

Village Farms International, Inc.

(formerly Village Farms Income Fund)

Interim Consolidated Financial Statements (unaudited)

Three and Nine Months Ended

September 30, 2010 and 2009

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

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

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

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

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

Assets	<u>September 30, 2010</u> (unaudited)	<u>December 31, 2009</u>
Current assets:		
Cash and cash equivalents	\$12,236	\$2,611
Accounts receivable	9,956	9,594
Other receivables	558	592
Inventories (note 5)	11,382	11,948
Prepays and deposits	705	909
Asset held for sale (note 6)	407	-
Total current assets	<u>35,244</u>	<u>25,654</u>
Property, plant and equipment (note 7)	63,488	66,599
Future income tax asset (note 15)	3,216	4,549
Intangible assets (note 8)	1,327	1,404
Other assets (note 11)	936	877
Total assets	<u><u>\$104,211</u></u>	<u><u>\$99,083</u></u>
 Liabilities and shareholders' equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$12,182	\$9,564
Current maturities of long-term debt (note 9)	3,260	3,260
Current portion of obligations under capital leases (note 12)	301	283
Total current liabilities	<u>15,743</u>	<u>13,107</u>
Long-term debt (note 9)	49,023	51,472
Derivatives (note 10)	2,628	2,092
Obligations under capital leases (note 12)	42	262
Future income taxes (note 15)	3,210	3,589
Total liabilities	<u>70,646</u>	<u>70,522</u>
Shareholders' equity:		
Share capital (note 19)	24,850	24,850
Contributed surplus	30	-
Retained earnings	8,630	3,656
Accumulated other comprehensive income	55	55
Total shareholders' equity	<u>33,565</u>	<u>28,561</u>
Total liabilities and shareholders' equity	<u><u>\$104,211</u></u>	<u><u>\$99,083</u></u>

Approved by the Board of Directors

/s/ John P. Henry, Director

/s/ John R. McLernon, 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 Shareholders' Equity
For the Nine Month Periods Ended September 30, 2010 and September 30, 2009
(In thousands of United States dollars, except for shares and units outstanding and per share/unit amounts)

	Trust Units	Special Shares	Trust Units	Accumulated Distributions	Retained Earnings	Accumulated Other Comprehensive Income	Total Unitholders' Equity
Balance at December 31, 2008	13,440,345	25,267,000	\$24,850	\$ (8,168)	\$ 6,387	\$ 55	\$ 23,124
Dividends declared (unaudited)				(1,232)			(1,232)
Net earnings for the nine month period ended September 30, 2009 (unaudited)					(2,510)		(2,510)
Balance at September 30, 2009 (unaudited)	<u>13,440,345</u>	<u>25,267,000</u>	<u>\$24,850</u>	<u>\$ (9,400)</u>	<u>\$ 3,877</u>	<u>\$ 55</u>	<u>\$ 19,382</u>

	Common Shares	Special Shares	Total Share Capital	Contributed Surplus	Retained Earnings	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance at December 31, 2009	13,440,345	25,267,000	\$24,850	\$ -	\$ 3,656	\$ 55	\$ 28,561
Share-based compensation (note 20) (unaudited)				30			30
Net earnings for the nine month period ended September 30, 2010 (unaudited)					4,974		4,974
Balance at September 30, 2010 (unaudited)	<u>13,440,345</u>	<u>25,267,000</u>	<u>\$24,850</u>	<u>\$ 30</u>	<u>\$ 8,630</u>	<u>\$ 55</u>	<u>\$ 33,565</u>

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 Three and Nine Months Ended September 30, 2010 and September 30, 2009
(In thousands of United States dollars, except for shares and units outstanding and per share/unit amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Net sales	\$35,487	\$32,711	\$113,065	\$96,927
Cost of sales	33,492	31,776	94,582	89,568
Gross profit	<u>1,995</u>	<u>935</u>	<u>18,483</u>	<u>7,359</u>
Selling, general and administrative expenses	3,409	2,675	9,580	8,489
Income (loss) from operations	<u>(1,414)</u>	<u>(1,740)</u>	<u>8,903</u>	<u>(1,130)</u>
Interest expense, net	699	817	2,078	2,419
Foreign exchange (gain) loss	(100)	829	45	409
Amortization of intangible assets	26	26	78	78
Loss (gain) on derivatives (note 10)	117	485	536	(435)
Other income, net (note 14)	(1,070)	(52)	(1,379)	(234)
Loss (gain) on sale of assets (note 4)	-	-	330	(37)
Earnings (loss) before income taxes	<u>(1,086)</u>	<u>(3,845)</u>	<u>7,215</u>	<u>(3,330)</u>
Provision for (recovery of) income taxes (note 15)	<u>(534)</u>	<u>(1,068)</u>	<u>2,241</u>	<u>(820)</u>
Net earnings (loss) and comprehensive earnings (loss)	<u>(552)</u>	<u>(2,777)</u>	<u>4,974</u>	<u>(2,510)</u>
Net income (loss) per share/unit-basic	<u>(\$0.01)</u>	<u>(\$0.07)</u>	<u>\$0.13</u>	<u>(\$0.06)</u>
Weighted average number of shares/units outstanding-basic	<u>38,707,345</u>	<u>38,707,345</u>	<u>38,707,345</u>	<u>38,707,345</u>
Net income (loss) per share/unit-diluted	<u>(\$0.01)</u>	<u>(\$0.07)</u>	<u>\$0.13</u>	<u>(\$0.06)</u>
Weighted average number of shares/units outstanding-diluted	<u>39,057,344</u>	<u>38,707,345</u>	<u>39,041,959</u>	<u>38,707,345</u>

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 Three and Nine Months Ended September 30, 2010 and September 30, 2009
(In thousands of United States dollars)

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
	<u>(unaudited)</u>	<u>(unaudited)</u>	<u>(unaudited)</u>	<u>(unaudited)</u>
Cash flows from operating activities:				
Net earnings	(\$552)	(\$2,777)	\$4,974	(\$2,510)
Adjustments to reconcile net earnings to net cash provided by operating activities:				
Depreciation and amortization	1,457	1,422	4,314	4,333
Loss (gain) on sale of assets	-	-	330	(42)
Loss (gain) on derivatives (note 10)	117	485	536	(435)
Foreign exchange (gain) loss	(100)	44	45	77
Share based compensation (note 20)	11	-	30	-
Future income taxes	504	(139)	954	305
Changes in non-cash working capital (note 16)	2,251	5,216	2,826	622
Net cash provided by operating activities	<u>3,688</u>	<u>4,251</u>	<u>14,009</u>	<u>2,350</u>
Cash flows from investing activities:				
Purchases of property, plant and equipment	(516)	(410)	(1,863)	(1,423)
Proceeds from sale of assets	146	140	234	222
Net cash used in investing activities	<u>(370)</u>	<u>(270)</u>	<u>(1,629)</u>	<u>(1,201)</u>
Cash flows from financing activities:				
Proceeds from operating line of credit	-	(3,865)	-	1,691
Payments on long-term debt	(815)	(807)	(2,449)	(2,421)
Payments on obligations under capital leases	(60)	(13)	(202)	(97)
Dividend payments to Unitholders and PPS holders (note 19)	-	-	-	(1,550)
Other	2	53	(59)	(71)
Net cash used in financing activities	<u>(873)</u>	<u>(4,632)</u>	<u>(2,710)</u>	<u>(2,448)</u>
Foreign exchange gain (loss)	<u>100</u>	<u>(44)</u>	<u>(45)</u>	<u>(77)</u>
Net increase (decrease) in cash and cash equivalents	2,545	(695)	9,625	(1,376)
Cash and cash equivalents beginning of period	9,691	3,420	2,611	4,101
Cash and cash equivalents end of period	<u>\$12,236</u>	<u>\$2,725</u>	<u>\$12,236</u>	<u>\$2,725</u>
Supplemental cash flow information:				
Interest paid	<u>\$717</u>	<u>\$831</u>	<u>\$1,810</u>	<u>\$2,363</u>
Income taxes paid	<u>\$12</u>	<u>\$1</u>	<u>\$360</u>	<u>\$24</u>

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

VILLAGE FARMS INTERNATIONAL, INC.

(formerly Village Farms Income Fund)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS September 30, 2010 and 2009

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

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 Corporations Act* (“CBCA”). VFF’s principal operating subsidiaries at September 30, 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 and the Class A Unit of the Fund was exchanged for 25,267,000 Special Shares of VFF. As a result, there are 13,440,345 common shares and 25,267,000 special shares of VFF issued and outstanding.

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

These unaudited interim consolidated financial statements do not include all of the disclosures required by Canadian generally accepted accounting principles (“GAAP”) for annual financial statements and, accordingly, should be read in conjunction with the audited consolidated financial statements and notes included in the Company’s 2009 Annual Financial Statements. These unaudited interim consolidated financial statements follow the same accounting policies and methods of computation as used in the 2009 audited consolidated financial statements, except as disclosed in Note 3.

3 CHANGES IN ACCOUNTING POLICIES

The Company adopted the following new accounting policies in the year ended December 31, 2009:

Stock-Based Compensation

The cost of options and other stock-based compensation arrangements is recorded based on the estimated fair values at the grant date and charged to earnings over the vesting period.

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 subsequent to its initial recognition and of intangible assets by profit-orientated enterprises. The adoption of this new section did not have any material impact on the Company’s financial statements.

Conversion of an Unincorporated Entity to an Incorporated Entity

EIC-170, “Conversion of an Unincorporated Entity to an Incorporated Entity”, clarified 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 conversion and as the basis of presentation for these consolidated financial statements.

VILLAGE FARMS INTERNATIONAL, INC.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS September 30, 2010 and 2009

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

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.

4 DISPOSAL AND SALE OF ASSETS HELD

In the nine month period ended September 30, 2010 the Company recorded a loss on the disposal of certain production machinery of \$330. In the nine month period ended September 30, 2009, the Company completed the sale of its greenhouse facility in Ringgold, Pennsylvania.

5 INVENTORIES

	<u>September 30, 2010</u>	<u>December 31, 2009</u>
Crop inventory	\$11,013	\$11,605
Purchased produce inventory	369	343
	<u>\$11,382</u>	<u>\$11,948</u>

The cost of inventories recognized as expense and included in "cost of sales" for the three months ended September 30, 2010 amounted to \$27,441 (September 30, 2009 - \$26,665) and \$80,113 for the nine months ended September 30, 2010 (September 30, 2009 - \$76,022).

6 ASSET 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. Assets being held for sale of \$407 are no longer being amortized.

VILLAGE FARMS INTERNATIONAL, INC.

(formerly Village Farms Income Fund)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS September 30, 2010 and 2009

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

7 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

	<u>September 30, 2010</u>	<u>December 31, 2009</u>
Cost		
Land	\$5,051	\$5,117
Leasehold and land improvements	2,033	2,033
Greenhouses and buildings	57,255	58,575
Greenhouse equipment	28,821	29,022
Machinery and equipment	3,259	2,880
Construction in progress	271	318
	<u>96,690</u>	<u>97,945</u>
Accumulated amortization		
Leasehold and land improvements	1,285	1,163
Greenhouses and buildings	19,548	18,459
Greenhouse equipment	10,850	10,428
Machinery and equipment	1,519	1,296
	<u>33,202</u>	<u>31,346</u>
Net book value		
Land	5,051	5,117
Leasehold and land improvements	748	870
Greenhouses and buildings	37,707	40,116
Greenhouse equipment	17,971	18,594
Machinery and equipment	1,740	1,584
Construction in progress	271	318
	<u>\$63,488</u>	<u>\$66,599</u>

Capital lease assets of \$1,133 at September 30, 2010 and December 31, 2009 and accumulated amortization on these assets of \$579 and \$480, respectively, are included within greenhouse equipment.

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

8 INTANGIBLE ASSETS

VFCLP has an agreement with the operator of a cogeneration facility to purchase thermal energy required for one of VFCLP's greenhouses (in excess of the thermal energy otherwise produced by the greenhouse). The contract expires on July 31, 2023. VFCLP also has a right of first refusal with respect to any excess methane gas conveyed to the cogeneration plant from an adjacent landfill. The estimated fair value of the contract was recorded as an intangible asset and is being amortized on a straight-line basis over the life of the contract.

	<u>September 30, 2010</u>	<u>December 31, 2009</u>
Carrying value	\$1,735	\$1,735
Accumulated amortization	408	331
Net book value	<u>\$1,327</u>	<u>\$1,404</u>

VILLAGE FARMS INTERNATIONAL, INC.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS September 30, 2010 and 2009

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

9 LONG-TERM DEBT

As at September 30, 2010 and December 31, 2009, long-term debt consists of the following:

	<u>September 30, 2010</u>	<u>December 31, 2009</u>
CAN Capital Loan	\$41,358	\$42,382
US Capital Loan	10,925	12,350
	<u>52,283</u>	<u>54,732</u>
Less current maturities	<u>(3,260)</u>	<u>(3,260)</u>
Long-term portion	<u>\$49,023</u>	<u>\$51,472</u>

The aggregate annual maturities of long-term debt as at September 30, 2010 are as follows:

Remaining 2010	\$815
2011	42,918
2012	1,900
2013	1,900
2014	1,900
Thereafter	2,850
	<u>\$52,283</u>

10 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 CAN Capital Loan. The Company has effectively fixed its interest expense on its CAN Capital Loan at 5.68%. The Company recognized a loss of \$117 for the three months ended September 30, 2010 (September 30, 2009 – a loss of \$485) and a loss of \$536 for the nine months ended September 30, 2010 (September 30, 2009 – a gain \$435), 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 September 30, 2010 was a liability of \$2,628 (December 31, 2009 – (\$2,092)). The interest rate swap agreements that remain outstanding at September 30, 2010 are as follows:

<u>Term</u>		<u>Interest</u>
January 25, 2008 - January 28, 2011	1,200	5.32%
January 25, 2008 - January 28, 2012	1,200	5.50%
January 25, 2008 - January 28, 2013	38,500	5.70%

The interest rates in the above table include a 2% premium to LIBOR which will be adjusted downward upon satisfying certain financial ratio targets.

11 RELATED PARTY TRANSACTIONS AND BALANCES

Included in other assets is a \$416 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 \$416 represents the amount the Company advanced on this employee's behalf in connection with the relocation.

VILLAGE FARMS INTERNATIONAL, INC.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS September 30, 2010 and 2009

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

12 LEASE COMMITMENTS

Obligations Under Capital Leases

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

Remaining 2010	\$80
2011	265
2012	14
Total minimum lease payments	<u>359</u>
Less amount representing interest	<u>(16)</u>
	343
Less current portion	<u>(301)</u>
Long-term portion	<u>\$42</u>

These leases have interest rates ranging from 6.0% to 8.5%. The Company made payments of \$73 during the three months ended September 30, 2010 (September 30, 2009 - \$68) and \$217 for the nine months ended September 30, 2010 (September 30, 2009 - \$189). Interest paid on capital leases amounted to \$7 during the three months ended September 30, 2010 (September 30, 2009 - \$12) and \$26 for the nine months ended September 30, 2010 (September 30, 2009 - \$37).

Operating Leases

As at September 30, 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 September 30, 2010 are as follows:

Remaining 2010	\$273
2011	1,108
2012	1,111
2013	948
2014	542
Thereafter	239
	<u>\$4,221</u>

Rent expense under the Company's various operating lease agreements totaled \$357 for the three months ended September 30, 2010 (September 30, 2009 - \$298) and \$973 for the nine months ended September 30, 2010 (September 30, 2009 - \$878) and is included in cost of sales and selling, general and administrative expenses.

13 FINANCIAL INSTRUMENTS

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

	<u>September 30, 2010</u>	<u>December 31, 2009</u>
Held-for-trading (cash and cash equivalents)	\$12,236	\$2,611
Accounts receivable	9,956	9,594
Other receivables	1,263	1,468
Other financial liabilities	66,187	65,532

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, expense and gains and losses from loans, receivables and other financial liabilities are recognized in interest expense, loss on derivatives and other income. The following table summarizes interest income and expense for the three and nine months ended September 30, 2010 and 2009:

VILLAGE FARMS INTERNATIONAL, INC.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS September 30, 2010 and 2009

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

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2010	2009	2010	2009
Interest income from held-for-trading assets	\$2	\$4	\$36	\$17
Interest expense from other financial liabilities	701	821	2,114	2,436

14 OTHER INCOME

The Company received during the three and nine months ended September 30, 2010 a Canada government subsidy of \$1,030. The payment was from the AgriStability program and related to the 2007 calendar year.

15 INCOME TAXES

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

	For the three months ended		For the nine months ended	
	September 30,		September 30,	
	2010	2009	2010	2009
Current	(\$1,038)	(\$929)	\$1,287	(\$1,125)
Future	504	(139)	954	305
	<u>(\$534)</u>	<u>(\$1,068)</u>	<u>\$2,241</u>	<u>(\$820)</u>

Presented in the accompanying consolidated balance sheets as at:

	<u>September 30, 2010</u>	<u>December 31, 2009</u>
Future tax asset	\$3,216	\$4,549
Non-current future tax liability	(3,210)	(3,589)
Net future tax (liability) /asset	<u>\$6</u>	<u>\$960</u>

16 CHANGES IN NON-CASH WORKING CAPITAL

	For the three months ended		For the nine months ended	
	September 30,		September 30,	
	2010	2009	2010	2009
Accounts receivable	\$2,883	\$6,959	(\$1,741)	\$1,399
Inventories	(931)	(138)	566	(429)
Other current assets	(80)	3	(200)	98
Prepays and deposits	420	613	204	305
Accounts payable and accrued liabilities	(55)	(2,221)	3,997	(751)
	<u>\$2,237</u>	<u>\$5,216</u>	<u>\$2,826</u>	<u>\$622</u>

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

17 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. Revenue by the countries in which its customers are located is as follows:

	For the three months ended		For the nine months ended	
	September 30,		September 30,	
	2010	2009	2010	2009
Revenue				
United States	\$27,144	\$23,885	\$92,422	\$74,383
Canada	8,343	8,334	20,643	22,052
Other	-	492	-	492
	<u>\$35,487</u>	<u>\$32,711</u>	<u>\$113,065</u>	<u>\$96,927</u>

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

	September 30, 2010	December 31, 2009
United States	\$20,426	\$22,192
Canada	43,062	44,407
	<u>\$63,488</u>	<u>\$66,599</u>

18 COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Company receives notices 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.

19 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 are 13,440,345 common shares and 25,267,000 special shares of VFF issued and outstanding.

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

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

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.

(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 common 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		The VFF Special Shares	
	# of Shares	Amount	# of Shares	Amount
Share Capital – December 31, 2008	-	\$ -	25,267,000	\$-
Conversion of Trust Units into Shares on December 31, 2009	13,440,345	24,850	-	-
Share Capital – December 31, 2009 and September 30, 2010	13,440,345	\$24,850	26,267,000	\$-

20 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 ten years from the date of the grant. For the nine-month period ended September 30, 2010, the Company granted 349,999 options at a weighted average exercise price of CAD\$0.70 per share (no options were outstanding for the nine-month period ended September 30, 2009). Options vest at a rate of 33% per year, beginning one year following the grant date of the options.

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

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

	Nine Months Ended September 30,			
	2010		2009	
	Stock Options	Weighted average exercise price	Stock Options	Weighted average exercise price
Beginning of period	-	-	-	-
Granted	349,999	CAD\$0.70	-	-
End of period	349,999	CAD\$0.70	-	-

VILLAGE FARMS INTERNATIONAL, INC.

(formerly Village Farms Income Fund)

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

Share-based compensation expense for the three month period ended September 30, 2010 of \$11 and for the nine month period ended September 30, 2010 of \$30 was recorded in selling, general and administrative expenses and the corresponding amount credited to Contributed Surplus.

The following table summarizes the share options outstanding at September 30, 2010:

Exercise Price	Number outstanding	Remaining contractual life (years)	Number of exercisable options
CAD\$0.70	349,999	9.6	nil

21 SUBSEQUENCE EVENTS

Certain holder of PPSs converted 5,993,049 of the special shares into common share of the Company; post conversion the Share Capital summary is as followed:

The VFF Common Shares		The VFF Special Shares	
# of Shares	Amount	# of Shares	Amount
19,433,394	\$24,850	19,273,951	\$-