Village Farms International, Inc.

(formerly Village Farms Income Fund)

Annual Consolidated Financial Statements

Years Ended

December 31, 2010 and 2009

PRICEWATERHOUSECOOPERS

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March 15, 2011

Independent Auditor's Report

To the Shareholders
of Village Farms International, Inc.

We have audited the accompanying consolidated financial statements of Village Farms International, Inc. and its subsidiaries, which comprise the consolidated balance sheets as at December 31, 2010 and 2009 and the consolidated statements of earnings and comprehensive earnings, retained earnings and cash flows for the years then ended, and the related notes including a summary of significant accounting policies.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Village Farms International, Inc. and its subsidiaries as at December 31, 2010 and 2009 and the results of their operations and their cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(signed) PricewaterhouseCoopers LLP

Chartered Accountants

Village Farms International, Inc.
(formerly Village Farms Income Fund)
Consolidated Balance Sheets
(In thousands of United States dollars)

	December 31, 2010	December 31, 2009
Assets	(note 1)	(note 1)
Current assets:		
Cash and cash equivalents	$9,734	$2,611
Accounts receivable	8,131	9,594
Other receivables	510	592
Inventories (note 5)	12,810	11,948
Assets held for sale (note 4)	407	-
Income taxes receivable	775	-
Prepaids and deposits	801	909
Total current assets	33,168	25,654
Property, plant and equipment (note 6)	62,972	66,599
Future income tax assets (note 14)	2,967	4,549
Intangible assets (note 7)	1,301	1,404
Other assets (note 10)	1,125	877
Total assets	$101,533	$99,083
Liabilities and shareholders' equity		
Current liabilities:		
Accounts payable and accrued liabilities	$9,774	$9,564
Current maturities of long-term debt (note 8)	3,260	3,260
Current portion of obligations under capital leases (note 11)	264	283
Total current liabilities	13,298	13,107
Long-term debt (note 8)	48,208	51,472
Derivatives (note 9)	2,340	2,092
Obligations under capital leases (note 11)	14	262
Future income taxes (note 14)	3,474	3,589
Total liabilities	67,334	70,522
Shareholders' equity:		
Share capital (note 18)	24,850	24,850
Contributed surplus	40	-
Retained earnings	9,254	3,656
Accumulated other comprehensive income	55	55
Total shareholders' equity	34,199	28,561
Total liabilities and shareholders' equity	$101,533	$99,083

Commitments and contingencies (note 17)

Approved by the Board of Directors

/s/ John P. Henry, Director
/s/ Christopher C. Woodward, Director

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

Village Farms International, Inc.
(formerly Village Farms Income Fund)
Consolidated Statements of Retained Earnings
For the Years Ended December 31, 2010 and December 31, 2009
(In thousands of United States dollars, except for shares and units outstanding and per share/unit amounts)

	Common Stock Shares	Share Capital	Trust Units	Trust Units	Contributed Surplus	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance at December 31, 2008	-	$-	13,440,345	$24,850	$-	($1,781)	$55	$23,124
Dividends declared	-	-	-	-	-	(1,232)	-	(1,232)
Net earnings year ended December 31, 2009	-	-	-	-	-	6,669	-	6,669
Conversion from units to shares (note 18)	13,440,345	24,850	(13,440,345)	(24,850)	-	-	-	-
Balance at December 31, 2009	13,440,345	24,850	-	-	-	3,656	55	28,561
Share-based compensation expense (note 21)	-	-	-	-	40	-	-	40
Net earnings year ended December 31, 2010	-	-	-	-	-	5,598	-	5,598
Conversion of special shares to common shares (note 18)	5,993,049	-	-	-	-	-	-	-
Balance at December 31, 2010	19,433,394	$24,850	-	$-	$40	$9,254	$55	$34,199

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

Village Farms International, Inc.
(formerly Village Farms Income Fund)
Consolidated Statements of Earnings and Comprehensive Earnings
For the Years Ended
(In thousands of United States dollars, except for shares outstanding and per share amounts)

	December 31, 2010 (note 1)	December 31, 2009 (note 1)
Net sales	$144,768	$130,524
Cost of sales	123,632	115,759
Gross profit	21,136	14,765
Selling, general and administrative expenses	13,164	12,093
Income from operations	7,972	2,672
Interest expense, net	2,775	3,159
Foreign exchange loss	57	62
Amortization of intangible assets	103	103
Loss (gain) on derivatives (note 9)	247	(709)
Other (income), net (note 13)	(1,432)	(298)
Loss (gain) on sale of asset	339	(34)
Earnings before income taxes	5,883	389
Provision for (recovery of) income taxes (note 14)	285	(6,280)
Net earnings and comprehensive earnings	$5,598	$6,669
Net earnings per share - basic	$0.14	$0.17
Weighted average number of shares outstanding - basic	38,707,345	38,707,345
Net earnings per share - diluted	$0.14	$0.17
Weighted average number of shares outstanding - diluted	39,042,960	38,707,345

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

Village Farms International, Inc.
(formerly Village Farms Income Fund)
Consolidated Statements of Cash Flows
For the Years Ended
(In thousands of United States dollars)

	December 31, 2010 (note 1)	December 31, 2009 (note 1)
Cash flows from operating activities:		
Net earnings	$5,598	$6,669
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	5,793	5,770
Loss (gain) on sale of asset	339	(34)
Loss (gain) on derivatives	247	(709)
Foreign exchange (gain) loss	(91)	79
Share-based compensation (note 21)	40	-
Future income taxes	1,469	(5,841)
Changes in non-cash working capital (note 15)	(8)	(734)
Net cash provided by operating activities	13,387	5,200
Cash flows from investing activities:		
Purchases of property, plant and equipment	(2,809)	(1,890)
Proceeds from sale of property, plant and equipment	234	266
Other	(249)	(56)
Net cash used in investing activities	(2,824)	(1,680)
Cash flows from financing activities:		
Payments on long-term debt	(3,264)	(3,227)
Payments on obligations under capital leases	(267)	(154)
Distributions to unitholders and PPS holders (note 20)	-	(1,550)
Net cash used in financing activities	(3,531)	(4,931)
Foreign exchange loss (gain)	91	(79)
Net increase (decrease) in cash and cash equivalents	7,123	(1,490)
Cash and cash equivalents beginning of year	2,611	4,101
Cash and cash equivalents end of year	$9,734	$2,611
Supplemental cash flow information:		
Interest paid	$2,820	$3,159
Income taxes paid	$288	$100

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

1 NATURE OF OPERATIONS

Village Farms International, Inc., formerly known as Village Farms Income Fund, ("VFF" and, together with its subsidiaries, the "Company") was incorporated under the *Canada Business Corporation Act* ("CBCA"). VFF's principal operating subsidiaries at December 31, 2010 are Village Farms Canada Limited Partnership ("VFCLP") and Village Farms, L.P. ("VFLP").

On December 15, 2009, Village Farms Income Fund (the "Fund") obtained a final order from the Ontario Superior Court of Justice with respect to its Plan of Arrangement under the CBCA to convert from an income fund to a corporation. On December 31, 2009, the Fund completed the conversion into VFF. Effective December 31, 2009, all the outstanding trust units of the Fund were exchanged for common shares of VFF on a one-for-one basis.

The Company, 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 Company also markets and sells third party produce through its subsidiaries.

2 SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying consolidated financial statements include the accounts of VFF and its wholly owned subsidiaries after elimination of inter-company transactions and balances, and are prepared in accordance with Canadian generally accepted accounting principles ("GAAP").

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. Significant areas requiring the use of estimates are inventory valuation, accounts receivable, sales allowances, the assessment of the useful lives and recoverable values of long-lived assets, valuation of derivatives and recoverability of future income tax assets. Actual results could differ materially from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on deposit and highly liquid short-term interest bearing securities with maturities at the date of purchase of three months or less and are classified as held-for-trading.

Accounts Receivable

Accounts receivable are measured at amortized cost and due within contractual payment terms and are stated at amounts due from customers net of an allowance for doubtful accounts. Credit is extended based on an evaluation of a customer's financial condition. Accounts outstanding longer than the contractual payment terms are considered past due. The Company determines its allowance by considering a number of factors, including the length of time trade accounts receivable are past due, the Company's previous loss history and the customer's current ability to pay its obligation to the Company. The Company 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 Company-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 costs 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.

Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated amortization. Amortization is calculated using the straight-line method over the estimated useful life of the class of assets as follows:

Classification	Estimated Useful Life
Leasehold and land improvements	5-20 years
Greenhouses and buildings	12-30 years
Greenhouse equipment	5-30 years
Machinery and equipment	3-10 years

Leasehold and land improvements and assets held under capital leases are amortized on a straight-line basis over the shorter of the term of the lease or their estimated useful lives. Construction in progress reflects the cost of assets under construction, which are not amortized until placed into service.

Long-lived Asset Impairment

Management reviews long-lived asset groups for impairment whenever events or changes in circumstances indicate that the carrying value of the asset may not be fully recoverable. Recoverability of an asset group is determined by comparing the carrying value of the asset group to the future undiscounted net cash flows expected to be generated from use of the asset group. If the asset group is considered to be impaired, the impairment to be recognized is measured by the amount that the carrying value of the asset exceeds the fair value of the asset group. When management has committed to dispose of a long-lived asset, the asset identified for disposal is classified as held-for-sale and recorded at the lower of its carrying amount and fair value, and is no longer amortized.

Intangible Assets

Intangible assets consist of an energy supply agreement and are recorded at cost less accumulated amortization. Amortization is recorded on a straight-line basis over the life of the related contract.

Earnings per Share

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

Foreign Currency Translation

The Company's functional currency is U.S. dollars. For the Company's integrated foreign operations, monetary assets and liabilities are translated into U.S. dollars at year-end exchange rates and other assets and liabilities are translated at historical rates. Revenues, expenses and cash flows are translated at monthly average exchange rates. Gains and losses on translation of monetary assets and monetary liabilities are charged to earnings. Transactions denominated in foreign currencies are translated at the rate prevailing at the transaction date.

Financial Instruments

Recognition and measurement

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

a) Short-term liquid investments included in cash and cash equivalents have been classified as held-for-trading.

b) The Company's accounts receivable and other receivables are initially measured at fair value and subsequently at amortized cost using the effective interest method less provisions for impairment.

c) The Company's accounts payable and accrued liabilities are initially measured at fair value and subsequently at amortized cost using the effective interest method.

d) The Company's long-term debt has been classified as other financial liabilities and is initially measured at fair value and subsequently at amortized cost using the effective interest method.

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

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

i) Comprehensive earnings:

Section 1530 establishes standards for reporting and displaying comprehensive earnings. Comprehensive earnings is defined as the change in equity (net assets) from transactions and other events from non-owner sources. Other comprehensive earnings is defined as revenues, expenses, gains and losses that, in accordance with primary sources of GAAP, are recognized in comprehensive earnings, but excluded from net earnings.

ii) Financing charges:

The Company recognizes financing charges that reflect the cost to obtain new debt financing as an expense in the period incurred and financing charges that reflect the cost to obtain new equity financing as a reduction in net proceeds as incurred.

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

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

Revenue Recognition

Revenue from produce sales is recognized when the product is delivered, title and risk of loss have passed to the customer, and collectability is reasonably assured. Net sales have been reduced by product returns and sales allowances.

Income Taxes

The Company accounts for future income taxes under the asset and liability method, whereby future income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of the existing assets and liabilities and their respective tax bases. Future income tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in tax rates is recognized in earnings in the period that includes the substantive enactment date. Future tax assets would be recorded in the consolidated financial statements to the extent that realization of such benefits is more likely than not. Future tax assets are reduced by a valuation allowance when it is more likely than not that some portion or all of the future tax asset will not be realized.

Prior to the conversion to an incorporated entity (note 1), the Fund qualified as a mutual fund trust under the *Income Tax Act (Canada).* The Fund was only taxable on income not allocated to its unitholders.

3 CHANGES IN ACCOUNTING POLICIES

Effective January 1, 2009, the Company adopted the following new accounting standards:

Goodwill and Intangible Assets

The CICA issued Section 3064, "Goodwill and intangible assets", which establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets subsequent to their initial recognition by profit-orientated enterprises. The adoption of this new section did not have any material impact on the Company's financial statements.

Credit Risk and the Fair Value of Financial Assets and Liabilities

In January 2009, the CICA issued Emerging Issues Committee Abstract ("EIC") 173, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities." This EIC provides guidance on how to take into account credit risk of an entity and counterparty when determining the fair value of financial assets and financial liabilities, including derivative instruments. Adoption of this EIC did not have a material impact on the financial statements.

Financial Instruments – Disclosures

The CICA amended Section 3862, "Financial Instruments – Disclosures", in 2009 to include additional disclosure requirements about fair value measurements of financial instruments and to enhance liquidity risk disclosures. Adoption of this standard did not have any effect on the financial statements.

Conversion of an Unincorporated Entity to an Incorporated Entity

EIC-170, "Conversion of an Unincorporated Entity to an Incorporated Entity", clarifies certain accounting issues related to conversions when there is no change in control. In particular, it specifies that such a transaction should be treated as a change in business form and should be accounted for as a continuity of interests; transaction costs should be treated as an expense in the period in which they are incurred; and changes in tax balances would be included in tax expense (comparative information should be that of the pre-conversion entity, as previously reported). The Company applied this EIC to account for its 2009 conversion (note 1) and as the basis of presentation for these consolidated financial statements.

Future Accounting Changes

Business Combinations, Consolidated Financial Statements and Non-controlling Interests

For interim and annual financial statements relating to its fiscal year commencing on or after January 1, 2011, the Company will be required to adopt new CICA Section 1582, "Business Combinations", Section 1601, "Consolidated Financial Statements", and Section 1602, "Non-Controlling Interests". Section 1582 replaces existing Section 1581, "Business Combinations", and Sections 1601 and 1602 together replace Section 1600, "Consolidated Financial Statements". The adoption of Sections 1582, and collectively 1601 and 1602, provides the Canadian equivalent to International Financial Reporting Standard ("IFRS") 3, "Business Combinations", and International Accounting Standard ("IAS") 27, "Consolidated and Separate Financial Statements", respectively. The impacts of adopting these new standards are being assessed.

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

4 ASSETS HELD FOR SALE

The Company has classified its Buffalo, New York warehouse as an asset held for sale; the Company no longer operates it as a distribution centre and has listed the property for sale. This asset is no longer being amortized.

5 INVENTORIES

	December 31, 2010	December 31, 2009
Crop inventory	$12,358	$11,605
Purchased produce inventory	452	343
	$12,810	$11,948

The cost of inventories recognized as expense and included in cost of sales for the year ended December 31, 2010 amounted to $103,569 (December 31, 2009 - $98,683).

6 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

	December 31, 2010	December 31, 2009
Cost		
Land	$5,050	$5,117
Leasehold and land improvements	2,033	2,033
Greenhouses and buildings	57,280	58,575
Greenhouse equipment	28,989	29,022
Machinery and equipment	3,603	2,880
Construction in progress	591	318
	97,546	97,945
Accumulated amortization		
Leasehold and land improvements	1,326	1,163
Greenhouses and buildings	20,268	18,459
Greenhouse equipment	11,252	10,428
Machinery and equipment	1,728	1,296
	34,574	31,346
Net book value		
Land	5,050	5,117
Leasehold and land improvements	707	870
Greenhouses and buildings	37,012	40,116
Greenhouse equipment	17,737	18,594
Machinery and equipment	1,875	1,584
Construction in progress	591	318
	$62,972	$66,599

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

7 INTANGIBLE ASSETS

VFCLP has an agreement with the operator of a cogeneration facility to purchase thermal energy required for one of VFCLP's greenhouses. 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.

	December 31, 2010	December 31, 2009
Carrying value	$1,735	$1,735
Accumulated amortization	434	331
Net book value	$1,301	$1,404

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

8 LONG-TERM DEBT

As at December 31, 2010 and December 31, 2009, long-term debt consists of the following:

	December 31, 2010	December 31, 2009
CA Capital Loan	$41,018	$42,382
U.S. Capital Loan	10,450	12,350
	51,468	54,732
Less current maturities	(3,260)	(3,260)
Long-term portion	$48,208	$51,472

Canadian Credit Facilities

The Canadian credit facilities include:

- Revolving variable rate operating loan of up to CA$12,000 with a term of 364 days (the "CA Operating Loan") ;
- Non-revolving variable rate capital loan with a balance of $41,018 with a maturity date on October 31, 2013 (the "CA Capital Loan"); and
- Foreign exchange contracts facility for the purchase and/or sale of U.S. funds (the "CA FX Facility").

The CA Operating Loan is subject to annual renewal by the bank; no amount was drawn on this facility at December 31, 2010 and 2009.

During year ended December 31, 2010, the Company entered into a loan extension with its lender. The maturity date was extended from October 31, 2011 to October 31, 2013. The terms of the extension included an increase of the Company's borrowing rate depending on the Company's total debt to EBITDA ratio and the Company incurring a renewal fee of $206.

The outstanding balance of the CA Capital Loan is repayable by way of monthly installments of principal and interest based on an amortization of the CA Capital Loan in full over a period 20 years, with the balance and any accrued interest to be paid in full on October 31, 2013. For 2010, monthly payments were $114 per month. As at December 31, 2010, borrowings under the CA Capital Loan facility are subject to LIBOR plus 2.625% (effective rate 2.875% as at December 31, 2010 (December 31, 2009 - 2.24%)).

Interest payable on funds borrowed under the Canadian credit facilities is calculated by way of one or more of Canadian Prime Rate borrowings or U.S. Base Rate borrowings, LIBOR borrowings, or any combination thereof. Currently, the Company is using LIBOR for all borrowings.

Accrued interest payable on the Canadian credit facilities and loans as at December 31, 2010 was $13 (December 31, 2009 - $13) and these amounts are included in accounts payable and accrued liabilities. The Company has entered into a fixed for floating rate interest rate swap as described in note 9. The interest expense for the year ended December 31, 2010 was $2,387 (December 31, 2009 - $2,601). The borrowings are subject to certain positive and negative covenants. During the years ended and as at December 31, 2010 and 2009, VFCLP was in compliance with all covenants on the Canadian credit facilities.

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. 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 held by VFF, which have been pledged as collateral. The carrying value of these assets and securities pledged as collateral as at December 31, 2010 was $101,533 (December 31, 2009 - $99,083).

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

United States Credit Facilities

The U.S. credit facilities include:

- Revolving variable rate operating loan of up to $5,000 with a term of 364 days (the "U.S. Operating Loan"); and
- Non-revolving variable rate capital loan with a balance of $10,450 with a maturity date on June 20, 2016 (the "U.S. Capital Loan").

The U.S. Operating Loan is subject to annual renewal by the bank. The interest rate on the U.S. Operating Loan is LIBOR plus 3.00%. There were no borrowings outstanding under the U.S. Operating Loan as at December 31, 2010 and December 31, 2009.

The U.S. Capital Loan is amortized on a 10-year schedule, with quarterly principal payments of $475. The term may be renewed beyond June 20, 2016 only upon amendment of the facility.

As at December 31, 2010, borrowings under the U.S. Capital Loan facility are subject to LIBOR plus 3.00% (effective rate 3.27% as at December 31, 2010 (December 31, 2009 – 3.49%)). Interest on the U.S. Capital Loan will be, at the Company'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 Company's ratio of long-term debt to adjusted equity. As at December 31, 2010, the Company used the seven-day LIBOR plus the applicable margin.

Accrued interest payable on the U.S. credit facilities as at December 31, 2010 was $30 (December 31, 2009 - $37) and these amounts are included in accounts payable and accrued liabilities. The interest expense for the year ended December 31, 2010 was $395 (December 31, 2009 - $535). The loan agreement requires VFLP to satisfy certain affirmative and negative covenants, including a minimum debt service coverage and current ratio. At December 31, 2010, VFLP was in compliance with all covenants on the U.S. credit facilities.

All of VFF's subsidiaries have guaranteed the obligations under the U.S. credit facilities agreement, and the borrowings are secured by a first lien and security interest in all of the assets of such subsidiaries; accordingly, such obligations rank senior to the securities of VFCLP held by VFF. The carrying amount of these assets and securities pledged as collateral as at December 31, 2010 was $101,533 (December 31, 2009 - $99,083).

The aggregate annual maturities of long-term debt as at December 31, 2010 are as follows:

2011	$ 3,260
2012	3,260
2013	40,198
2014	1,900
2015	1,900
Thereafter	950
	$51,468

9 DERIVATIVES

On January 17, 2008, the Company entered into five 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 CA Capital Loan. The Company has effectively fixed its interest expense on its CA Capital Loan at 6.319%. The Company recognized a loss of $247 for the year ended December 31, 2010 (December 31, 2009 - $709), which represented the mark-to-market adjustment of the interest rate swap agreements. The Company could not designate the swap agreements as a hedge for accounting purposes. The fair value of the interest rate swap agreements as at December 31, 2010 was a liability of $2,340 (December 31, 2009 - ($2,092)). The interest rate swap agreements remaining at December 31, 2010 are as follows:

Term	Amount	Interest Rate
January 25, 2008 - January 28, 2011	$1,200	5.945%
January 25, 2008 - January 28, 2012	1,200	6.125%
January 25, 2008 - January 28, 2013	38,500	6.325%

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

The interest rates in the above table include a 2.625% premium to LIBOR which will be adjusted downward upon satisfying certain ratio targets.

10 RELATED PARTY TRANSACTIONS AND BALANCES

Included in other assets is a $412 promissory note from an employee of the Company in connection with a relocation at the request of the Company. The note is secured by real property. It is a partially non-interest bearing note to be paid from the proceeds of the sale of the real property that secures the note. The $412 represents the amount the Company advanced on this employee's behalf in connection with the relocation.

11 LEASE COMMITMENTS

Obligations Under Capital Leases

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

2011	$274
2012	14
Total minimum lease payments	288
Less amount representing interest	(10)
	278
Less current portion	(264)
Long-term portion	$14

These leases have interest rates ranging from 6.0% to 8.5%. The Company made payments of $292 during the year ended December 31, 2010 (December 31, 2009 - $295). Interest paid on capital leases amounted to $32 during the year ended December 31, 2010 (December 31, 2009 - $48).

Operating Leases

As at December 31, 2010, the Company has entered into certain operating lease commitments for land, office space and equipment through 2022. The future minimum lease payments as at December 31, 2010 are as follows:

2011	$1,122
2012	1,113
2013	972
2014	552
2015	161
Thereafter	78
	$3,998

Rent expense under the Company's various operating lease agreements totaled $1,361 for the year ended December 31, 2010 (December 31, 2009 - $1,201) and is included in cost of sales and selling, general and administrative expenses.

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

12 FINANCIAL INSTRUMENTS

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

	December 31, 2010	December 31, 2009
Held-for-trading (cash and cash equivalents)	$9,734	$2,611
Accounts receivables	8,131	9,594
Other receivables	2,094	1,468
Other financial liabilities	61,520	65,532
Derivatives	2,340	2,092

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 administrative expenses. Interest income, interest expense and gains and losses from loans, receivables and other financial liabilities are recognized in interest expense, losses on derivatives and other income. The following table summarizes interest income and expense for the years ended December 31, 2010 and 2009:

	December 31, 2010	December 31, 2009
Interest income from held-for-trading assets	$39	$21
Interest expense from other financial liabilities	2,814	3,180

Risks

The Company, through its financial assets and liabilities, is exposed to various risks. The following analysis provides a measurement of some of these risks as at December 31, 2010. The Company uses derivative financial instruments only for risk management purposes, not for generating trading profit.

i) Credit risk

Credit risk is the risk that the Company 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 Company to significant concentrations of credit risk consist primarily of cash and cash equivalents and accounts receivable.

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

The Company's accounts receivable do not include any customer who represents more than 10% of the balance of such receivables as at December 31, 2010. The Company believes that its accounts receivable risk is limited due to the high credit quality of its customers and the protection afforded to the Company by the *Perishable Agricultural Commodities Act* (the "PACA") for its sales in the United States, which represent approximately 75% of the Company's sales. The PACA protection gives a claim filed under the PACA, first lien on all PACA assets (which includes cash and accounts receivable). The PACA fosters trading practices in the marketing of fresh and frozen fruits and vegetables in interstate and foreign commerce. It prohibits unfair and fraudulent practices and provides a means of enforcing contracts. Historical write-offs have represented less than 1% of sales. The maximum amount of credit risk exposure is limited to the carrying amount of the balances on the financial statements.

Given the current economic environment, accounts receivable for each customer at year-end were evaluated for collectability and an allowance for doubtful accounts has been estimated. A general provision is also taken based on the Company's historic exposure to bad debts based on revenue. At December 31, 2010, the allowance for doubtful accounts balance was $254 (December 31, 2009 - $267). In addition, the Company recorded bad debts of $nil during the year ended December 31, 2010 (December 31, 2009 - $270). The Company wrote off $13 in accounts receivable during fiscal 2010 for amounts previously provided for (December 31, 2009 - $nil) based on a review of the collectability of these amounts.

At December 31, 2010, 0.9% (December 31, 2009 - 0.2%) of trade receivables were outstanding for more than 90 days, 10.5% (December 31, 2009 - 8.2%) were outstanding for between 30 and 90 days and the remaining 88.6% (December

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

31, 2009 - 91.6%) were outstanding less than 30 days. Trade receivables are considered past due based on the contract terms agreed to with a customer. As noted above, aged receivables that are past due are not considered impaired unless customer specific information indicates otherwise.

ii) Interest rate risk

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

The Company 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 2.625% for the Canadian credit facilities and LIBOR plus 3.0% for the U.S. credit facilities. The Company has limited its interest rate risk by entering into interest rate swap agreements for the CA Capital Loan (note 9).

The Company is exposed to interest rate risk on its bank debt for which interest rates charged and the value of the related interest rate swap agreement fluctuate. If interest rates had been 50 basis points higher (lower), the net income during the 2010 fiscal year would have been higher (lower) by $139; this represents a $205 gain on derivatives partially offset by $61 in additional interest expense (December 31, 2009 - $139, $210 gain on derivatives offset by $71 in additional interest expense).

iii) Foreign exchange risk

At December 31, 2010, the Canadian/U.S. foreign exchange rate was CA $1.00 = US$1.0054 (December 31, 2009 - $0.9515). 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, 2010 and 2009, with the net foreign exchange gain or loss directly impacting net earnings for fiscal 2010 and 2009:

	December 31, 2010	December 31, 2009
Financial assets		
Cash and cash equivalents	$121	$9
Trade accounts receivable	121	177
Financial liabilities		
Accounts payable and accrued liabilities	(156)	(177)
Obligations under capital leases	(28)	(57)
Net foreign exchange loss (gain)	$58	($48)

iv) Liquidity risk

Liquidity risk is the risk that the Company 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, 2010:

Financial liabilities	Contractual cash flows	0 to 12 months	12 to 24 months	After 24 months
Accounts payable and accrued liabilities	$9,774	$9,774	$-	$-
Long-term debt	51,468	3,260	3,260	44,948
Obligation under capital leases	278	264	14	-
	$61,520	$13,298	$3,274	$44,948

It is the Company'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 Company may seek to issue additional equity or to arrange debt or other financing. In addition, the Company has available lines of credit of US$5,000 and CA$12,000.

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

v) Fair values

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

13 OTHER INCOME

The Company had other income for the year ended December 31, 2010 of $1,432 (December 31, 2009 - $298). For the year ended December 31, 2010, the income primarily consisted of $1,055 in an AgriStabilty program payment, $140 bank dividend, $22 in royalties and $44 in rent. For the year ended December 31, 2009, the income primarily consisted of a $154 bank dividend, $27 in royalties and $39 in rent.

14 INCOME TAXES

The provision for income taxes consists of the following components:

	December 31, 2010	December 31, 2009
Current	($1,184)	($439)
Future	1,469	(5,841)
	$285	($6,280)

The net future tax liability and the approximate tax effect of each remaining type of temporary difference and carryforward are summarized as follows:

	December 31, 2010	December 31, 2009
Future tax assets:		
Intangibles	$521	$520
Other assets	1,162	1,251
Non-capital and farm losses	5,850	6,648
Debt and unit issuance costs	73	67
Future tax liabilities:		
Property, plant and equipment	(6,595)	(6,252)
Long-term debt	(846)	(542)
Net future tax asset	$165	$1,692
Valuation allowance	(672)	(732)
	($507)	$960

Presented in the accompanying consolidated balance sheets as at:

	December 31, 2010	December 31, 2009
Future tax assets	$2,967	$4,549
Non-current future tax liabilities	(3,474)	(3,589)
Net future tax (liability) asset	($507)	$960

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

The provision for income taxes reflected in the consolidated statements of earnings for the years ended December 31, 2010 and December 31, 2009 differs from the amounts computed at the federal statutory tax rates. The principal differences between the statutory income tax expense and the effective provision for income taxes are summarized as follows:

	December 31, 2010	December 31, 2009
Expected tax provision[1]	$1,408	$164
Non-deductible items	583	(207)
Foreign exchange (loss) gain	(229)	1,038
Reversal of reserve	(1,355)	-
Tax rate differences on future taxes	(182)	(2,399)
Other	120	145
Change in valuation allowance	(60)	(5,021)
Provision for (recovery of) income taxes	$285	($6,280)

[1] The expected tax provision rate for Canadian entities is 28.5% and for U.S. entities is 35%.

Non-capital and farm losses expire as follows:

	Canada	U.S.	Total
2012	6,181	-	6,181
2013	5,456	-	5,456
2017	-	1,774	1,774
2021	-	2,522	2,522
2024	10,074	255	10,329
2026	231	-	231
2027	10	-	10
2028	74	-	74
2030	10	1,005	1,015
	$22,036	$5,556	$27,592

The December 31, 2009 change in structure of the Company (note 1) allowed removing a portion of the valuation allowances on the Canadian farm losses. During the year ended December 31, 2009, the Company determined that certain farm and operating losses previously restricted under the income fund structure could now be utilized and carried forward to reduce the taxable income of the Canadian operating subsidiary in future years. The Company determined that it was more likely than not that the losses would be utilized and, as a result, released approximately $5.0 million of valuation allowance previously recorded against the future income tax asset related to these losses.

At December 31, 2010 VFLP had available net operating loss carryforwards ("NOLs"), primarily in the states of Pennsylvania, New Jersey, Florida and New York, of approximately $5,556 (2009 - $8,663), respectively, to reduce future state taxable income. The Pennsylvania NOLs expire in 2024; the New Jersey NOLs expire in 2017; the Florida and New York NOLs expire in 2030.

15 CHANGES IN NON-CASH WORKING CAPITAL

	For the years ended December 31,	
	2010	2009
Accounts receivable	$1,463	($237)
Inventories	(862)	(510)
Other current assets	(152)	203
Income taxes receivable	(775)	-
Prepaids and deposits	108	(365)
Accounts payable and accrued liabilities	210	175
	($8)	($734)

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

16 GEOGRAPHIC INFORMATION

The Company 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. Net sales by the countries in which its customers are located is as follows:

	For the years ended December 31,	
Net Sales	2010	2009
United States	$120,449	$104,894
Canada	24,319	24,830
Other	-	800
	$144,768	$130,524

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

	December 31,	
Property, plant and equipment	2010	2009
United States	$20,312	$22,192
Canada	42,660	44,407
	$62,972	$66,599

17 COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Company 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 Company's financial position.

18 SHARE CAPITAL AND EQUITY

Plan of Arrangement:

On December 31, 2009, the Fund completed the conversion from an income fund into VFF pursuant to a Plan of Arrangement under the CBCA (note 1). Effective December 31, 2009, all the outstanding trust units of the Fund were exchanged for common shares of VFF on a one-for-one basis and the Class A Unit of the Fund was exchanged for 25,267,000 Special Shares of VFF. As a result, there were 13,440,345 common shares and 25,267,000 special shares of VFF issued and outstanding as at December 31, 2009. During the fiscal year ended December 31, 2010 5,993,049 Special Shares were converted to common shares, as a result of the exchange rights of the PPS's into common shares, resulting in 19,433,394 common shares and 19,273,951 special shares outstanding as at December 31, 2010.

VFF is authorized to issue an unlimited number of common shares, special shares and preferred shares, issuable in series.

(i) Common shares:

The common shares entitle the holders thereof to one vote per share at all shareholder meetings of VFF (subject to certain exceptions). The holders of the common shares are entitled to receive any dividend declared by VFF on the common shares.

Subject to the rights, privileges, restrictions and conditions attached to any other class of shares of VFF, the holders of the common shares are entitled to receive, pro rata, the remaining property or assets of VFF upon its dissolution, liquidation or winding-up.

(ii) Preferred shares:

The preferred shares may be issued in one or more series, with such rights and conditions as may be determined by resolution of the directors of VFF who shall determine the designation, rights, privileges, conditions and restrictions to be attached to the preferred shares of such series. There are no voting rights attached to the preferred shares except as prescribed by law. In the event of the liquidation, dissolution or winding-up of VFF, or any other distribution of assets of VFF among its shareholders for the purpose of winding-up its affairs, the holders of the preferred shares of each series are entitled to receive, among other things, with priority over the common shares and any other shares ranking junior to the preferred shares of VFF, an amount equal to any cumulative dividends, whether or not declared, or declared thereon but unpaid and no more. The preferred shares for each series are also entitled to such other preferences over the common shares and any other shares ranking junior to the preferred shares as may be determined as to their respective series authorized to be issued. The preferred shares of each series shall be on a parity basis with the preferred shares of every other series with respect to payment of dividends and return of capital. There are no preferred shares currently issued and outstanding.

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

(iii) Special Shares:

Pursuant to the Plan of Agreement (note 1), Special Shares were issued to VF U.S. Holdings Inc. ("U.S. Holdings") for the benefit of the holders of the Participating Preferred Shares ("PPSs") of U.S. Holdings. The Special Shares entitle the holder to exercise voting and other rights as a shareholder of VFF as though the holder held the number of shares that would be owned by the holders of the PPSs assuming the exercise in full of the PPS Exchange Rights; provided that in no event shall the votes attached to the Special Shares exceed 45% of the votes otherwise attached to the common shares and the Special Shares of VFF then outstanding.

The following is a summary of share capital:

	The VFF Common Shares	
	# of Shares	Amount
Share capital – December 31, 2009	13,440,345	$24,850
Conversion of special shares into common shares	5,993,049	-
Share capital – December 31, 2010	19,433,394	$24,850

	The VFF Special Shares	
	# of Shares	Amount
Share capital – December 31, 2009	25,267,000	$-
Conversion of special shares into common shares	(5,993,049)	-
Share capital – December 31, 2010	19,273,951	$-

19 CAPITAL DISCLOSURES

The Company'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 shareholders. In addition, the Company works with all relevant stakeholders to ensure the safety of its operations and employees and remain in compliance with all environmental regulations.

The Company's main objectives when managing capital are:

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

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

The Company's capital comprises net debt and equity:

	December 31, 2010	December 31, 2009
Total bank debt	$51,468	$54,732
Less cash and cash equivalents	(9,734)	(2,611)
Net debt	41,734	52,121
Total equity	34,199	28,561
	$75,933	$80,682

20 DISTRIBUTIONS TO SHAREHOLDERS/UNITHOLDERS

There were no dividends paid for the year ended December 31, 2010. Distributions paid to unitholders for the year ended December 31, 2009 when the Company was an Income Fund were as follows:

Paid per unit [1] *(in CA$)*	December 31, 2009
January	$0.010
February	0.010
March	0.010
April	0.005
May	0.005
June	0.005
July	0.000
August	0.000
September	0.000
October	0.000
November	0.000
December	0.000
	$0.045

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

21 SHARE-BASED COMPENSATION PLAN

In December 2009, the Company introduced a new share-based compensation plan. The maximum number of common shares that can be issued upon the exercise of options granted is equal to 10% of the aggregate number of common shares issued and outstanding from time to time. The maximum period during which an option may be exercised is 10 years from the date of the grant. For the year ended December 31, 2010, the Company granted 349,999 options at a weighted average exercise price of CA$0.70 per share (no options were outstanding for the year ended December 31, 2009). Options vest at a rate of 33% per year, beginning one year following the grant date of the options. Share-based compensation expense for the year ended December 31, 2010 of $40 was recorded in selling, general and administrative expenses and the corresponding amount credited to contributed surplus.

The following presents the assumptions used to establish the fair value assigned to the options issued using the Black-Scholes valuation model:

	2010
Expected volatility	53.2%
Dividend	$nil
Risk-free interest rate	2.53%
Expected life	6.5 years
Fair value	$0.367

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

The following table summarizes stock options, granted during the year. There were no forfeitures of stock options for the year ended December 31, 2010.

	Years Ended December 31,			
	2010		2009	
	Stock options	Weighted average exercise price	Stock options	Weighted average exercise price
Beginning of year	-	-	-	-
Granted	349,999	CA$0.70	-	-
End of year	349,999	CA$0.70	-	-

The following table summarizes stock options outstanding and granted during the year.

Exercise Price	Number outstanding	Remaining contractual life (years)	Number of exercisable options
CA$0.70	349,999	9.0	nil

22 SAVINGS PLAN

VFLP sponsors a savings plan that is qualified under section 401(k) of the United States Internal Revenue Code and provides that participating employees are eligible to make contributions of 1% to 15% of their total salaries. VFLP matches up to 25% of the first 6% of employee contributions. Matching contributions totaled $87 for the year ended December 31, 2010 (December 31, 2009 - $26).

VFLP sponsors an Executive Deferred Compensation plan that is nonqualified under section 409A of the United States Internal Revenue Code and provides that participating employees are eligible to make contributions of their total salaries. VFLP matches up to 25% of the first 4% of employee contributions. Matching contributions totaled $5 for the year ended December 31, 2010 (December 31, 2009 - $nil; as the plan did not exist).

VFCLP sponsors a Group Registered Retirement Savings Plan that provides that participating employees are eligible to make contributions. VFCLP matches up to 25% of the first 6% of employee contributions. Matching contributions totaled CA $13 for the year ended December 31, 2010 (December 31, 2009 - CA $6).