

Village Farms Income Fund

Interim Consolidated Financial Statements

Three Months Ended

March 31, 2009

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying un-audited interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

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

	<u>March 31, 2009</u>	<u>December 31, 2008</u>
	(unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	\$1,703	\$4,101
Accounts receivable	6,608	9,357
Other receivables (note 10)	1,278	567
Inventories (note 5)	17,264	11,438
Assets held for sale (note 4)	-	344
Prepays and deposits	813	544
	27,666	26,351
Property, plant and equipment (note 6)	69,909	70,489
Intangible assets (note 7)	1,482	1,508
Other assets	1,086	821
Total assets	\$100,143	\$99,169
 Liabilities and unitholders' equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$7,074	\$9,388
Distributions payable (note 19)	155	317
Operating line of credit (note 8)	4,259	-
Current maturities of long-term debt (note 8)	3,227	3,227
Current obligations under capital leases (note 11)	223	227
Total current liabilities	14,938	13,159
Long-term debt (note 8)	53,925	54,732
Derivatives (note 9)	2,717	2,801
Obligations under capital leases (note 11)	398	472
Future income taxes (note 14)	5,226	4,881
Total liabilities	77,204	76,045
Unitholders' equity:		
Trust units (note 18)	24,850	24,850
Accumulated distributions	(8,993)	(8,168)
Accumulated earnings	7,027	6,387
Cumulative translation adjustment	55	55
Total unitholders' equity	22,939	23,124
Total liabilities and unitholders' equity	\$100,143	\$99,169

Commitments and contingencies (note 17)

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 Three Months Ended
(In thousands of United States dollars, unaudited)

	<u>March 31, 2009</u>	<u>March 31, 2008</u>
Accumulated earnings - Beginning of period	\$6,387	\$1,846
Net earnings	640	3,276
Accumulated earnings - End of period	<u>\$7,027</u>	<u>\$5,122</u>

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

Village Farms Income Fund
Consolidated Statements of Earnings and Comprehensive Earnings
For the Three Months Ended

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

	<u>March 31, 2009</u>	<u>March 31, 2008</u>
Net sales	\$21,443	\$28,519
Cost of sales	<u>16,572</u>	<u>16,803</u>
Gross profit	4,871	11,716
Selling, general and administrative expenses	<u>2,971</u>	<u>4,015</u>
Income from Operations	1,900	7,701
Interest expense, net	816	960
Foreign exchange loss (gain)	132	(141)
Amortization of intangible assets	26	348
(Gain) loss on derivatives (note 9)	(83)	863
Other (income), net (note 13)	(165)	(174)
(Gain) on sale of asset (note 4)	<u>(156)</u>	<u>-</u>
Earnings before income taxes	1,330	5,845
Provision for income taxes (note 14)	<u>690</u>	<u>2,569</u>
Net earnings and comprehensive earnings	<u>640</u>	<u>3,276</u>
Net income per Unit/share-basic	<u>\$0.02</u>	<u>\$0.09</u>
Weighted average number of units/shares outstanding-basic	<u>38,707,345</u>	<u>36,349,305</u>
Net income per Unit/share-diluted	<u>\$0.02</u>	<u>\$0.08</u>
Weighted average number of units/shares outstanding-diluted	<u>38,707,345</u>	<u>38,707,345</u>

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

Village Farms Income Fund
Consolidated Statements of Cash Flows
For the Three Months Ended
(In thousands of United States dollars, unaudited)

	<u>March 31, 2009</u>	<u>March 31, 2008</u>
Cash flows from operating activities:		
Net earnings	\$640	\$3,276
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	1,378	1,693
Loss (gain) on sale of property	(156)	-
Loss on derivatives	(84)	863
Foreign exchange loss (gain)	-	-
Share based compensation	-	813
Future income taxes	345	165
Changes in non-cash working capital (note 15)	<u>(6,146)</u>	<u>(2,062)</u>
Net cash provided by operating activities	<u>-4,023</u>	<u>4,748</u>
Cash flows from investing activities:		
Purchases of property, plant and equipment	(772)	(566)
Proceeds from sale of property, plant and equipment	<u>50</u>	<u>-</u>
Net cash provided by (used in) investing activities	<u>(722)</u>	<u>(566)</u>
Cash flows from financing activities:		
Proceeds (Payments on) from operating line of credit	4,259	(65)
Payments on long-term debt	(807)	(768)
Payments on obligations under capital leases	(78)	(103)
Dividend payments to Unitholders and PPS holders (note 19)	(987)	(1,094)
Other	<u>(40)</u>	<u>(534)</u>
Net cash provided by (used in) financing activities	<u>2,347</u>	<u>(2,564)</u>
Foreign exchange loss (gain)	<u>-</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	(2,398)	1,618
Cash and cash equivalents beginning of year	<u>4,101</u>	<u>1,620</u>
Cash and cash equivalents end of year	<u><u>\$1,703</u></u>	<u><u>\$3,238</u></u>
Supplemental cash flow information:		
Interest paid	<u>\$839</u>	<u>\$1,224</u>
Income taxes paid	<u>\$0</u>	<u>\$18</u>

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

VILLAGE FARMS INCOME FUND
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2009

(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, through the acquisition of a controlling interest in Village Farms Canada Inc. (“VF Canada”). The Fund’s principal operating subsidiaries at March 31, 2009 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 and Texas, where it produces, markets and sells premium-quality tomatoes, bell peppers and cucumbers. The Fund also markets and sells third party produce through its subsidiaries.

2 SIGNIFICANT ACCOUNTING POLICIES

These unaudited interim consolidated financial statements do not include all of the disclosures required by Canadian generally accepted accounting principles (“GAAP”) for annual financial statements and, accordingly, should be read in conjunction with the audited consolidated financial statements and notes included in the Fund’s 2008 Annual Financial Statements. These unaudited interim consolidated financial statements follow the same accounting policies and methods of computation as used in the 2008 audited consolidated financial statements except as described in note 3.

3 CHANGES IN ACCOUNTING POLICIES

Goodwill and Intangible Assets

Effective January 1, 2009, the Fund adopted Section 3064, Goodwill and Intangible Assets. This section will replace Section 3062, Goodwill and Other Intangible Assets and Section 3450, Research and Development Costs. This new Section establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062.

4 GAIN ON SALE OF ASSET

In February 2009, the Fund sold its greenhouse facility in Ringgold, Pennsylvania and entered into a marketing agreement with the buyer. The Fund recorded a gain on the sale of \$156.

5 INVENTORY

	<u>March 31, 2009</u>	<u>December 31, 2008</u>
Crop inventory	\$16,441	\$11,356
Purchased produce inventory	823	82
	\$17,264	\$11,438

The cost of inventories recognized as expense and included in “cost of sales” for the three months ended March 31, 2009 amounted to \$14,332 (March 31, 2008 - \$14,092).

VILLAGE FARMS INCOME FUND
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2009

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

6 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

	<u>March 31, 2009</u>	<u>December 31, 2008</u>
Cost		
Land	\$5,117	\$5,117
Leasehold and land improvements	2,033	2,033
Greenhouses and buildings	57,700	57,068
Greenhouse equipment	28,739	28,413
Machinery and equipment	3,766	2,341
Construction in progress	331	1,945
	<u>97,687</u>	<u>96,917</u>
Accumulated amortization		
Leasehold and land improvements	1,041	1,001
Greenhouses and buildings	16,191	15,474
Greenhouse equipment	9,142	8,692
Machinery and equipment	1,404	1,261
	<u>27,778</u>	<u>26,428</u>
Net book value		
Land	5,117	5,117
Leasehold and land improvements	992	1,032
Greenhouses and buildings	41,509	41,594
Greenhouse equipment	19,597	19,721
Machinery and equipment	2,362	1,080
Construction in progress	331	1,945
	<u>\$69,909</u>	<u>\$70,489</u>

Capital lease assets of \$1,133 at March 31, 2009 and December 31, 2008 and accumulated amortization on these assets of \$381 and \$348 are included within greenhouse equipment.

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

7 INTANGIBLE ASSETS

	<u>March 31, 2009</u>	<u>December 31, 2008</u>
Thermal energy supply agreement		
Cost	1,735	1,735
Accumulated amortization	253	227
Net book value	<u>\$1,482</u>	<u>\$1,508</u>

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.

VILLAGE FARMS INCOME FUND
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2009

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

8 LONG-TERM DEBT

As at March 31, 2009 and December 31, 2008, debt consists of the following:

	<u>March 31, 2009</u>	<u>December 31, 2008</u>
CAD Line of Credit	<u>\$4,259</u>	<u>\$-</u>
CAD Capital Loan	43,377	43,709
CAD FX Facility	-	-
US Operating Loan	-	-
US Capital Loan	<u>13,775</u>	<u>14,250</u>
	57,152	57,959
Less current maturities	<u>(3,227)</u>	<u>(3,227)</u>
Long-term portion	<u>\$53,925</u>	<u>\$54,732</u>

The aggregate annual maturities of long-term debt as at March 31, 2009 are as follows:

Remaining 2009	\$ 2,420
2010	3,227
2011	42,955
2012	1,900
2013	1,900
Thereafter	<u>4,750</u>
	<u>\$57,152</u>

9 DERIVATIVES

On January 17, 2008, the Fund entered into five (5) fixed for floating interest rate swap agreements effective from January 25, 2008 through January 25, 2013 in the notional amount of \$43,300 in order to reduce the interest rate variability on its CAD Capital Loan. The Fund has effectively fixed its interest expense on its CAD Capital Loan at 5.66%. The Fund recognized a gain of \$83 for the three months ended March 31, 2009 (March 31, 2008 a loss of-\$863) which represented the mark-to-market adjustment of the interest rate swap agreements. The Fund has not designated the swap agreements as a hedge for accounting purposes. The fair value of the interest rate swap agreements as at March 31, 2009 was a liability of \$2,717 (December 31, 2008 -\$2,801). The remaining interest rate swap agreements are as follows:

<u>Term</u>	<u>Amount</u>	<u>Interest Rate</u>
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

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 secured by real property is non-interest bearing and is to be paid from the proceeds of the sale of the real property that secures the note. The \$379 represents the amount the Fund advanced on this employee's behalf in connection with the relocation.

VILLAGE FARMS INCOME FUND
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2009

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

11 LEASE COMMITMENTS

Obligations Under Capital Leases

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

Remaining 2009	\$197
2010	262
2011	216
2012	11
Thereafter	-
Total minimum lease payments	<u>686</u>
Less amount representing interest	<u>(65)</u>
	621
Current portion	<u>(223)</u>
Long-term portion	<u>\$398</u>

These leases have interest rates ranging from 6.0% to 8.5%. The Fund has made payments of \$57 during the three months ended March 31, 2009 (March 31, 2008 - \$61). Interest paid on capital leases amount to \$12 during the three months ended March 31, 2009 (March 31, 2008 - \$25).

Operating Leases

As at March 31, 2009, the Fund has entered into certain operating lease commitments for land, office space and equipment through 2022. The future minimum lease payments as at March 31, 2009 are as follows:

Remaining 2009	\$608
2010	813
2011	761
2012	752
2013	577
Thereafter	<u>323</u>
	<u>\$3,834</u>

Rent expense under the Fund's various operating lease agreements totaled \$288 for the three months ended March 31, 2009 (March 31, 2008 - \$152) and is included in cost of goods sold and selling, general and administrative expenses.

12 FINANCIAL INSTRUMENTS

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

	<u>March 31, 2009</u>	<u>December 31, 2008</u>
Held for trading (cash and cash equivalents)	\$1,703	\$4,101
Receivables	6,608	9,357
Other financial liabilities	69,261	68,363

Interest income and other gains and losses from "held for trading" and "held to maturity" financial assets are recognized in interest expense and selling, general and administration. Interest income, expense and gains and losses from loans, receivables and other financial liabilities are recognized in interest expense, loss on derivatives and other income. The following table summarizes interest income and expense for the three months ended March 31, 2009 and 2008:

VILLAGE FARMS INCOME FUND
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2009

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

	<u>March 31, 2009</u>	<u>March 31, 2008</u>
Interest income from - held for trading assets	\$4	\$15
Interest expense from - other financial liabilities	820	975

13 OTHER INCOME

The Fund had other income for the three months ended March 31, 2009 of \$165 and \$174 for the three months ended March 31, 2008. For the three months ended March 31, 2009, the income primarily consisted of a \$154 bank dividend. For the three months ended March 31, 2008, the income primarily consisted of a \$173 bank dividend.

14 INCOME TAXES

The provision for income taxes consists of the following components:

	<u>March 31, 2009</u>	<u>March 31, 2008</u>
Current	\$345	\$2,405
Future	345	164
	<u>\$690</u>	<u>\$2,569</u>

	<u>March 31, 2009</u>	<u>December 31, 2008</u>
Current future tax assets	\$-	\$-
Non-current future tax liabilities	5,226	4,881
Net future tax liability	<u>\$5,226</u>	<u>\$4,881</u>

15 CHANGES IN NON-CASH WORKING CAPITAL

	<u>For the three months ended March 31,</u>	
	<u>2009</u>	<u>2008</u>
Accounts receivable	\$2,749	\$2,890
Inventories	(5,826)	(5,614)
Other current assets	(486)	64
Prepays and deposits	(269)	112
Accounts payable and accrued liabilities	(2,314)	486
	<u>(\$6,146)</u>	<u>(\$2,062)</u>

16 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 March 31,</u>	
	<u>2009</u>	<u>2008</u>
Revenue		
United States	\$13,845	\$22,572
Canada	7,598	5,947
	<u>\$21,443</u>	<u>\$28,519</u>

VILLAGE FARMS INCOME FUND
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2009

(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:

	March 31, 2009	December 31, 2008
Property, plant and equipment		
United States	\$25,200	\$25,646
Canada	44,709	44,843
	\$69,909	\$70,489

17 COMMITMENTS AND CONTINGENCIES

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

During 2002, the Texas Commission on Environmental Quality (the "TCEQ") advised the Fund that nitrogen levels exceeding the State threshold had been detected in its potable water at one of its Texas greenhouse facilities. The TCEQ alleged that the nitrogen levels may be a result of fertilizer discharge from such greenhouse or other local agricultural sources. The Fund has identified a solution for its three Texas greenhouse facilities which would require a capital expenditure currently estimated at \$1,500, of which \$1,207 has been incurred as at March 31, 2009, including \$nil for the three months ended March 31, 2009 and March 31, 2008. Management believes that there will be an ongoing economic benefit with this capital project. The TCEQ has advised the Fund that it will not assess any penalties at this time.

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

18 TRUST UNITS AND EQUITY

The following is a summary of changes in unitholders' and shareholders' capital from January 1, 2008 to and including March 31, 2009:

	The Fund Units and exchangeable Units	
	# of Units	Amount
Unit capital – January 1, 2008	10,697,305	\$20,190
PPSs converted into Fund Units	385,000	1,050
Class C shares converted into Fund Units	2,358,040	3,610
Unit capital – December 31, 2008 and March 31, 2009	13,440,345	\$24,850

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

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

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

VILLAGE FARMS INCOME FUND
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2009

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

19 DISTRIBUTIONS TO UNITHOLDERS

Distributions paid to unitholders for the three months ended March 31, 2009 and 2008 were as follows:

Paid per unit ¹ (in CAD\$)	<u>March 31, 2009</u>	<u>March 31, 2008</u>
January	\$0.01	\$0.01
February	0.01	0.01
March	0.01	0.01
	<u>\$0.03</u>	<u>\$0.03</u>

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