> | <u>(4,193)</u> |
| Cash flows from investing activities: | | | | |
| Purchases of property, plant and equipment | (481) | (430) | (1,047) | (1,785) |
| Proceeds from sale of property, plant and equipment | - | 6,775 | - | 6,775 |
| Net cash (used in) proceeds investing activities | <u>(481)</u> | <u>6,345</u> | <u>(1,047)</u> | <u>4,990</u> |
| Cash flows from financing activities: | | | | |
| Payments on short-term debt | - | (15) | - | (30) |
| Proceeds from operating line of credit | 1,783 | 1,857 | 1,718 | 1,857 |
| Payments of long-term debt | (795) | (6,963) | (1,563) | (7,523) |
| Payments of obligations under capital leases | (66) | (190) | (169) | (242) |
| Distributions paid | (1,080) | (1,028) | (2,174) | (1,655) |
| Other | 6 | 177 | (530) | - |
| Net cash used in financing activities | <u>(152)</u> | <u>(6,162)</u> | <u>(2,718)</u> | <u>(7,593)</u> |
| Effect of foreign currency translation | - | 137 | - | 19 |
| Net (decrease) increase in cash and cash equivalents | 955 | 122 | 2,573 | (6,777) |
| Cash and cash equivalents beginning of period | 3,238 | 403 | 1,620 | 7,302 |
| Cash and cash equivalents end of period | <u>\$4,193</u> | <u>\$525</u> | <u>\$4,193</u> | <u>\$525</u> |
| Supplemental cash flow information: | | | | |
| Interest paid | <u>\$897</u> | <u>\$2,130</u> | <u>\$2,121</u> | <u>\$2,575</u> |
| Income taxes paid | <u>\$1,275</u> | <u>\$746</u> | <u>\$1,293</u> | <u>\$1,043</u> |

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

VILLAGE FARMS INCOME FUND
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 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). The Fund was created to invest in the vegetable greenhouse production business, Village Farms Canada Inc. The Fund’s principal operating subsidiaries at June 30, 2008 are Village Farms Canada Limited Partnership (“VFCLP”) and Village Farms, L.P. (“VFLP”).

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

2 SIGNIFICANT ACCOUNTING POLICIES

These unaudited interim consolidated financial statements do not include all of the disclosures required by Canadian generally accepted accounting principles for annual financial statements and, accordingly, should be read in conjunction with the audited consolidated financial statements and notes included in the Fund’s 2007 Audited Consolidated Financial Statements. These unaudited interim consolidated financial statements follow the same accounting policies and methods of computation as used in the Fund’s 2007 Audited Consolidated Financial Statements, except as noted below.

On January 17, 2008, the Fund entered into five fixed for floating interest rate swaps agreement 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 (note 8). The Fund has selected not to use hedge accounting for the swap transactions and records the fair value of the swaps on the Consolidated Balance Sheet. Any gain or loss in fair value is recognized in the Consolidated Statement of Operations.

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 unaudited interim consolidated financial statements.

CICA Handbook 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 clarified that major spare parts are to be included in property, plant and equipment. Adoption of this section did not have any 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 16).

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).

VILLAGE FARMS INCOME FUND
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2008

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

Section 3863 – Financial Instruments – Presentation

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

Future Accounting Changes

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 are will be 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 evaluating the effect of these recommendations on its financial statements.

4 ACQUISITION

The October 18, 2006 acquisition transaction has been accounted for using the purchase method. During fiscal 2007, assets held for sale has been increased by CAD\$4,137 from the initial purchase price allocation to reflect the net proceeds from the sale of the asset and property, plant and equipment value has been decreased by the same amount. The fair value of the assets and liabilities of the Fund has been determined as follows on the date of acquisition:

| | |
|---|-------------------|
| <i>In thousands of CAD\$</i> | |
| Purchase consideration by APDI and estimated fair value of the Fund | \$19,716 |
| Cost of acquisition – net of reimbursement | <u>527</u> |
| | 20,243 |
| Less: | |
| Net assets of the Fund at book value | <u>51,098</u> |
| Deficiency | <u>(\$30,855)</u> |
| The deficiency has been applied to adjust the Fund’s assets as follows: | |
| Adjustment to inventory | (\$11) |
| Adjustment to intangible assets | 1,181 |
| Write-down of property, plant and equipment | <u>(32,025)</u> |
| | <u>(\$30,855)</u> |

These consolidated financial statements reflect the assets and liabilities of Hot House Growers Inc. (“HHGI”) at the assigned fair value as follows:

| | |
|--|-----------------|
| <i>In thousands of CAD\$</i> | |
| Accounts receivable | \$9,583 |
| Inventories | 1,890 |
| Prepaid expenses and deposits | 387 |
| Property, plant and equipment | 54,942 |
| Assets held for sale | 7,137 |
| Intangible assets | 5,081 |
| Other assets | <u>107</u> |
| | 79,127 |
| Accounts payable and accrued liabilities | (7,081) |
| Operating line of credit | (6,407) |
| Capital leases | (1,429) |
| Long-term debt | <u>(43,967)</u> |
| | <u>\$20,243</u> |

VILLAGE FARMS INCOME FUND
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2008

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

5 INVENTORY

| | <u>June 30, 2008</u> | <u>December 31, 2007</u> |
|-----------------------------|----------------------|--------------------------|
| Crop inventory | \$8,502 | \$10,997 |
| Purchased produce inventory | <u>779</u> | <u>213</u> |
| | <u>\$9,281</u> | <u>\$11,210</u> |

6 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consists of the following:

| | <u>June 30, 2008</u> | <u>December 31, 2007</u> |
|---------------------------------|----------------------|--------------------------|
| Cost | | |
| Land | \$5,230 | \$5,230 |
| Leasehold and land improvements | 2,036 | 2,033 |
| Greenhouses and buildings | 57,026 | 57,125 |
| Greenhouse equipment | 28,119 | 27,348 |
| Machinery and equipment | 2,345 | 2,060 |
| Construction in progress | <u>144</u> | <u>48</u> |
| | 94,900 | 93,844 |
| Accumulated amortization | | |
| Leasehold and land improvements | 919 | 838 |
| Greenhouses and buildings | 14,299 | 12,902 |
| Greenhouse equipment | 8,495 | 7,482 |
| Machinery and equipment | <u>1,102</u> | <u>921</u> |
| | 24,815 | 22,143 |
| Net book value | | |
| Land | 5,230 | 5,230 |
| Leasehold and land improvements | 1,117 | 1,195 |
| Greenhouses and buildings | 42,727 | 44,223 |
| Greenhouse equipment | 19,624 | 19,866 |
| Machinery and equipment | 1,243 | 1,139 |
| Construction in progress | <u>144</u> | <u>48</u> |
| | <u>\$70,085</u> | <u>\$71,701</u> |

Capital lease assets of \$1,133 at June 30, 2008 and December 31, 2007 and accumulated amortization on these assets of \$282 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>June 30, 2008</u> | <u>December 31, 2007</u> |
|--|----------------------|--------------------------|
| Cost | | |
| Natural gas forward purchase agreement (a) | \$2,627 | \$2,627 |
| Thermal energy supply agreement (b) | <u>1,735</u> | <u>1,735</u> |
| | 4,362 | 4,362 |
| Accumulated amortization | | |
| Natural gas forward purchase agreement | 2,203 | 1,551 |
| Thermal energy supply agreement | <u>177</u> | <u>124</u> |
| | 2,380 | 1,675 |
| Net book value | | |

VILLAGE FARMS INCOME FUND
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2008

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

| | | |
|--|----------------|----------------|
| Natural gas forward purchase agreement | 424 | 1,076 |
| Thermal energy supply agreement | <u>1,558</u> | <u>1,611</u> |
| | <u>\$1,982</u> | <u>\$2,687</u> |

- a) VFCLP holds a natural gas forward contract for the purchase of approximately 825,000 gigajoules (GJ) of natural gas. The contract commenced on January 1, 2004 and expires on October 31, 2008. The estimated fair value of the contract at the date of the Fund's October 18, 2006 acquisition is included in intangible assets and is being amortized on a straight-line basis over the remaining life of the contract.
- b) VFCLP has an agreement with the operator of a cogeneration facility to purchase thermal energy required for one of VFCLP's greenhouses (in excess of the thermal energy otherwise produced by the greenhouse). The contract expires on July 31, 2023. VFCLP also has 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 June 30, 2008 and December 31, 2007, long-term debt consists of the following:

| | <u>June 30, 2008</u> | <u>December 31, 2007</u> |
|-------------------------|----------------------|--------------------------|
| CAN Operating Loan | \$5,031 | \$3,313 |
| CAN Capital Loan | 44,348 | 44,961 |
| CAN FX Facility | - | - |
| US Operating Loan | - | - |
| US Capital Loan | <u>15,200</u> | <u>16,150</u> |
| | 59,548 | 61,111 |
| Less current maturities | <u>(3,180)</u> | <u>(3,148)</u> |
| Long-term portion | <u>\$56,368</u> | <u>\$57,963</u> |

The aggregate annual maturities of long-term debt as at June 30, 2008 are as follows:

| | |
|----------------|-----------------|
| Remaining 2008 | \$ 1,585 |
| 2009 | 3,148 |
| 2010 | 3,148 |
| 2011 | 43,117 |
| 2012 | 1,900 |
| Thereafter | <u>6,650</u> |
| | <u>\$59,548</u> |

9 DERIVATIVES

On January 17, 2008, the Fund entered into fixed for floating interest rate swaps agreement 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 gain of \$807 for the six months ended June 30, 2008. For the three months ended June 30, 2008 a gain of \$1,670 was recorded, which represented the mark to market adjustment of the interest rate swaps. The Fund has not designated the swaps as a hedge for accounting purposes. The fair value of the interest rate swaps as at June 30, 2008 was \$807.

The interest rate swaps are as follows:

VILLAGE FARMS INCOME FUND
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2008

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

| Term | Amount | Interest Rate |
|-------------------------------------|----------|---------------|
| 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 acquisition transaction, a trustee of the Fund earned a fee of CAD\$190, of which payment of CAD\$95 has been deferred over a minimum of two years. During fiscal 2007, CAD\$48 was paid. This fee was negotiated and approved by the Board of Trustees of HHGI.

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, 2007, 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 Fund 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:

| | |
|-----------------------------------|--------------|
| Remaining 2008 | \$ 162 |
| 2009 | 324 |
| 2010 | 324 |
| 2011 | 267 |
| 2012 | 14 |
| Thereafter | - |
| Total minimum lease payments | <u>1,091</u> |
| Less amount representing interest | <u>(128)</u> |
| | 963 |
| Current portion | <u>(261)</u> |
| Long-term portion | <u>\$702</u> |

These leases have interest rates ranging from 6.0% to 8.5%. The Fund has made payments of \$64 and \$134 for the three months ended June 30, 2008 and 2007, respectively, and \$125 and \$77 for the six months ended June 30, 2008 and 2007, respectively. Interest paid on capital leases amount to \$19 and \$23 for the three months ended June 30, 2008 and 2007, respectively, and \$39 and \$48 for the six months ended June 30, 2008 and 2007, respectively.

Operating Leases

As at June 30, 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 June 30, 2008 are as follows:

| | |
|----------------|-------|
| Remaining 2008 | \$464 |
| 2009 | 932 |

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

| | |
|------------|----------------|
| 2010 | 933 |
| 2011 | 880 |
| 2012 | 870 |
| Thereafter | 1,077 |
| | <u>\$5,156</u> |

Rent expense under the Fund's various operating lease agreements totaled \$290 and \$55 for the three months ended June 30, 2008 and June 30, 2007, respectively, and \$475 and \$111 for the six months ended June 30, 2008 and June 30, 2007, respectively, and is included in 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. Section 3855 expanded on Section 3860 by prescribing when a financial instrument is to be recognized on the balance sheet and at what amount and how gains and losses are recognized.

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 June 30, 2008.

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.

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 June 30, 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. 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. Under the PACA, anyone buying or selling commercial quantities of fruit and vegetables must be licensed by the U.S. Department of Agriculture. Historical write-offs have represented less than 1% of sales. The maximum amount of credit risk exposure is limited to the carrying amount of the balances on the financial statements.

ii) Interest rate risk

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

The Fund is exposed to interest rate risk on its bank debt, for which the interest rates charged fluctuate based on the LIBOR rate. Interest is compounded daily at LIBOR plus 2.0% for the Canadian credit facilities and LIBOR plus 2.5% for the US credit facilities. The Fund has limited its interest rate risk by entering into five interest rate swaps for the CAN Capital Loan and has fixed rate interest contracts for its US Capital Loan. At June 30, 2008, of the \$59,548 debt, \$57,300 bears interest at a fixed rate.

VILLAGE FARMS INCOME FUND
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2008

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

iii) Liquidity risk

Liquidity risk is the risk that the Fund will not be able to meet its obligations as they fall due. The following are the contractual maturities of financial liabilities as at June 30, 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 | \$10,462 | \$10,462 | \$- | \$- |
| Bank debt | 59,548 | 3,180 | 3,180 | 53,188 |
| Obligation under capital lease | 963 | 261 | 281 | 421 |
| Distributions payable | 359 | 359 | - | - |
| | <u>\$71,332</u> | <u>\$14,262</u> | <u>3,461</u> | <u>\$53,609</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 June 30, 2008, \$5,031 is outstanding).

iv) Fair values

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

13 INCOME TAXES

The provision for income taxes consists of the following components:

| | <u>For the three months ended June 30,</u> | | <u>For the six months ended June 30,</u> | |
|---------|--|------------------|--|--------------|
| | <u>2008</u> | <u>2007</u> | <u>2008</u> | <u>2007</u> |
| Current | (\$681) | (\$588) | \$1,942 | \$524 |
| Future | 2 | (478) | 169 | 226 |
| | <u>(\$679)</u> | <u>(\$1,066)</u> | <u>\$2,111</u> | <u>\$750</u> |

Presented in the accompanying consolidated balance sheets as:

| | <u>June 30, 2008</u> | <u>December 31, 2007</u> |
|------------------------------------|----------------------|--------------------------|
| Current future tax assets | \$- | \$- |
| Non-current future tax liabilities | (2,897) | (2,728) |
| Net future tax liability | <u>(\$2,897)</u> | <u>(\$2,728)</u> |

14 GEOGRAPHIC INFORMATION

The Fund operates in one segment, where it produces, markets and sells premium quality tomatoes, bell peppers and cucumbers, with its primary operations in the United States and Canada. Revenue by the countries in which its customers are located is as follows:

| | <u>For the three months ended June 30,</u> | | <u>For the six months ended June 30,</u> | |
|---------------|--|-----------------|--|-----------------|
| | <u>2008</u> | <u>2007</u> | <u>2008</u> | <u>2007</u> |
| Revenue | | | | |
| United States | \$31,406 | \$19,186 | \$53,977 | \$41,797 |
| Canada | 12,642 | 13,525 | 18,589 | 15,143 |
| Other | 5 | 172 | 5 | 383 |
| | <u>\$44,053</u> | <u>\$32,883</u> | <u>\$72,571</u> | <u>\$57,323</u> |

VILLAGE FARMS INCOME FUND
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2008

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

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

| | June 30, 2008 | December 31, 2007 |
|-------------------------------|---------------|-------------------|
| Property, plant and equipment | | |
| United States | \$25,432 | \$26,779 |
| Canada | 44,653 | 44,922 |
| | \$70,085 | \$71,701 |

15 COMMITMENTS AND CONTINGENCIES

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

During 2002, the Texas Commission on Environmental Quality (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 alleges the nitrogen levels may be a result of fertilizer discharge from that Fund greenhouse or other local agricultural sources. The Fund has identified a solution for its three Texas greenhouse facilities which would require a capital expenditure currently estimated at US\$1,500, of which \$1,207 has been incurred as at June 30, 2008, including \$nil for the six months ended June 30, 2008 and \$518 for the year ended December 31, 2007. Management of the Fund believes that there will be an ongoing economic benefit with this capital project. The TCEQ has advised the Fund that it will not assess any penalties at this time.

The Fund indemnifies its 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.

16 TRUST UNITS AND EQUITY

The following is a summary of changes in unitholders' and shareholders' capital from January 1, 2008 to June 30, 2008:

| | The Fund Units and exchangeable Units | |
|---------------------------------|--|----------|
| | # of Units | Amount |
| Unit capital – January 1, 2008 | 10,697,304 | \$20,190 |
| PPS's converted into Fund Units | 385,000 | - |
| Unit capital – June 30, 2008 | 11,082,304 | \$20,190 |

During the first quarter of 2008, an exchange of 3,850 participating preferred shares ("PPS") for 385,000 ordinary units of the Fund ("Units"). As at June 30, 2008, 252,670 PPS remain outstanding and if exchanged for Units would represent an additional 25,267,000 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.

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.

VILLAGE FARMS INCOME FUND
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2008

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

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

| | <u>June 30, 2008</u> | <u>December 31, 2007</u> |
|--------------------------------|----------------------|--------------------------|
| Total debt | \$64,579 | \$64,424 |
| Less cash and cash equivalents | (4,139) | (1,620) |
| Net debt | 60,386 | 62,804 |
| Total equity | 27,383 | 21,622 |
| | <u>\$87,769</u> | <u>\$84,426</u> |

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 therefor not significantly affect the level of distribution levels.

During the six months ended June 30, 2008, the Fund was in compliance with all external capital requirements and covenants related to its debt facilities.

17 DISTRIBUTIONS TO UNITHOLDERS

Distributions paid to unitholders for the six months ended June 30, 2008 and 2007 were as follows:

| Paid per unit ¹ (in CAD\$) | <u>June 30, 2008</u> | <u>June 30, 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 |
| | <u>\$0.06</u> | <u>\$0.05</u> |

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