Village Farms International, Inc.
Consolidated Financial Statements
Years ended December 31, 2011 and 2010

March 21, 2012

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 statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010 and the consolidated statements of income and comprehensive income, changes in shareholders' equity and cash flows for the years ended December 31, 2011 and December 31, 2010, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

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 International Financial Reporting Standards, 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 audits 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.

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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, 2011, December 31, 2010 and January 1, 2010 and their financial performance and their cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

(signed) PricewaterhouseCoopers LLP

Chartered Accountants

Village Farms International, Inc.
Consolidated Statements of Financial Position
(In thousands of United States dollars)

	December 31, 2011	December 31, 2010	January 1, 2010
ASSETS			
Current assets			
Cash and cash equivalents	$2,865	$9,734	$2,611
Trade receivables	8,579	8,131	9,594
Other receivables	512	510	592
Inventories (note 7)	11,624	10,714	9,753
Assets held for sale (note 6)	407	407	-
Income taxes receivable	-	775	-
Prepaids and deposits	590	801	909
Biological asset (note 8)	5,572	5,223	7,340
Total current assets	30,149	36,295	30,799
Non-current assets			
Property, plant and equipment (note 9)	97,601	62,972	66,599
Deferred tax asset (note 20)	689	2,967	4,549
Intangible assets (note 10)	1,198	1,301	1,404
Other assets (note 11)	1,381	1,125	877
Total assets	$131,018	$104,660	$104,228
LIABILITIES			
Current liabilities			
Trade payables	$10,440	$6,280	$4,643
Accrued liabilities	3,211	3,470	4,906
Income taxes payable	22	24	15
Current maturities of long-term debt (note 12)	4,312	3,260	3,260
Current portion of obligations under capital leases	-	264	283
Current portion of derivatives (note 13)	1,235	1,301	1,215
Total current liabilities	19,220	14,599	14,322
Non-current liabilities			
Long-term debt (note 12)	65,543	48,208	51,472
Derivatives (note 13)	51	1,039	877
Obligations under capital leases	-	14	262
Deferred tax liability (note 20)	3,931	4,569	5,390
Total liabilities	88,745	68,429	72,323
SHAREHOLDERS' EQUITY			
Share capital (note 24)	24,850	24,850	24,850
Contributed surplus	312	75	-
Accumulated other comprehensive income	55	55	55
Retained earnings	17,056	11,251	7,000
Total shareholders' equity	42,273	36,231	31,905
Total liabilities and shareholders' equity	$131,018	$104,660	$104,228

Approved by the Board of Directors

/s/ John P. Henry, Director

/s/ Christopher C. Woodward, Director

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

Village Farms International, Inc.

Consolidated Statements of Changes in Shareholders' Equity
For the Years Ended December 31, 2011 and December 31, 2010
(In thousands of United States dollars, except for shares outstanding)

	Common Shares	Share Capital	Contributed Surplus	Accumulated Other Comprehensive Income	Retained Earnings	Total Shareholders' Equity
Balance at January 1, 2010	13,440,345	$24,850	$ -	$55	$7,000	$31,905
Net income and comprehensive income for the year ended December 31, 2010	-	-	-	-	4,251	4,251
Share-based compensation (note 27)	-	-	75	-	-	75
Conversion of special shares to common shares (note 24)	5,993,049	-	-	-	-	-
Balance at December 31, 2010	19,433,394	24,850	75	55	11,251	36,231
Balance at January 1, 2011	19,433,394	24,850	75	55	11,251	36,231
Net income and comprehensive income for the year ended December 31, 2011	-	-	-	-	5,805	5,805
Share-based compensation (note 27)	-	-	237	-	-	237
Balance at December 31, 2011	19,433,394	$24,850	$312	$55	$17,056	$42,273

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

Village Farms International, Inc.

Consolidated Statements of Income and Comprehensive Income
For the Years Ended December 31, 2011 and December 31, 2010
(In thousands of United States dollars, except per share data)

	December 31, 2011	December 31, 2010
Net sales	$164,448	$144,768
Cost of sales (note 18)	(140,627)	(123,632)
Change in biological asset (note 8)	269	(2,018)
Selling, general and administrative expenses (note 18)	(14,594)	(13,199)
Income before interest and other expenses (income)	9,496	5,919
Interest expense	3,033	2,814
Interest income	(17)	(39)
Foreign exchange (gain) loss	(1)	57
Amortization of intangible assets (note 10)	103	103
(Gain) loss on derivatives (note 13)	(1,054)	247
Other income, net	(285)	(1,432)
(Gain) loss on disposal/sale of assets	(14)	339
Income before income taxes	7,731	3,830
Provision for (recovery of) income taxes (note 19)	1,926	(421)
Net income and comprehensive income	$5,805	$4,251
Basic earnings per share (note 25)	$ 0.15	$ 0.11
Diluted earnings per share (note 25)	$ 0.15	$ 0.11

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

Village Farms International, Inc.
Consolidated Statements of Cash Flow
For the Years Ended December 31, 2011 and December 31, 2010
(In thousands of United States dollars)

	Year Ended December 31, 2011	2010
Cash flows from operating activities:		
Net income	$5,805	$4,251
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	6,010	5,793
(Gain) loss on disposal/sale of assets	(14)	339
(Gain) loss on derivatives (note 13)	(1,054)	247
Foreign exchange gain	(48)	(91)
Net interest expense	3,016	2,775
Share-based compensation (note 27)	237	75
Deferred income taxes	1,640	762
Change in biological asset (note 8)	(269)	2,018
Changes in non-cash working capital items (note 21)	3,445	(7)
Net cash provided by operating activities	18,768	16,162
Cash flows from investing activities:		
Purchases of property, plant and equipment	(40,560)	(2,809)
Proceeds from sale of property, plant and equipment	37	234
Other	(255)	(249)
Net cash used in investing activities	(40,778)	(2,824)
Cash flows from financing activities:		
Payments on long-term debt (note 12)	(51,468)	(3,264)
Issuances of long-term debt (note 12)	69,855	-
Interest paid on debt	(3,033)	(2,814)
Interest income	17	39
Payments on obligations under capital leases	(278)	(267)
Net cash provided by (used in) financing activities	15,093	(6,306)
Effect of exchange rate changes on cash and cash equivalents	48	91
Net (decrease) increase in cash and cash equivalents	(6,869)	7,123
Cash and cash equivalents beginning of year	9,734	2,611
Cash and cash equivalents end of year	$2,865	$9,734
Supplemental cash flow information:		
Income taxes paid	$60	$288

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

1 NATURE OF OPERATIONS

Village Farms International, Inc. ("VFF" the parent company and, together with its subsidiaries, the "Company") is incorporated under the *Canada Business Corporation Act*. VFF's principal operating subsidiaries at December 31, 2011 are Village Farms Canada Limited Partnership ("VFCLP"), Village Farms, L.P. ("VFLP") and Village Farms DR, SLR ("VFDR"). The address of the registered office of VFF is 4700 80th Street, Delta, British Columbia, Canada, V4K 3N3.

The Company is a publicly traded company, which is listed on the Toronto Stock Exchange under the symbol VFF.

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 BASIS OF PRESENTATION AND ADOPTION OF IFRS

These consolidated annual financial statements are prepared in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP") as set out in the Handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook"). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards ("IFRS"), and require publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, these are the Company's first annual consolidated financial statement prepared in accordance with IFRS as issued by the IASB. In these consolidated financial statements, the term "Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS.

These consolidated financial statements have been prepared in accordance with IFRS applicable to the preparation of financial statements as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). Subject to certain transition elections disclosed in note 5, the Company has consistently applied the same accounting policies in its opening IFRS statement of financial position as at January 1, 2010 and throughout all periods presented, as if these policies had always been in effect. Note 5 discloses the impact of the transition to IFRS on the Company's reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used in the Company's consolidated annual financial statements for the year ended December 31, 2010.

The policies applied in these consolidated financial statements are based on IFRS issued and outstanding as of December 31, 2011. The consolidated financial statements were approved by the Board of Directors of the Company for issue on March 14, 2012. The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 3.

Basis of Measurement

The consolidated annual financial statements have been prepared on the historical cost basis except for the following material items in the statement of financial position:

- derivative financial instruments are measured at fair value;
- available-for-sale financial assets are measured at fair value; and
- biological assets are measured at fair value less costs to sell.

Functional and Presentation Currency

These consolidated annual financial statements are presented in United States dollars ("U.S. dollars"), which is the Company's functional currency. All financial information presented in U.S. dollars has been rounded to the nearest thousand.

3 SIGNIFICANT ACCOUNTING POLICIES, JUDGMENTS AND ESTIMATION UNCERTAINTY

The significant accounting policies set out below have been applied consistently to all periods presented in these consolidated annual financial statements and in preparing the opening IFRS statement of financial position at January 1, 2010 for the purposes of the transition to IFRS, unless otherwise noted (note 5).

Consolidation

The financial statements of the Company consolidate the accounts of VFF and its subsidiaries. All intercompany transactions, balances and unrealized gains and losses from intercompany transactions are eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Company.

Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the CEO.

Foreign Currency Translation

The Company's functional currency is the U.S. dollar. 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 are charged to earnings. Transactions denominated in foreign currencies are translated at the rate prevailing at the transaction date.

Financial Instruments

Financial assets and liabilities are recognized when the Company becomes party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when the obligation specified in the contract is discharged, cancelled or expires.

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

At initial recognition, the Company classifies its financial instruments in the following categories depending on the purpose for which the instruments were acquired:

(i) Financial assets and liabilities carried at fair value through profit or loss:

A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short-term. Derivatives are also included in this category unless they are designated as hedges. The only instruments held by the Company classified in this category are interest rate swaps (see (v) below).

Financial instruments in this category are recognized initially and subsequently at fair value. Transaction costs are expensed in the statement of income. Gains and losses arising from changes in fair value are presented in the statement of income within gain or loss on derivatives in the period in which they arise. Financial assets and liabilities carried at fair value through profit or loss are classified as current except for the portion expected to be realized or paid beyond twelve months of the statement of financial position date, which is classified as non-current.

(ii) Available-for-sale investments:

Available-for-sale investments are non-derivatives that are either designated in this category or not classified in any of the other categories. The Company currently has no available-for-sale investments on its statement of financial position. Available-for-sale investments are recognized initially at fair value plus transaction costs and are subsequently carried at fair value. Gains or losses arising from changes in fair value are recognized in other comprehensive income. Available-for-sale investments are classified as non-current, unless the investment matures within twelve months, or management expects to dispose of them within twelve months.

Interest on available-for-sale investments, calculated using the effective interest method, is recognized in the statement of income as part of interest income. Dividends on available-for-sale equity instruments are recognized in the statement of income as part of other income or expenses when the Company's right to receive payment is established. When an available-for-sale investment is sold or impaired, the accumulated gains or losses are moved from accumulated other comprehensive income to the statement of income and are included in other income or expenses.

(iii) Loans and receivables:

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's loans and receivables comprise trade receivables and cash and cash equivalents, and are included in current assets due to their short-term nature. Loans and receivables are initially recognized at the amount expected to be received less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment.

(iv) Financial liabilities at amortized cost:

Financial liabilities at amortized cost include trade payables, accrued liabilities, obligations under capital leases and long-term debt. Trade payables and accrued liabilities are initially recognized at the amount required to be paid less, when material, a discount to reduce the payables to fair value. Subsequently, trade payables and accrued liabilities are measured at amortized cost using the effective interest method. Long-term debt is recognized initially at fair value, net of any transaction costs incurred, and subsequently at amortized cost using the effective interest method. Financial liabilities are classified as current liabilities if payment is due within twelve months. Otherwise, they are presented as non-current liabilities.

(v) Derivative financial instruments:

The Company uses derivatives in the form of interest rate swaps to manage risks related to its variable rate long-term debt. All derivatives have been classified as held-for-trading, are included on the statement of financial position within liabilities, and are classified as current or non-current based on the contractual terms specific to the instrument. Gains and losses on re-measurement are included in the statement of income.

Impairment of Financial Assets

At each reporting date, the Company assesses whether there is objective evidence that a financial asset is impaired.

The criteria used to determine if objective evidence of an impairment loss exists include:

(i) significant financial difficulty of the obligor;
(ii) delinquencies in interest or principal payments; and
(iii) it becomes probable that the borrower will enter bankruptcy or other financial reorganization.

For equity securities, a significant or prolonged decline in fair value of the security below its cost is also evidence that the assets are impaired.

If such evidence exists, the Company recognizes an impairment loss as follows:

i) Financial assets carried at amortized cost: The loss is the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account.

ii) Available-for-sale financial assets: The impairment loss is the difference between the original cost of the asset and its fair value at the measurement date, less any impairment losses previously recognized in the statement of income. This amount represents the cumulative loss in accumulated other comprehensive income that is reclassified to net income.

Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized. Impairment losses on available-for-sale equity instruments are not reversed.

Impairment of Non-financial Assets

Property, plant and equipment and intangible assets are tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. For the purpose of testing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units or "CGUs"). The recoverable amount is the higher of an asset's fair value less costs to sell and value in use (being the present value of the expected future cash flows of the relevant asset or CGU). An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

Assets Held for Sale

Assets (or disposal groups) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. Assets held for sale are stated at the lower of carrying amount and fair value less costs to sell.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash deposits held with banks, and other highly liquid short-term interest bearing securities with maturities at the date of purchase of three months or less.

Trade Receivables

Trade receivables are measured at amortized cost, net of allowance for uncollectible amounts. 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 allowances by considering a number of factors, including the length of time accounts 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 receivables when they become uncollectible, and payments subsequently received on such receivables are credited to bad debt expense.

Inventories

Inventory refers to deferred crop costs which are incurred to date on current production and are not defined as a biological asset. 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 accounted for in accordance with our policy on "Biological Assets". Cost of sales is based on estimated costs over the crop cycle allocated to both actual and estimated future yields at each period end date.

The carrying value of agricultural produce is its fair value less cost to sell at the date of harvest and is presented with biological asset on the statement of financial position.

The cost of produce inventory purchased from third parties is valued at the lower of cost and net realizable value.

Property, Plant and Equipment

Recognition and measurement

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The cost of property, plant and equipment at January 1, 2010, the date of the transition to IFRS, was determined by reference to their historical carrying values at that date.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and borrowing costs on qualifying assets for which the commencement date of capitalization is on or after January 1, 2010.

Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of the property, plant and equipment, and is presented net within gain/loss on disposal/sale of assets in the statement of income and comprehensive income.

Subsequent costs

The cost of replacing a component of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Company, and its cost can be measured reliably. The carrying amount of the replaced component is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

Depreciation

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed, and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives of the class of assets for the current and comparative periods are as follows:

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

Construction in process reflects the cost of assets under construction, which are not depreciated until placed into service.

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, which is 20 years.

Biological Assets

Biological assets consist of the Company's produce on the vines at the year end. Measurement of the biological asset begins six weeks prior to harvest as management at this point has visibility on production and expected sales. Costs related to the crop prior to this point are presented in deferred crop costs (inventory). The produce on the vine is measured at fair value less costs to sell and costs to complete, with any change therein recognized in profit or loss. Costs to sell include all costs that would be necessary to sell the assets, including finishing and transportation costs.

Leased Assets

Leases where the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and are not recognized in the Company's statement of financial position.

Borrowing Costs

Borrowing costs attributable to the acquisition, construction or production of qualifying assets are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. All other borrowing costs are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the statement of income over the year of the borrowings using the effective interest method.

Revenue Recognition

Revenue from the sale of produce in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognized when persuasive evidence exists that the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognized as a reduction of revenue as the sales are recognized.

The timing of the transfers of risks and rewards occurs at the time the produce has been successfully delivered, the risk of loss has passed to the customer and collectability is reasonably assured.

Income Taxes

The tax expense for the year comprises current and deferred tax. Tax is recognized in the statement of income, except to the extent that it relates to items recognized in other comprehensive income or directly in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the statement of financial position date in the relevant tax jurisdiction. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of the amounts expected to be paid to the tax authorities.

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted at the statement of financial position date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Offsetting of deferred income tax assets and liabilities occurs only when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Share-Based Compensation

The Company grants stock options to certain employees. Stock options vest over three years (33% per year following the grant date) and expire after ten years. Each tranche in an award is considered a separate award with its own vesting period. Fair value of each tranche is measured at the date of grant using the Black-Scholes option pricing model. Compensation expense is recognized over the tranche's vesting period by increasing contributed surplus based on the number of awards expected to vest. The number of awards expected to vest is reviewed at least annually, with any impact recognized immediately.

Provisions

Provisions for legal claims, where applicable, are recognized in accrued liabilities when the Company has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the end of the reporting period, and are discounted to present value where the effect is material. The Company performs evaluations to identify onerous contracts and, where applicable, records provisions for such contracts.

Earnings Per Share

Basic earnings per share are 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.

Significant Accounting Judgments and Estimation Uncertainties

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. These estimates and judgments have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Critical accounting estimates and judgments

i) Estimated useful lives of property, plant and equipment

Management estimates the useful lives of property, plant and equipment based on the period during which the assets are expected to be available for use. The amounts and timing of recorded expenses for depreciation of property, plant and equipment for any period are affected by these estimated useful lives. The estimates are reviewed at least annually and are updated if expectations change as a result of physical wear and tear, technical or commercial obsolescence and legal or other limits to use. It is possible that changes in these factors may cause significant changes in the estimated useful lives of the Company's property, plant and equipment in the future.

ii) Financial instruments

The Company's over-the-counter derivatives include interest rate swaps used to economically hedge exposure to variable cash flows associated with interest payments on the Company's borrowings. Management utilizes a third party to value the derivatives at each reporting period; the estimates and assumptions used by the third party are based on available market data which includes market yields and counterparty credit spreads.

iii) Financial instruments traded in an active market

The classification and measurement of many of the Company's financial instruments depends on whether or not the instruments are considered to be traded in an active market. This assessment is based on available market data; however, significant judgement by management is required to evaluate whether such data is indicative of an active market.

iv) Biological asset

The fair value of the biological asset is derived using a discounted cash flow model. Management uses estimates for the expected sales price of produce on the vine and costs to sell and complete; which are determined by considering historical actual costs incurred on a per pound basis. The estimated selling price and costs are subject to fluctuations based on the timing of prevailing growing conditions and market conditions.

v) Intangible assets

The intangible assets of the Company (note 10) were recorded at their estimated fair value comparing the cost of energy from the supplier against the cost to purchase a natural gas contract at October 18, 2006.

vi) Inventory and cost of sales

Cost of sales is based upon incurred costs, and estimated costs to be incurred, of each crop allocated to both actual and estimated future yields over each crop cycle. The estimates of future yields are reviewed at each reporting period for accuracy; however, numerous factors such as weather, diseases and prevailing market conditions can impact the estimation of pricing, costs and future yields. The estimated costs to be incurred are based on references to historical costs and updated for discussions with suppliers and senior management. Inventory is the actual cost of the crop not yet defined as a biological asset, packaging supplies and purchased produce less the amounts that have been expensed in cost of sales.

vii) Income taxes and deferred income tax assets

Management uses judgment and estimates in determining the appropriate rates and amounts in recording deferred taxes, giving consideration to timing and probability. Actual taxes could vary significantly from these estimates as a result of future events, including changes in income tax law or the outcome of reviews by tax authorities and related appeals. The resolution of these uncertainties and the associated final taxes may result in adjustment to the Company's tax assets and tax liabilities. The recognition of deferred income tax assets is subject to judgement and estimation over whether these amounts can be realized.

4 CHANGES IN ACCOUNTING POLICIES

Accounting standards issued and not applied

Unless otherwise noted, the following new or revised standards and amendments as adopted by the IASB are effective for annual periods beginning on or after January 1, 2013, with earlier application permitted. Management has completed an initial review of the potential impact of these new standards on the Company, and is currently considering whether or not to adopt any of these in advance of the mandatory date.

Consolidation and interests in other entities

In May 2011, as part of its consolidation project, the IASB issued the following new suite of consolidation and related standards. The suite is intended to cover all aspects of interests in other entities from determination of how to account for interests in other entities to required disclosure of the interest in those entities. Early adoption is permitted provided that the entire suite of consolidation standards is adopted at the same time.

IFRS 10, *Consolidated Financial Statements*, introduces a new single control model and single consolidation model built on a revised definition of control and criteria for assessment of consolidation. The new Standard requires an entity to consolidate an investee when it has power over the investee, is exposed, or has rights, to variable returns from its involvements with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12, *Consolidation – Special Purpose Entities,* and parts of IAS 27, *Consolidated and Separate Financial Statements.* IFRS 10 is not expected to have a material impact on amounts recorded in the financial statements of the Company.

IFRS 11, *Joint Arrangements,* redefines joint operations and joint ventures with a focus on the rights and obligations of an arrangement, rather than its legal form. The new Standard requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting, whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interest in joint ventures. IFRS 11 supersedes IAS 31, *Interests in Joint Ventures,* and SIC-13, *Jointly Controlled Entities – Non-monetary Contributions by Venturers.* IFRS 11 is not expected to have a material impact on amounts recorded in the financial statements of the Company.

IFRS 12, *Disclosure of Interests in Other Entities,* establishes disclosure requirements for interests in other entities, such as subsidiaries, joint arrangements, associates, and unconsolidated structured entities. The Standard carries forward existing disclosures and also introduces significant additional disclosures that address the nature of, and risks associated with, an entity’s interests in other entities. IFRS 12 is not expected to have a material impact on amounts recorded in the financial statements of the Company; the principal impact will be in the form of additional disclosures.

There have been amendments to existing standards, including IAS 27 (2011), *Separate Financial Statements,* and IAS 28 (2011), *Investments in Associates and Joint Ventures.* IAS 27 (2011) addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 (2011) sets out the equity accounting for joint ventures, as well as associates, once the assessment of the arrangement has been made under IFRS 11. The amendments to IAS 27 are not expected to have a material impact on amounts recorded in the financial statements of the Company. The Company is in the process of assessing the full impact of the amendments to IAS 28, which is dependent upon the assessment of the Company’s joint arrangements under IFRS 11.

Employee benefits

IAS 19, *Employee Benefits,* has been amended to make changes to the recognition and measurement of defined benefit pension expense and termination benefits and to enhance the disclosure of all employee benefits. Pension benefit cost will be split between (i) the cost of benefits accrued in the current period (service cost) and benefit changes (past-service costs (including plan amendments, settlements and curtailments)); and (ii) finance expense or income. Interest cost and expected return on plan assets, which currently reflect different rates, will be replaced with a net interest amount that is calculated by applying one discount rate to the net defined benefit liability (asset).

In addition, under the amended standard, the impact of plan amendments related to past service will no longer be recognized over a vesting period but instead will be recognized immediately in the period of a plan amendment. A number of other amendments have been made to recognition, measurement and classification including redefining short-term and other long-term benefits, guidance on the treatment of taxes related to benefit plans, guidance on risk/cost sharing features, and expanded disclosures. Changes to IAS 19 is not expected to have an impact on amounts recorded in the Company’s financial statements and related disclosures.

Other standards and amendments

IFRS 7, *Financial Instruments:* Disclosures, has been amended to include additional disclosure requirements in the reporting of transfer transactions and risk exposures relating to transfers of financial assets and the effect of those risks on an entity’s financial position, particularly those involving securitization of financial assets. The amendment is applicable for annual periods beginning on or after July 1, 2011, with earlier application permitted. Changes to IAS 7 is not expected to have an impact on amounts recorded in the company's financial statements and related disclosures.

IFRS 9, *Financial Instruments*, addresses classification and measurement of financial assets and financial liabilities, and is effective January 1, 2015, with earlier adoption permitted. The Standard replaces the multiple category and measurement models in IAS 39, *Financial Instruments – Recognition and Measurement*. The new Standard limits the number of categories for classification of financial assets to two: amortized cost and fair value through profit or loss. The requirements for financial liabilities are largely in line with IAS 39. IFRS 9 also replaces the models for measuring equity instruments. Equity instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. The ability to recognize unquoted equity instruments at cost under IAS 39 is eliminated. IFRS 9 is not expected to have a material impact on amounts recorded in the financial statements of the Company.

IFRS 13, *Fair Value Measurement,* is a comprehensive standard for fair value measurement and disclosure for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received on sale of an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and does not always reflect a clear measurement basis or consistent disclosures. IFRS 13 is not expected to have a material impact on amounts recorded in the financial statements of the Company.

IAS 1, *Presentation of Financial Statements,* has been amended to require entities to separate items presented in other comprehensive income ("OCI") into two groups, based on whether or not items may be recycled to net income in the future. Entities that choose to present OCI items before tax will be required to show the amount of tax related to the two groups separately. The amendment is effective for annual periods beginning on or after July 1, 2012, with earlier application permitted. IAS 1 is not expected to have a material impact on amounts recorded in the financial statements of the Company.

5 TRANSITION TO IFRS

The effect of the Company's transition to IFRS, described in note 2, is summarized in this note as follows:

(i) **Transition elections**

The Company has applied the following transition exemptions from full retrospective application of IFRS:

Deemed cost of property, plant and equipment

In accordance with IFRS transition provisions, the Company elected to hold property, plant and equipment at its historical value and not to restate to current fair market value.

(ii) **Reconciliation of the statements of financial position, income and comprehensive income as previously reported under Canadian GAAP to IFRS:**

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

		December 31, 2010			January 1, 2010		
	Note 5(iii)	Canadian GAAP	Adjustments	IFRS	Canadian GAAP	Adjustments	IFRS
Assets							
Current assets:							
Cash and cash equivalents		$9,734		$9,734	$2,611		$2,611
Trade receivables		8,131		8,131	9,594		9,594
Other receivables		510		510	592		592
Inventories	a	12,810	(2,096)	10,714	11,948	(2,195)	9,753
Assets held for sale		407		407	-		-
Income taxes receivable		775		775	-		-
Prepaids and deposits		801		801	909		909
Biological asset	a	-	5,223	5,223	-	7,340	7,340
Total current assets		33,168	3,127	36,295	25,654	5,145	30,799
Non-current assets:							
Property, plant and equipment		62,972		62,972	66,599		66,599
Deferred tax asset		2,967		2,967	4,549		4,549
Intangible assets		1,301		1,301	1,404		1,404
Other assets		1,125		1,125	877		877
Total assets		$101,533	$3,127	$104,660	$99,083	$5,145	$104,228
Liabilities							
Current liabilities:							
Trade payables		$6,280		$6,280	$4,643		$4,643
Accrued liabilities	b	$3,494	($24)	$3,470	$4,921	($15)	$4,906
Income taxes payable	b	-	24	24	-	15	15
Current maturities of long-term debt		3,260		3,260	3,260		3,260
Current portion of capital leases		264		264	283		283
Current portion of derivatives		1,301		1,301	1,215		1,215
Total current liabilities		14,599	-	14,599	13,107	-	13,107
Non-current liabilities							
Long-term debt		48,208		48,208	51,472		51,472
Derivatives		1,039		1,039	877		877
Obligations under capital leases		14		14	262		262
Deferred tax liability	b	3,474	1,095	4,569	3,589	1,801	5,390
Total liabilities		67,334	1,095	68,429	70,522	1,801	72,323
Shareholders' equity:							
Share capital		24,850		24,850	24,850		24,850
Contributed surplus	c	40	35	75	-		-
Accumulated other comprehensive income		55		55	55		55
Retained earnings	d	9,254	1,997	11,251	3,656	3,344	7,000
Total shareholders' equity		34,199	2,032	36,231	28,561	3,344	31,905
Total liabilities and equity		$101,533	$3,127	$104,660	$99,083	$5,145	$104,228

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

	Note 5(iii)	December 31, 2010 Canadian GAAP	Adjustments	IFRS
Net sales		$144,768		$144,768
Cost of sales		(123,632)		(123,632)
Change in biological asset	a	-	(2,018)	(2,018)
Selling, general and administrative expenses	c	(13,164)	(35)	(13,199)
Income before interest and other expenses (income)		7,972	(2,053)	5,919
Interest expense		2,814		2,814
Interest income		(39)		(39)
Foreign exchange loss		57		57
Amortization of intangible assets		103		103
Loss on derivatives		247		247
Other (income) expense		(1,432)		(1,432)
Loss on disposal of asset		339		339
Income before income taxes		5,883	(2,053)	3,830
Provision for (recovery of) income taxes	b	285	(706)	(421)
Net income and comprehensive income		$5,598	($1,347)	$4,251
Basic earnings per share		$ 0.14	$ (0.03)	$ 0.11
Diluted earnings per share		$ 0.14	$ (0.03)	$ 0.11

(iii) **Explanatory notes**

(a) Biological asset and produce inventory

In applying IAS 41, *Agriculture,* the Company recognizes a biological asset arising from the produce on the vines as of the reporting date. The produce on the vine is measured as the fair value of the expected sales price less costs to sell and complete. Actual cost incurred related to the biological asset is reclassified from inventory to biological asset and any incremental increase to fair value is recorded in change to biological asset in the statement of income and comprehensive income.

(b) Deferred income taxes

The Company evaluated the impact of IAS 12 *Income Taxes,* on its reported results and took into consideration the change in deferred income taxes caused by reporting the biological asset. The changes in the statement of financial position, statement of income and comprehensive income, and shareholders' equity reflects the application of IAS 12 and IAS 41.

(c) Share-based compensation and contributed surplus

Under IFRS, when share-based payment awards vest in installments over the vesting year (graded vesting), each installment is accounted for as a separate arrangement. The Company's former policy under Canadian GAAP was to recognize stock-based compensation on a straight-line basis over the vesting years.

In applying IFRS 2, *Share-Based Payments,* to the transition period, a restatement of stock compensation expense was required of approximately $35 for the year ended December 31, 2010. This amount is recorded in both retained earnings and contributed surplus.

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

(d) Retained earnings reconciliation

The following is a summary of the transition adjustments to the Company's retained earnings from Canadian GAAP to IFRS.

	Note	December 31, 2010	January 1, 2010
Retained earnings as reported under Canadian GAAP		$9,254	$3,656
IFRS adjustments increase (decrease)			
Change in fair value of biological asset	a	5,223	7,340
Change in inventories	a	(2,096)	(2,195)
Provision for income tax	b	(1,095)	(1,801)
Share-based compensation	c	(35)	-
Retained earnings as reported under IFRS		$11,251	$7,000

(e) Adjustments to the statement of cash flows

The transition from Canadian GAAP to IFRS had no significant impact on cash flows generated by the Company. The IFRS transition adjustments did not have an impact on cash and cash equivalents.

6 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 and has a non-binding sales agreement. The property is being held at the carrying value and is no longer being amortized.

7 INVENTORIES

	December 31, 2011	December 31, 2010	January 1, 2010
Deferred crop costs	$13,255	$12,358	$11,605
Purchased produce inventory	545	452	343
Biological asset adjustment (note 5 and note 8)	(2,176)	(2,096)	(2,195)
	$11,624	$10,714	$9,753

The cost of inventories recognized as expense and included in cost of sales for the year ended December 31, 2011 amounted to $115,471 (December 31, 2010 - $103,569).

The adjustment to deferred crop costs relating to the biological asset is a result of reclassifying actual costs incurred that related to the biological asset on the statement of financial position.

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

8 BIOLOGICAL ASSET

Information about the biological asset presented on the statement of financial position and in the statement of income is as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
Estimated sales value of biological asset	$9,373	$8,517	$11,210
Less			
Estimated remaining costs relating to the biological asset	3,182	2,714	3,054
Estimated selling costs	619	580	816
Fair value of biological asset less costs to sell	5,572	5,223	7,340
Less actual costs (note 7)	2,176	2,096	
Increase in fair value of biological asset over cost	3,396	3,127	
Fair value over cost of harvested and sold biological asset	3,127	5,145	
Change in biological asset	$269	($2,018)	

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

9 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

	Land $	Leasehold and land improve-ments $	Green-house building $	Green-house equipment $	Machinery and Equipment $	Construction in process $	Total $
At January 1, 2010							
Cost	5,117	2,033	58,575	29,022	2,880	318	97,945
Accumulated depreciation	-	(1,163)	(18,459)	(10,428)	(1,296)	-	(31,346)
Net book value	5,117	870	40,116	18,594	1,584	318	66,599
Year ended December 31, 2010							
Opening net book value	5,117	870	40,116	18,594	1,584	318	66,599
Additions	-	-	179	1,369	990	591	3,129
Moved to asset held for sale	(67)	-	(340)	-	-	-	(407)
Placed in service	-	-	-	-	-	(318)	(318)
Disposals, net	-	-	-	(340)	-	-	(340)
Depreciation for the year	-	(163)	(2,943)	(1,886)	(699)	-	(5,691)
Closing net book value	5,050	707	37,012	17,737	1,875	591	62,972
At December 31, 2010							
Cost	5,050	2,033	57,280	28,989	3,603	591	97,546
Accumulated depreciation	-	(1,326)	(20,268)	(11,252)	(1,728)	-	(34,574)
Net book value	5,050	707	37,012	17,737	1,875	591	62,972
Year ended December 31, 2011							
Opening net book value	5,050	707	37,012	17,737	1,875	591	62,972
Additions	-	1,356	17,138	15,755	356	6,545	41,150
Placed in service	-	-	-	-	-	(591)	(591)
Disposals, net	(23)	-	-	-	-	-	(23)
Depreciation for the year	-	(152)	(2,955)	(2,004)	(796)	-	(5,907)
Closing net book value	5,027	1,911	51,195	31,488	1,435	6,545	97,601
At December 31, 2011							
Cost	5,027	3,389	74,418	44,754	3,950	6,545	138,083
Accumulated depreciation	-	(1,478)	(23,223)	(13,266)	(2,515)	-	(40,482)
Net book value	5,027	1,911	51,195	31,488	1,435	6,545	97,601

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

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

10 INTANGIBLE ASSETS

VFCLP has an energy supply 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 (discounted value of future after tax benefit) was recorded as an intangible asset and is being amortized on a straight-line basis over the life of the contract.

At January 1, 2010	$
Cost	1,735
Accumulated amortization	(331)
Net book value	1,404
Year ended December 31, 2010	
Opening book value	1,404
Amortization for the year	(103)
Closing net book value	1,301
At January 1, 2011	
Cost	1,735
Accumulated amortization	(434)
Net book value	1,301
Year ended December 31, 2011	
Opening book value	1,301
Amortization for the year	(103)
Closing net book value	1,198
At December 31, 2011	
Cost	1,735
Accumulated amortization	(537)
Net book value	1,198

11 OTHER ASSETS

The following table summarizes the components of other assets:

	December 31, 2011	December 31, 2010	January 1, 2010
Patronage stock	$411	$370	$322
Note receivable (note 16)	372	412	426
Security deposits	138	136	119
Other	460	207	10
Total	$1,381	$1,125	$877

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

12 DEBT

	Year ended December 31, 2011	Year ended December 31, 2010
Long-term debt:		
Opening balance	$51,468	$54,732
Repayment of debt	(51,468)	(3,264)
New debt	70,583	-
Repayment of debt	(728)	-
Closing balance	$69,855	$51,468
Current portion	4,312	3,260
Non-current portion	65,543	48,208
	$69,855	$51,468

Credit Facilities:

On September 30, 2011, the Company entered into an agreement for new term loan financing with its existing Canadian creditors (the "Credit Facilities"). As part of the agreement, all prior debt was repaid prior to the issuance of the new term loan financing. The details of the new Credit Facilities are as follows:

- Revolving variable rate Operating Loan of up to CA$15,000 with a term of 364 days (the “Operating Loan”);
- Non-revolving variable rate term loan with a balance of $48,772 with a maturity date on September 30, 2014 (“Term Loan 1”);
- Non-revolving variable rate term loan with a balance of $21,083 with a maturity date on September 30, 2014 (“Term Loan 2”); and
- Foreign exchange contracts facility for the purchase and/or sale of U.S. funds (the “FX Facility”).

The Operating Loan is subject to margin requirements stipulated by the bank; no amount was drawn on this facility at December 31, 2011 (December 31, 2010 – $nil). The Company has available lines of credit of CA$15,000. As at December 31, 2011, $nil was outstanding on the line of credit, and letters of credit totaling $1,267 are outstanding.

Term Loan 1 was fully drawn as at December 31, 2011. The outstanding balance of Term Loan 1 is repayable by way of monthly installments of principal and interest based on an amortization period of 17 years, with the balance and any accrued interest is to be paid in full on September 30, 2014. Monthly principal payments on Term Loan 1 are $243. As at December 30, 2011, borrowings under the Term Loan 1 agreement are subject to LIBOR plus 3.25% (effective rate of 3.55% as at December 31, 2011).

Term Loan 2 has a maximum draw of up to $28,000. The outstanding balance as at December 31, 2011 is $21,083 currently with interest only payments due until December 31, 2011 after which monthly installments of principal and interest are required based on an amortization period of 20 years. The balance and any accrued interest to be paid in full on September 30, 2014. As at December 31, 2011, borrowings under the Term Loan 2 agreement are subject to LIBOR plus 3.25% (effective rate of 3.55% as at December 31, 2011).

The Company can elect to have interest payable on funds borrowed under the credit facilities, calculated by way of one or more of the following; Canadian Prime Rate borrowings, U.S. Base Rate borrowings, LIBOR, Credit Instrument Borrowings or Banker’s Acceptances Borrowings. Currently, the Company is using LIBOR for all borrowings.

The borrowings are subject to certain positive and negative covenants. As at December 31, 2011 and December 31, 2010, the Company was in compliance with all covenants on all of its Credit Facilities.

Accrued interest payable on the credit facilities and loans as at December 31, 2011 was $42 (December 31, 2010 - $13) and these amounts are included in accrued liabilities in the statement of financial position. The Company has entered into fixed for floating rate interest rate swaps as described in note 13 effectively fixing its interest rate on its Term Loans at 6.94%.

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

As security for the borrowings, the Company has provided, among other things, promissory notes, a first mortgage on the greenhouse properties, and general security agreements over its assets. The Company has provided full recourse guarantees and has granted security therein. The carrying value of the assets and securities pledged as collateral as at December 31, 2011 was $131,018 (December 31, 2010 - $104,660).

The aggregate annual maturities of long-term debt as at December 31, 2011 are as follows:

2012	$ 4,312
2013	4,312
2014	61,231
2015	-
2016	-
Thereafter	-
	$69,855

13 DERIVATIVES

As at December 31, 2011, the Company has two fixed for floating interest rate swap agreements, effective through January 25, 2013, at the notional amount of $39,700, in order to reduce the interest rate variability on its Term Loan 1. The Company has effectively fixed its interest expense on $39,700 of Term Loan 1 at 6.94% and the interest rate swap is of a shorter duration than Term Loan 1. The Company recognized a gain of $1,054 for the year ended December 31, 2011 (December 31, 2010 – a loss of $247), 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, 2011 was a liability of $1,286 (December 31, 2010 – $2,340, January 1, 2010 - $2,092). The interest rate swap agreements remaining at December 31, 2011 are as follows:

The current portion of the derivative on the statement of financial position at December 31, 2011 is $1,235 (December 31, 2010 - $1,301; January 1, 2010 - $1,215).

Term	Amount	Interest Rate
January 25, 2008 - January 28, 2012	$1,200	6.75%
January 25, 2008 - January 28, 2013	$38,500	6.95%

The interest rates in the above table include a 3.25% premium which will be adjusted downward upon satisfying certain ratio targets.

14 COMMITMENTS

Operating Leases

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, 2011 are as follows:

	December 31, 2011
2012	$1,354
2013	1,451
2014	1,052
2015	662
2016	461
Thereafter	2,263
	$7,243

US Greenhouse Expansion

As at December 31, 2011, the estimated expenditures remaining to complete the construction of the new greenhouse in Monahans TX, USA, are $7 million.

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

15 Financial Instruments

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

	December 31, 2011	December 31, 2010	January 1, 2010
Cash and cash equivalents	$2,865	$9,734	$2,611
Trade receivables	8,579	8,131	9,594
Other receivables	1,295	1,293	1,340
Other financial liabilities	83,528	61,520	64,841
Derivatives	1,286	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. Interest income, expense and gains and losses from loans, receivables and other financial liabilities are recognized in income, (gain) loss on derivatives and other income. The following table summarizes interest income and expense for the years ended December 31, 2011 and 2010:

	For the years ended	
	December 31, 2011	December 31, 2010
Interest income from held-for-trading assets	$17	$39
Interest expense from other financial liabilities	3,033	2,814

The following table classifies financial assets and liabilities that are recognized on the balance sheet at fair value in a hierarchy that is based on significance of the inputs used in making the measurements. The levels in the hierarchy are:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 - Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices)
- Level 3 - Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

	Financial instruments at fair value – December 31, 2011			
	Level 1	**Level 2**	**Level 3**	**Total**
	$	$	$	$
Interest swap agreements	-	(1,286)	-	(1,286)
	-	(1,286)	-	(1,286)

	Financial instruments at fair value – December 31, 2010			
	Level 1	**Level 2**	**Level 3**	**Total**
	$	$	$	$
Interest swap agreements	-	(2,340)	-	(2,340)
	-	(2,340)	-	(2,340)

	Financial instruments at fair value – January 1, 2010			
	Level 1	**Level 2**	**Level 3**	**Total**
	$	$	$	$
Interest swap agreements	-	(2,092)	-	(2,092)
	-	(2,092)	-	(2,092)

Management of financial 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, 2011. 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 trade receivables.

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

The Company's trade receivables have two customers that individually represent more than 10% of total trade receivables which collectively, they represent 21.5% of the balance of trade receivables as at December 31, 2011. The Company believes that its trade receivables 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 80% of the Company's sales. The PACA protection gives a claim filed under the PACA first lien on all PACA assets (which include cash and trade receivables). 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, trade receivables 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, 2011, the allowance for doubtful accounts balance was $254 (December 31, 2010 - $254; January 1, 2010 - $254). In addition, the Company recorded a bad debt expense of $nil during the year ended December 31, 2011 (December 31, 2010 – $nil).

At December 31, 2011, 91.9% (December 31, 2010 – 88.6%; January 1, 2010 - 91.6%) of trade receivables were outstanding less than 30 days, 6.9% (December 31, 2010 – 10.5%; January 1, 2010 - 8.2%) were outstanding for between 30 and 90 days and the remaining 1.2% (December 31, 2010 – 0.9%; January 1, 2010 - 0.2%) were outstanding for more than 90 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 long-term debt, for which the interest rates charged fluctuate based on the LIBOR rate. Interest is compounded daily at LIBOR plus 3.25%. The Company has limited its interest rate risk by entering into interest rate swap agreements for its Term Loan 1 (note 13).

The Company is exposed to interest rate risk on its long-term debt for which interest rates charged and the value of the related interest rate swap agreements fluctuate. If interest rates had been 50 basis points higher (lower), the net income during the year ended December 31, 2011 would have been higher (lower) by $130; this represents a $199 gain on derivatives partially offset by $69 in additional interest expense (December 31, 2010 - $144; $205 gain on derivatives offset by $61 in additional interest expense).

iii) Foreign exchange risk

At December 31, 2011, the Canadian/U.S. foreign exchange rate was CA$1.00 = US$0.9833 (December 31, 2010 – CA$1.00 = $1.0054). 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 statement of financial position items at December 31, 2011, December 31, 2010 and January 1, 2010, with the net foreign exchange gain or loss directly impacting net income for the year.

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

	December 31, 2011	December 31, 2010	January 1, 2010
Financial assets			
Cash and cash equivalents	$40	$121	$9
Trade receivables	162	121	177
Financial liabilities			
Trade payables and accrued liabilities	(72)	(156)	(177)
Obligations under capital leases	-	(28)	(57)
Net foreign exchange gain (loss)	$130	$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, 2011:

Financial liabilities	**Total**	**Less than 1 year**	**1-3 years**	**4-5 years**	**More than 5 years**
Long-term debt	$69,855	$4,312	$65,543	$-	$-
Trade payables	10,440	10,440	-	-	-
Accrued liabilities and income taxes payable	3,233	3,233	-	-	-
Total	$83,528	$17,985	$65,543	$-	$-

It is the Company's intention to meet these obligations through the collection of current accounts receivable and cash from sales. 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 a line of credit of up to CA$15,000.

v) Fair values

The carrying amount of short-term financial instruments, less provisions for impairment if applicable, is consistent with 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 their carrying value and is determined based on published interest rates and contractual terms of the interest rate swap agreements.

16 RELATED PARTY TRANSACTIONS AND BALANCES

Included in other assets is a $372 (December 31, 2010 - $412; January 1, 2010 - $426) 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 $372 represents the unpaid amount the Company advanced on this employee's behalf in connection with the relocation.

17 COMPENSATION OF KEY MANAGEMENT

Key management includes the Company's directors, certain officers and senior vice presidents:

	For the year ended December 31,	
	2011	2010
Salaries and other employee benefits	$1,164	$1,128
Share-based payments	47	54
	$1,211	$1.182

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

18 EXPENSES BY NATURE

The following table outlines the Company's significant expenses by nature:

Cost of sales

	Year Ended December 31, 2011	Year Ended December 31, 2010
Purchased produce	$41,330	$32,588
Raw materials and consumables used	41,377	38,201
Depreciation and amortization	5,339	5,119
Transportation and storage	22,759	18,605
Employee compensation and benefits	29,822	29,119
	$140,627	$123,632

Selling, general and administrative expenses

	Year Ended December 31, 2011	Year Ended December 31, 2010
Employee compensation and benefits	$8,357	$7,889
Marketing	488	532
Professional services	1,624	1,286
Office expenses	2,139	1,784
Other	1,986	1,708
	$14,594	$13,199

Employee compensation and benefits

	Year Ended December 31, 2011	Year Ended December 31, 2010
Salaries and short-term employee benefits	$38,179	$37,008
Share-based compensation	237	75
	$38,416	$37,083

19 INCOME TAX EXPENSE

The provision for (recovery of) income taxes consists of the following components:

	Year Ended December 31, 2011	Year ended December 31, 2010
Current	$18	($1,184)
Deferred	1,908	763
Income tax expense	$1,926	($421)

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

The provision for (recovery of) income taxes reflected in the consolidated statements of income for the years ended December 31, 2011 and December 31, 2010 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:

	Year ended December 31, 2011	2010
Income before income taxes	$7,731	$3,830
Tax calculated at domestic tax rates applicable in the respective countries	$1,718	$1,097
Non-deductible items	91	583
True up of prior year deferred income taxes	(7)	(8)
Foreign exchange loss	-	(229)
Reversal of reserve	-	(1,355)
Net operating loss reversals	(30)	-
Tax rate differences on deferred taxes	(97)	(568)
State tax adjustments	356	-
Other	210	119
Change in valuation allowance	(315)	(60)
Provision for (recovery of) income taxes	$1,926	($421)

The statutory tax rates in effect for the year ended December 31, 2011 was 26.5% (December 31, 2010 – 28.5%) in Canada and 35% (December 31, 2011 – 35%) in the United States. The weighted average applicable tax rate was 25% and (2010 – 26%).

20 DEFERRED INCOME TAXES

The deferred tax assets and liabilities presented on the statement of financial position are net amounts corresponding to their reporting jurisdiction. The deferred tax assets and liabilities presented in the note disclosure are grouped based on asset and liability classification without consideration of their corresponding reporting jurisdiction.

The amounts per the statement of financial position reconcile to the amounts disclosed in this note as follows:

Statement of financial position	December 31, 2011	December 31, 2010	January 1, 2010
Deferred tax asset	689	2,967	4,549
Deferred tax liability	(3,931)	(4,569)	(5,390)
	(3,242)	(1,602)	(841)

Deferred tax assets:	Tax losses	Provisions	Intangibles	Other	Total
At January 1, 2010	$6,646	$67	$520	$519	$7,752
(Charged)/credited to statement of income	(797)	6	1	(29)	(819)
At December 31, 2010	5,849	73	521	490	6,933
(Charged)/credited to statement of income	9,041	(12)	(46)	163	9,146
At December 31, 2011	$14,890	$61	$475	$653	$16,079

Deferred tax liabilities:	Accelerated tax depreciation	Long-term debt	Biological asset	Total
At January 1, 2010	($6,250)	($542)	($1,801)	($8,593)
Charged/(credited) to statement of income	(345)	(304)	707	58
At December 31, 2010	(6,595)	(846)	(1,094)	(8,535)
Charged/(credited) to statement of income	(11,453)	761	(94)	(10,786)
At December 31, 2011	($18,048)	($85)	($1,188)	($19,321)

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

The analysis of deferred tax assets and deferred tax liabilities is as follows:

Deferred tax assets	December 31, 2011	December 31, 2010
Deferred tax assets expected to be recovered in more than 12	$12,628	$2,132
Deferred tax assets expected to be recovered within 12 months	3,451	4,801
Deferred tax liabilities		
Deferred tax liabilities expected to be settled in more than 12	(17,295)	(6,700)
Deferred tax liabilities expected to be settled within 12 months	(2,026)	(1,835)
Deferred tax liabilities net	($3,242)	($1,602)

Non-capital and farm losses expire as follows:

	Canada	U.S.	Total
2013	$2,272	$-	$2,272
2020	-	2,488	2,488
2021		207	207
2024	9,852	-	9,852
2026	210	-	210
2027	10	-	10
2028	72	-	72
2029	-	129	129
2030	9	-	9
2031	6	-	6
	$12,431	$2,824	$15,255

Deferred income tax assets are recognized for tax loss carry-forwards to the extent that the realization of the related tax benefit through future profits is probable.

21 CHANGES IN NON-CASH WORKING CAPITAL

	For the year ended December 31,	
	2011	2010
Trade receivables	($448)	$1,461
Inventories	(910)	(961)
Inventories reclassified to Biological asset	(80)	99
Other receivables	773	(928)
Prepaids and deposits	211	108
Trade payables	4,160	1,638
Accrued liabilities	(261)	(1,424)
	$3,445	($7)

22 GEOGRAPHIC INFORMATION

The Company operates in one segment as it produces, markets and sells only one product group which consists of premium quality tomatoes, bell peppers and cucumbers. The Company's primary operations are in the United States and Canada. Net sales by the countries in which its customers are located are as follows:

	For the year ended December 31,	
Net Sales	2011	2010
United States	$135,132	$120,449
Canada	29,316	24,319
	$164,448	$144,768

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

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

Property, plant and equipment	December 31, 2011	December 31, 2010	January 1, 2010
United States	$55,920	$20,312	$22,192
Canada	41,226	42,660	44,407
Dominican Republic	455	-	-
	$97,601	$62,972	$66,599

23 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.

24 SHARE CAPITAL AND EQUITY

The following is a summary of share capital:

	The VFF Common Shares	
	# of Shares	Amount
Share capital – January 1, 2010	13,440,345	$24,850
Conversion of special shares into common shares	5,993,049	-
Share capital – December 31, 2011 and 2010	19,433,394	$24,850

	The VFF Special Shares	
	# of Shares	Amount
Share capital – January 1, 2010	25,267,000	$-
Conversion of special shares into common shares	(5,993,049)	-
Share capital – December 31, 2011 and 2010	19,273,951	$-

(i) Conversion of special shares to common shares:

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 Participating Preferred Shares ("PPSs") into common shares, resulting in 19,433,394 common shares and 19,273,951 special shares outstanding as at December 31, 2011 and December 31, 2010.

VFF is authorized to issue an unlimited number of common shares, special shares and preferred shares, issuable in series. These shares have no par value.

(ii) Special shares:

The special shares were issued to VF U.S. Holdings Inc. ("U.S. Holdings") for the benefit of the holders of the PPSs of U.S. Holdings. The PPSs were issued in connection with the business combination between U.S. Holdings and Hot House Growers Income Trust. 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 combination of the PPSs and special shares are the economic equivalent of common shares. For financial reporting purposes, the special shares have been treated as common shares and are included in the Company's share capital and in the calculation of earnings per share.

(iii) 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.

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

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.

(iv) 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.

25 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net income attributable to owners of the Company by the weighted average number of common shares in issue during the year excluding common shares purchased by the company and held as treasury shares.

	December 31, 2011	December 31, 2010
Net income attributable to owners of the Company	$5,805	$4,251
Weighted average number of common shares and special share outstanding (thousands)	38,707	38,707
Basic earnings per share	$0.15	$0.11

Diluted earnings per share is calculated by adjusting the weighted average number of common shares outstanding to assume conversion of all dilutive potential common shares. The Company share options are potentially dilutive to common shares. A calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the company's shares for the period) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	December 31, 2011	December 31, 2010
Net income attributable to owners of the Company	$5,805	$4,251
Weighted average number of common shares and special shares outstanding (thousands)	38,707	38,707
Adjustment for:		
Share options (thousands)	166	142
Weighted average number of common shares and special shares outstanding for diluted earnings per share (thousands)	38,873	38,849
Diluted earnings per share	$0.15	$0.11

26 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.

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

The Company's main objectives when managing capital are:

- to structure repayment obligations in line with the expected lives 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 access capital markets to fund its growth initiatives.

The Company's capital comprises net debt and equity:

	December 31, 2011	December 31, 2010	January 1, 2010
Total bank debt	$69,855	$51,468	$54,732
Less cash and cash equivalents	(2,865)	(9,734)	(2,611)
Net debt	66,990	41,734	52,121
Total equity	42,273	36,231	31,905
	$109,263	$77,965	$84,026

It is the Company's intention to meet these obligations through the collection of current accounts receivable and cash. The Company has available lines of credit of CA$15,000 (as at December 31, 2011, $nil was outstanding on the line of credit, and a letter of credit, of $1,145 are outstanding, respectively). 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.

27 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. 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, 2011 of $237 (December 31, 2010 - $75) 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:

	2011	2010
Expected volatility	66.1%	53.2%
Dividend	$nil	$nil
Risk-free interest rate	2.53%	2.53%
Expected life	6.5 years	6.5 years
Fair value	$0.7848	$0.367

Expected volatility was based on five years of historical data.

The following table summarizes stock options granted during the year. There were no forfeitures of stock options for the Year ended December 31, 2011.

	Years Ended December 31,			
	2011		2010	
	Stock options	Weighted average exercise price	Stock options	Weighted average exercise price
Beginning of year	349,999	CA$0.70	-	-
Granted	665,000	CA$1.24	349,999	CA$0.70
End of year	1,014,999	CA$1.05	349,999	CA$0.70

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

No options were outstanding as at January 1, 2010.

The following table summarizes stock options outstanding and granted as at December 31, 2011:

Exercise price	Number outstanding	Remaining contractual life (years)	Number of exercisable options
CA$0.70	349,999	7.9	116,666
CA$1.24	665,000	9.3	nil
	1,014,999		

No options were exercised in the years ended 2011 and 2010.

Share options outstanding at the end of the year have the following expiry dates and exercise prices:

	Exercise price in CA$ per share	December 31, 2011	December 31, 2010
Expire date - January 13, 2020	0.70	349,999	349,999
Expire date - May 20, 2021	1.24	665,000	-
		1,014,999	349,999