Village Farms International, Inc.

Management's Discussion and Analysis

Three and Nine Months Ended September 30, 2011

November 11, 2011

Management's Discussion and Analysis

Information is presented in thousands of United States dollars unless otherwise noted.

Introduction

This management's discussion and analysis ("MD&A") should be read in conjunction with the unaudited, condensed interim financial statements and accompanying notes of Village Farms International, Inc. ("VFF" and, together with its subsidiaries, the "Company"), for the nine and three months ended September 30, 2011. The information provided in this MD&A is current to November 11, 2011 unless otherwise noted.

VFF is a corporation existing under the *Canada Business Corporations Act* (the "CBCA"). The Company's principal operating subsidiaries at September 30, 2011 are Village Farms Canada Limited Partnership ("VFCLP") and Village Farms, L.P. ("VFLP").

The interim financial data included in this MD&A is presented in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board, unless otherwise noted. The effective date of the transition to IFRS was January 1, 2010. The transition to IFRS has been reflected by restating previously reported financial statements for 2010. Previously, the Company's financial statements were prepared under Canadian Generally Accepted Accounting Principles ("CGAAP"). The adoption of IFRS does not impact the underlying economics of the Company's operations or its cash flows. Note 5 to the condensed consolidated interim financial statements contains a detailed description of the Company's adoption of IFRS, including a reconciliation of the consolidated financial statements previously prepared under CGAAP to those under IFRS.

Business Overview

Management believes that the Company is one of the largest producers, marketers and distributors of premium-quality, greenhouse-grown tomatoes, bell peppers and cucumbers in North America. This premium product is grown in sophisticated, highly intensive agricultural greenhouse facilities located in British Columbia and Texas. The Company also markets and distributes premium tomatoes, peppers and cucumbers produced under exclusive arrangements with other greenhouse producers. The Company markets and distributes under its Village Farms® brand name, primarily to retail supermarkets and dedicated fresh food distribution companies throughout the United States and Canada. It currently operates five distribution centres located across the United States, Canada and the Dominican Republic. Since its inception, the Company has been guided by a sustainable agriculture policy which integrates four main goals – environmental health, economic profitability and social and economic equality.

Village Farms embraces sustainable agriculture and environmentally-friendly growing practices by:

- utilizing integrated pest management techniques that use "beneficial bugs" to control unwanted pests. The use of natural biological control technology keeps plants and their products virtually free of chemical agents. The process includes regular monitoring techniques for threat identification, development of appropriate, tailored response strategies and the execution of these strategies;
- capturing rainwater from various greenhouse roofs for irrigation purposes;
- recycling water and nutrients during the production process;
- growing plants in natural medium, including coconut fibre and rock wool, as opposed to growing in the soil and depleting nutrients; and
- using dedicated environmental control computer systems which monitor and control virtually all aspects of the growing environment, thereby maximizing the efficient use of energy.

The Company's assets include seven greenhouses providing 916,158 square metres (approximately 232 acres) of growing space in Canada and the United States. All of the Company's greenhouses are constructed of glass, aluminum and steel, and are located on land owned or leased by the Company. The Company also has exclusive marketing agreements with growers in the United States, Canada and Mexico that currently operate approximately 756,000 square metres (approximately 189 acres) of growing area.

The following table outlines the Company's greenhouse facilities:

	Growing Area		
Greenhouse Facility	**Square Metres**	**Acres**	**Products Grown**
Marfa, TX (3 greenhouses)	318,460	82	Tomatoes on-the-vine, beefsteak tomatoes, specialty tomatoes, long English cucumbers, mini cucumbers
Fort Davis, TX (1 greenhouse)	156,530	40	Tomatoes on-the-vine, specialty tomatoes
Delta, BC (3 greenhouses)	441,168	110	Tomatoes on-the-vine, beefsteak tomatoes, specialty tomatoes
Total	916,158	232	

Crop Cycles

The growing cycle at the Company's greenhouse facilities occurs over a 14-month period.

Northern Facilities

The Canadian facilities begin their growing cycles in October of one year and extend through December of the next year. To start, seeds are purchased and sent to an external propagator in October. Meanwhile, harvesting for the previous year's crop concludes in November or early December. These plants are removed from the greenhouse and replaced with new seedlings from October's late propagation. In early January, the pollination process begins and fruit typically begins to appear on the vines towards the end of January. The timing of growth and ripening of the fruit depends upon a number of factors, including variety and light levels, which vary from year to year. Harvesting of early varieties begins in March and reaches peak volumes during the months of June, July and August. In September, volumes begin to decrease and continue to decline until harvesting is completed in late November.

Southern Facilities

The Texas facilities begin their growing cycles in May of one year and extend into July of the next year. To start, seeds are purchased and sent to an external propagator in May. Meanwhile, harvesting for the previous year's crop concludes in late June or early July. These plants are removed from the greenhouse and replaced with the new seedlings from May's propagation. In August, the pollination process begins and fruit typically begins to appear on the vines. The timing of growth and ripening of the fruit depends on the variety of the fruit. Harvesting begins in September. In order to maintain the highest level of quality and yield, a second crop is planted alongside the original crop in January. In March, the second crop begins to harvest fruit and the original crop is removed.

International Consulting

The Company continues to discuss feasibility studies of the closed greenhouse system for companies outside of North America. The Company's role would be to provide consulting services for the building and operation of these greenhouses.

Marketing

The Company is a leading marketer of premium-quality, value-added, branded greenhouse-grown produce in North America, and is a significant producer of tomatoes on-the-vine, beefsteak, cocktail, grape, cherry tomatoes and cucumbers at its facilities. The Company, from its supply partners, also distributes and purchases premium tomatoes, bell peppers and cucumbers in the United States and Canada produced by other greenhouse growers located in the United States, Canada, Mexico and the Dominican Republic. The Company maintains high standards of food safety and requires the same of its exclusive contract growers, while providing on-time, effective and efficient distribution.

The Company strives to continually exceed the expectations of its customers by consistently providing superior product, including adding new product varieties and packaging innovations.

The Company has distribution capabilities that it believes exceed those of most of its competitors in the North American greenhouse vegetable industry. With owned or leased distribution centres in Delaware, Texas, Washington, Dominican Republic and British Columbia the Company provides its customers with flexibility in purchasing. For the nine months ended September 30, 2011, the Company had an on-time delivery record of 99.1%, while maintaining competitive freight rates that management of the Company believes to be among the best in the industry.

The Company's marketing strategy is to strategically position the Company to be the supplier of choice for retailers offering greenhouse produce by focusing on the following:

- **Year Round Supplier.** Year round production capability of the Company enhances customer relationships, resulting in more consistent pricing.
- **Quality and Food Safety.** Sales are made directly to retailers which ensures control of the product from seed to customer and results in higher levels of food safety, shelf life and quality control. Food safety is an integral part of the Company's operations, and management believes that it has led, and currently leads, the industry in adopting Good Agricultural Practices. This program is modeled after the U.S. Food and Drug Administration's Good Manufacturing Practices using the Primus Labs® format and third party auditors. All of the Company's packing facilities undergo comprehensive food safety audits by Primus Labs®.
- **Quality Packaging and Presentation.** Product is selected at a uniform size and picked at the same stage of vine ripeness. The packaging for the product is "display ready", ensuring retail customers have a full view of the product on the supermarket shelf.
- **Direct Sale to Retail Customers.** Greenhouse produce (produce grown by the Company plus supply partners produce) is sold directly to supermarket chains, including Associated Grocers, Associated Wholesale Grocers, BJ's Wholesale Club Inc., Costco Wholesale, Fred Meyer, HEB Grocery Company, The Kroger Co., Loblaw Companies Limited, Market Basket, Meijer, Inc., Military Produce, Publix Super Markets, Inc., Safeway Inc., Safeway Canada, Unified Western Grocers, Wakefern Food Corp., Wal-Mart Stores, Inc., Wegmans Food Markets Inc., Whole Foods Market and Winco Foods LLC.
- **Excellence in Customer Service and Logistics.** Logistics and distribution capability are key factors in ensuring fresh high quality product to meet consumer demands. Management of the Company believes it has a competitive advantage through its logistics and distribution networks, which includes strategically located distribution centres.

The Company markets, sells and distributes all of its products, including products sold under exclusive marketing arrangements with its U.S., Canadian and Mexican greenhouse operations.

Results of Operations

Consolidated Financial Performance
(In thousands of US dollars, except per Share amounts, unaudited)

	For the three months ended September 30,		For the nine months ended September 30,	
	2011	**2010**	**2011**	**2010**
Revenue	$43,715	$35,487	$129,705	$113,065
Selling, general and administrative expenses	3,984	3,418	11,008	9,606
Change in biological asset (1)	(2,170)	1,055	(2,271)	(2,787)
Income (loss) from operations	306	(368)	7,840	6,090
Interest expense	750	701	2,217	2,114
Other income (expense)	237	1,027	892	390
Provision for (recovery of) income taxes	14	(171)	1,698	1,152
Net (loss) income	(218)	131	4,832	3,250
EBITDA (2)	4,033	1,098	14,853	14,548
Earnings/(loss) per share/ basic and diluted	($0.01)	$0.00	$0.12	$0.08

(1) Biological assets consist of the company's produce on the vines at the period end. Details of the changes are described in note 8 of the Company's current financial statements.

(2) EBITDA is not a recognized earnings measure and does not have a standardized meaning prescribed by IFRS. Therefore, EBITDA may not be comparable to similar measures presented by other issuers. See “Non-IFRS Measures”. Management believes that EBITDA is a useful supplemental measure in evaluating the performance of the Company.

Results of Operations for the Three Months Ended September 30, 2011 Compared to the Three Months Ended September 30, 2010

Revenue

Revenue for the three month period ended September 30, 2011 increased $8,228 or 23% to $43,715 from $35,487 for the three month period ended September 30, 2010. The increase in revenue is primarily due to a 13% increase in the Company’s production, an increase of 8% in the average selling price of tomatoes as compared to 2010 and a 9% increase in supply partner revenue.

The average selling price, for the three months ended September 30, 2011 versus the three months ended September 30, 2010; for tomatoes was an increase of 8%, for peppers was a increase of 10% and for cucumbers was an increase of 29%. The tomato price increase in the third quarter of 2011 was a result of an improved customer mix and an overall stronger market compared to the third quarter 2010. For the three months ended September 30, 2011, total tomato pounds sold increased 12% over the comparable period in 2010; pepper pounds sold for the three months ended September 30, 2011 decreased 2% over the comparable period in 2010 and cucumber pieces sold for three months ended September 30, 2011 increased 26% over the comparable period in 2010. The increase in tomato and cucumber pounds was mostly due to an increase in production at the Village Farms owned locations.

Selling, General and Administrative Expenses

Selling, general and administrative expenses for the three month period ended September 30, 2011 increased $566 or 17% to $3,984 from $3,418 for the three month period ended September 30, 2010. The increase is due to bank and professional fees related to the new term loans of $475 and overhead costs rising due to an increase in personnel.

Change in Biological Asset

The net change in fair value of biological asset for the three months ended September 30, 2011, decreased $3,225 to ($2,170) from $1,055 for the three months ended September 30, 2010. The decrease in the three months ended September 30, 2011 is due to lower sales expectations in early fourth quarter 2011 versus the same period in 2010 for the fruit on the vine, at the respective reporting dates and a higher opening value in 2011 versus 2010.

Income (Loss) from Operations

Income from operations for the quarter ended September 30, 2011, increased by $674, to $306 from a loss of ($368) for the quarter ended September 30, 2010. The increase was the result of higher average pricing and higher production, offset by a decrease in the biological asset value in 2011 versus an increase in the biological asset value in the same period in 2010, as well as higher cost of sales and overhead costs.

Interest Expense

Interest expense, for the three month period ended September 30, 2011 increased $49 to $750 from $701 for the three month period ended September 30, 2010. The increase is due to an increase of the Company’s borrowing rate on its term loans versus the three months ended September 30, 2010.

Other Income

Other income for the quarter ended September 30, 2011, decreased $790 to income of $237 from $1,027 for the quarter ended September 30, 2010. The decrease was primarily due to the one-time receipt, in 2010, of a prior year government subsidy of $1,030, partially offset gain on derivatives of $271 in 2011, versus a loss of ($117) on derivatives for the third quarter of 2010.

Net Income (Loss)

Net income for the quarter ended September 30, 2011, decreased $349 to a loss of ($218) from income of $131 for the quarter ended September 30, 2010. The decrease was due to a decrease in the biological asset value in the third quarter 2011 versus an increase in the biological asset value in the third quarter of 2010, the one-time receipt, in 2010, of a $1,030 prior-year government subsidy and higher overhead costs in 2011 versus 2010; partially offset by higher selling price and production in 2011 versus 2010.

Income Taxes

Income tax expense for the three month period ended September 30, 2011 was $14 compared to a recovery of ($171) for the three month period ended September 30, 2010, higher income from operations.

EBITDA

EBITDA for the three month period ended September 30, 2011 increased $2,935 to $4,033 from $1,098 for the three month period ended September 30, 2010, as a result of higher production and higher pricing, partially offset by higher cost of sales and overhead costs. See the EBITDA calculation in "Non-IFRS Measures - Reconciliation of Net Earnings to EBITDA."

Results of Operations for the Nine Months Ended September 30, 2011 Compared to the Nine Months Ended September 30, 2010

Revenue

Revenue for the nine months ended September 30, 2011, increased $16,640, or 15%, to $129,705 from $113,065 for the nine months ended September 30, 2010. The increase in revenue is primarily due to a 26% increase in supply partner revenue driven by increased volumes and a 7% increase in Village Farms' owned facilities revenues driven by a 5% increase in production.

The average selling price, for the nine months ended September 30, 2011 versus the nine months ended September 30, 2010; for tomatoes was a increase of 2%, for peppers was the same in both periods and for cucumbers was an increase of 39%. For the nine months ended September 30, 2011, total tomato pounds sold increased 7% over the comparable period in 2010; pepper pounds sold for the nine months ended September 30, 2011 increased 19% over the comparable period in 2010 and cucumber pieces sold for nine months ended September 30, 2011 increased 32% over the comparable period in 2010. The increase in tomato pounds is due to a 36% increase in supply partner pounds and a 2% increase in Village Farms owned facility pounds. The increase in cucumber pounds was mostly due to a production increase in at the Village Farms owned facilities.

Selling, General and Administrative Expenses

Selling, general and administrative expenses for the nine month period ended September 30, 2011 increased $1,402 or 15% to $11,008 from $9,606 for the nine month period ended September 30, 2010. The increase is due to bank and professional fees related to the new term loans of $475and higher overhead costs due to an increase in personnel to support the Company's growth initiatives.

Change in Biological Asset

The net change in fair value of biological asset for the nine months ended September 30, 2011, increased $516, to ($2,271) from ($2,787) for the nine months ended September 30, 2010. The increase is due to the different opening value of the asset as at December 31, 2010 and January 1, 2010. The fair value of the biological asset at September 30, 2011 is $5,598 which is lower than the value of $5,960 at September 30, 2010 due to lower price expectations in early fourth quarter 2011 compared to early fourth quarter 2010 for the fruit on the vine, at the respective reporting dates.

Income from Operations

Income from operations for the nine months ended September 30, 2011, increased $1,750, or 29%, to $7,840 from $6,090 for the nine months ended September 30, 2010. The increase was the result of higher revenue and a smaller income statement charge on the Company's biological asset value, offset by higher cost of sales and overhead costs.

Interest Expense

Interest expense, for the nine month period ended September 30, 2011 increased $103 to $2,217 from $2,114 for the nine month period ended September 30, 2010. The increase is due to an increase of the Company's borrowing rate on its term loans versus the nine months ended September 30, 2010.

Other Income

Other income for the nine month period ended September 30, 2011, increased $502 to income of $892 from $390 for the nine month period ended September 30, 2010. The increase was due to a gain on derivatives of $660 in 2011, versus a loss of ($536) on derivatives for the nine months ended September 30, 2010, offset by the one-time receipt, in 2010, of a prior year Canadian government subsidy of $1,030.

Net Income

Net income for the nine month period ended September 30, 2011 increased $1,582 to $4,832 from $3,250 for the nine month period ended September 30, 2010. The increase was due to higher product pricing and production resulting in higher revenue and a decrease in the reduction of biological asset and a gain on derivatives of $660 (verse a $536 loss for same period in 2010), partially offset by higher cost of sales, a government subsidy of $1,030 received in 2010 and not earning in 211 and higher overhead costs in 2011 versus 2010.

Income Taxes

Income tax expense for the nine month period ended September 30, 2011 was $1,698 compared to $1,152 for the nine month period ended September 30, 2010, due to higher income from operations.

EBITDA

EBITDA for the nine month period ended September 30, 2011 increased $305 to $14,853 from $14,548 for the nine month period ended September 30, 2010, as a result of increased product pricing and production, offset by higher cost of sales and overhead costs. See the EBITDA calculation in "Non-IFRS Measures - Reconciliation of Net Earnings to EBITDA."

Selected Statement of Financial Position Data

	September 30, 2011	**December 31, 2010**
Total assets	$117,444	$104,660
Total liabilities	($76,559)	($68,429)
Shareholders' equity	($40,885)	($36,231)

Non-IFRS Measures

References in this MD&A to "EBITDA" are to earnings before interest, taxes, depreciation, amortization, foreign currency exchange gains and losses on translation of long-term debt, unrealized gains on the changes in the value of derivative instruments, unrealized change in biological asset, stock compensation, costs on conversion and gains and losses on asset sales. EBITDA is a cash flow measure that is not recognized under International Financial Reporting

Standards ("IFRS") and does not have a standardized meaning prescribed by IFRS. Therefore, EBITDA may not be comparable to similar measures presented by other issuers. Investors are cautioned that EBITDA should not be construed as an alternative to net income or loss determined in accordance with IFRS as an indicator of the Company's performance or to cash flows from operating, investing and financing activities as measures of liquidity and cash flows. Management believes that EBITDA is an important measure in evaluating the historical performance of the Company.

Reconciliation of Net Earnings to EBITDA

The following table is the calculation of net income to EBITDA:

(in thousands of U.S. dollars, unaudited)	**For the three months ended September 30,**		**For the nine months ended September 30,**	
	2011	**2010**	**2011**	**2010**
Net (loss) income	($544)	$131	$4,832	$3,250
Add:				
Amortization	1,453	1,457	4,364	4,314
Foreign currency exchange (gain) loss	49	(100)	12	45
Interest expense, net	747	699	2,202	2,078
Income taxes	340	(171)	1,698	1,152
Stock compensation	89	20	148	56
Derivatives	(271)	117	(660)	536
Change in biological asset	2,170	(1,055)	2,271	2,787
(Gain) loss on disposal of assets	-	-	(14)	330
EBITDA	$4,033	$1,098	$14,853	$14,548

Liquidity

Cash flows

The Company expects to provide adequate financing to maintain and improve its property, plant and equipment and to fund working capital needs for the foreseeable future from cash flows from operations and, if needed, from additional borrowings under its existing credit facility or other long-term facilities, including capital leases.

For the three months ended September 30, 2011, cash flows from operating activities before changes in non-cash working capital and change in biological asset totalled $667 (2010 – ($2,491)) and for the nine months ended September 30, 2011 was $9,875 (2010 - $8,396).

Capital expenditures totalled ($16,066) for the three months ended September 30, 2011 (2010 – ($516)) and ($23,680) for the nine months ended September 30, 2011 (2010 – $1,863). The significant increase is solely due to the new greenhouse the Company is in the process of building in Monahans, Texas.

The Company has commenced construction of a new 30-acre greenhouse based on its GATES™ technology. The total expected construction cost is $43.0 million, of which $38.6 million is expended to be spent in calendar year 2011. The balance will be incurred in the spring and summer of 2012 when growing lights are installed, for the fall 2012 growing season. Through October 31, 2011 the Company has spent approximately $25.1 million on this project. The costs to date have been paid for with available cash and new term loan funding. See "Credit Facilities" under the "Liquidity" section for further discussion. Based on what the Company has spent to date and the new credit facilities, the Company is confident that it has adequate financing to complete the new greenhouse.

The cash received by (used in) financing activities for the three months ended September 30, 2011 totalled $8,513 (2010 - ($875)), and $6,670 for the nine months ended September 30, 2011 (2010 – ($2,651)). These primarily consisted of additional borrowings of $8,916 for the three and nine months ended September 30, 2011 offset by debt payments of ($338) for the three months ended September 30, 2011 (2010 – ($815)) and ($1,968) for the nine months ended September 30, 2011 (2010 – ($2,449)).

Capital Resources

(in thousands of US dollars unless otherwise noted, unaudited)	**Maximum**	**Outstanding September 30, 2011**
Operating Loan	CA$15,000	$-
Term Loan 1	$49,500	$49,500
Term Loan 2	$28,000	$8,916
FX Facility	-	-

On September 30, 2011 the Company signed a new credit facility agreement with its existing Canadian lenders (the "Credit Facility"). As part of the agreement, all prior debt was repaid prior to the issuance of new term loan funding. A summary of some of the details of the new Credit Facility are as follows:

Credit Facility:

- 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 $49,500 with a maturity date on September 30, 2014 ("Term Loan 1");
- Non-revolving variable rate term loan with a balance of $8,916 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 September 30, 2011 (December 31, 2010 – nil).

Term Loan 1 was fully drawn as at September 30, 2011. The outstanding balance of Term Loan 1 is repayable by way of monthly installments of principal and interest based on an amortization over a period of 17 years, with the balance and any accrued interest to be paid in full on September 30, 2014. Monthly principal payments on Term Loan 1 will be $243. As at September 30, 2011 borrowings under the Term Loan 1 agreement are subject to LIBOR plus 3.25% (effective rate of 3.49% as at September 30, 2011 (December 30, 2010 - 2.625%)).

Term Loan 2 has a maximum draw of up to $28,000. The outstanding balance as at September 30, 2011 is $8,916 currently with interest only payments up to December 31, 2011 afterwards by way of monthly installments of principal and interest based on an amortization over a period of 20 years, with the balance and any accrued interest to be paid in full on September 30, 2014. As at September 30, 2011 borrowings under the Term 2 Loan agreement are subject to LIBOR plus 3.25% (effective rate of 3.49% as at September 30, 2011 (December 31, 2010 - 2.625%)).

Interest payable on funds borrowed under the credit facility are calculated by way of one or more of Canadian Prime Rate borrowings, U.S. Base Rate borrowings, LIBOR, Credit Instrument Borrowings or Bankers Acceptances Borrowings. Currently, the Company is using LIBOR for all borrowings.

Accrued interest payable on the credit facility as at September 30, 2011 was $12 (December 31, 2010 - $13) and these amounts are included in accrued liabilities in the statement of financial position. The Company has entered into a fixed for floating rate interest rate swap as described in Note 12 effectively fixing its interest rate on the Term Loans at 6.32%. The borrowings are subject to certain positive and negative covenants. As at September 30, 2011 and December 31, 2010 the Company was in compliance with all covenants on all of its Credit Facility.

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 September 30, 2011 was $117,444 (December 31, 2010 - $104,660).

Contractual Obligations and Commitments

Information regarding the Company's contractual obligations at September 30, 2011 is set forth in the table below:

(in thousands of US dollars - unaudited)	**Total**	**Less than 1 year**	**2-3 years**	**4-5 years**	**More than 5 years**
Long-term debt	$58,416	$3,209	$55,207	$-	$-
Operating leases	6,905	1,357	2,640	1,313	1,594
Total	$65,321	$4,566	$57,847	$1,313	$1,594

US Greenhouse expansion - Monahans Texas

The Company has entered into a preliminary agreement for a greenhouse expansion project in Monahans,Texas. The estimated cost of the project is $43.2 million with $38.6 million of the expenditures occurring in fiscal 2011, the remaining expenditures to occur in the spring or summer of 2012. Harvesting at the new greenhouse is projected to start in the first quarter of 2012.

Capital Expenditures

During the three and nine month periods ended September 30, 2011, the Company purchased approximately $15,653 and $23,267 of capital assets; respectively. These capital expenditures are primarily related to our US greenhouse expansion in Monahans, Texas, and were financed from cash from operations and the Company's new Credit Facility.

Management expects new capital expenditures to support its strategic plan of achieving cost efficiencies through increased productivity of capital assets. Management may elect, where appropriate, to sell inefficient or non-strategic assets to produce cash to wholly or partially finance new capital expenditures. The Company will also borrow to maintain, improve and replace capital assets when the return on such investments exceeds targeted thresholds for internal rates of return. There can be no assurance, however, that sources of financing will be available, or will be available on terms favourable to the Company, or that these strategic initiatives will achieve adequate cost reduction in actual implementation or in light of the competitive pressures on the cost of raw materials and other factors of production. However, management believes that capital resources available to the Company will be sufficient to support its capital expenditures.

During the three and nine month periods ended September 30, 2011, the Company incurred $412 and $1,261, respectively, in costs to maintain its capital assets. Management estimates approximately $1,650 of annual costs to maintain the Company's capital assets.

Summary of Quarterly Results

For the three months ended:

(in thousands, except per share amounts, unaudited)	Sept 30, 2011	Jun 30, 2011	Mar 31, 2011	Dec 31, 2010	Sep 30, 2010	Jun 30, 2010	Mar 31, 2010	Dec 31, 2009(1)
Revenue	$43,715	$53,649	$32,341	$31,703	$35,487	$46,476	$31,102	$33,597
Net earnings (loss)	($218)	$538	$4,512	$1,006	$131	($1,633)	$4,751	9,179
Basic earnings (loss) per Share	($0.01)	$0.01	$0.12	$0.03	$0.00	($0.04)	$0.12	$0.24
Diluted earnings (loss) per Share	($0.01)	$0.01	$0.12	$0.03	$0.00	($0.04)	$0.12	$0.24

(1) Information for periods ended prior to January 1, 2010 is presented in accordance with Canadian GAAP.

The Company's Canadian operations peak production period is in the summer months, with no production during the winter season. As a result, prices for products from the Company's Canadian operations have historically followed a seasonal trend of higher prices at the start and end of its crop year, with lower prices in the summer months when the supply of product is greatest. Conversely, the Company's U.S. operations winter production allows it to realize higher margins during the November through March period, when the reduced supply of greenhouse produce in North America generally results in higher produce prices. The complementary nature of the growing seasons of the Company's Canadian and U.S. operations is expected by management of the Company to contribute to more predictable and stable cash flows for the Company throughout the year.

Financial Instruments and Risk Management

Risk Management

The Company is exposed to the following risks as a result of holding financial instruments: market risk, credit risk, interest rate risk, foreign exchange risk and liquidity risk. The following is a description of these risks and how they are managed by the Company.

Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in the market place.

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 no customers who represent more than 10%, of the balance of such receivables as at September 30, 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 includes 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.

At September 30, 2011, 91.9% (December 31, 2010 – 88.6%) of trade receivables were outstanding less than 30 days, 7.5% (December 31, 2010 – 10.5%) were outstanding for between 30 and 90 days and the remaining 0.6% (December 31, 2010 – 0.9%) 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.

Given the current economic environment, trade receivables for each customer at quarter 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 September 30, 2011, the allowance for doubtful accounts balance was $254 (December 31, 2010 - $254). In addition, the Company recorded a bad debt expense of $nil during the three and nine months ended September 30, 2011 (three and nine months ended September 30, 2010 – $nil).

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 uses derivative instruments to reduce market exposures from changes in interest rates. The Company uses derivative instruments only for risk management purposes and not for generating trading profits.

Environmental, Health and Safety Risk

The Company's operations are subject to national, regional and local environmental, health and safety laws and regulations governing, among other things, discharge to air, land and water, the handling and storage of fresh produce, waste disposal, the protection of employee health, safety and the environment. The Company's greenhouse facilities could experience incidents, malfunctions or other unplanned events that could result in discharges in excess of permitted levels resulting in personal injury, fines, penalties or other sanctions and property damage. The Company must maintain a number of environmental and other permits from various governmental authorities in order to operate. Failure to maintain compliance with these requirements could result in operational interruptions, fines or penalties, or the need to install potentially costly pollution control technology. Compliance with current and future environmental laws and regulations, which are likely to become more stringent over time, including those governing greenhouse gas emissions, may impose additional capital costs and financial expenditures, which could adversely affect the Company's operational results and profitability.

The Company is committed to protecting the health and safety of employees and the general public, and to sound environmental stewardship. The Company believes that prevention of incidents and injuries, and protection of the environment, benefits everyone and delivers increased value to its shareholders, customers and employees. The Company has health and safety and environmental management and systems and has established policies, programs and practices for conducting safe and environmentally sound operations. Regular reviews and audits are conducted to assess compliance with legislation and Company policy.

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 September 30, 2011:

(in thousands of US dollars – unaudited) Financial liabilities	Contractual cash flows	0 to 12 months	12 to 24 months	After 24 months
Accounts payable and accrued liabilities	$12,793	$12,793	$-	$-
Bank debt	58,416	3,209	3,209	51,998
	$71,209	$16,002	$3,209	$51,998

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 September 30, 2011, $nil was outstanding on the line of credit, and letters of credit, of $945 and CA$124, 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 as discussed in the Liquidity section of the MD&A under "Financing Commitments".

Fair values

The carrying amount of short-term financial instruments, less provisions for impairment if applicable, is used to estimate the fair value of such instruments. The Company's debt bears a variable interest rate and therefore its carrying value approximates its fair value. The fair value of derivatives is determined based on published interest rates and contractual terms of the interest rate swap agreements. These swaps are subject to counterparty credit risk and the term of the swaps extend beyond the current loan agreement. The Company has entered into the agreements with a Canadian chartered bank to reduce the credit risk. The Company has two fixed for floating interest rate swap agreements, effective from January 25, 2008 through January 25, 2013, in the notional amount of $39,700 in order to reduce the interest rate variability on its CAN Capital Loan. The Company has effectively fixed its interest expense on Term Loan 1 at 6.319%. The Company recognized a gain of $271 for the three months ended September 30, 2011 (2010 - a loss of $117) and a gain of $660 for the nine months ended September 30, 2011 (2010 – a loss of 536). This represents 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, 2011 was a liability of $1,380 (December 31, 2010 – $2,340). The interest rate swap agreements that remained outstanding at September 30, 2011 were as follows:

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

Outlook

Overview

Management is committed to employing its strategies with the goal of continuously delivering value to its shareholders. Management's objective is continuous improvement, which equates to continuous revenue growth coupled with effective cost management. The Company will continue to look for ways to expand its operations and increase its market share. The Company's strengths include the following: organic growth, growth through strategic acquisition, growth through exclusive marketing agreements with other greenhouse operations, strong competitive position, a solid customer base and disciplined cost control. Management of the Company remains committed to actively managing these strengths in the future.

Overall, management expects demand for fresh produce to increase over the prior year. EBITDA on these products should exceed the 2010 full year results. Management is focused on a stronger emphasis on retailer contracts and improvements in the Company's channel mix to improve gross margin.

Management does not believe current credit markets will have a material adverse effect on the Company's current operations.

Growth expenditures

The Company has completed its financing commitment for the Monahans, Texas greenhouse facility in the United States. The greenhouse will employ the closed greenhouse system GATES™ that the Company has been testing for the last four years in its GATES™ research greenhouse located in Marfa, Texas.

The Company has paid $25,106 through October 31, 2011 in capital asset additions through operating cash flows for the Monahans, Texas greenhouse and is expecting to spend $43 million, with $38.6 million in 2011. The greenhouse is expected to be operational by the end of fiscal 2011.

Growth expenditures represent capital and greenhouse asset additions required to meet the demands of growth or expenditures that specifically benefit a future period or periods. For the remainder of 2011, management expects to incur growth expenditures that will benefit a future period or periods and to grow the Company's greenhouse operations.

Financing strategic growth

One of management's principal objectives is to grow organically and through strategic acquisitions. Growth is dependent on the Company's ability to access debt and equity in the capital markets. Any restrictions will affect the Company's growth objective.

Internal Control over Financial Reporting

Disclosure Controls and Procedures

National Instrument 52-109("NI52-109") - *Certification of Disclosure in Issuers' Annual and Interim Filings*, issued by the Canadian Securities Administrators (the "CSA") requires Chief Executive Officers ("CEO") and Chief Financial Officers ("CFO") to certify, among other things, that they are responsible for establishing and maintaining disclosure controls and procedures for the issuer, that disclosure controls and procedures have been designed to provide reasonable assurance that material information relating to the issuer is made known to them, that they have evaluated the effectiveness of the issuer's disclosure controls and procedures, and that their conclusions about the effectiveness of those disclosure controls and procedures at the end of the period covered by the relevant annual filings have been disclosed by the issuer.

As at September 30, 2011, the Company's management evaluated the effectiveness of the Company's disclosure controls and procedures, as defined under rules adopted by the CSA. This evaluation was performed under the supervision of, and with the participation of, the Company's CEO and CFO.

The Company's management, including the CEO and CFO, does not expect that the Company's disclosure controls and procedures will prevent or detect all errors and all fraud. The inherent limitations in all control systems are such that they can provide only reasonable, not absolute, assurance that all control issues and instances of fraud or error, if any, within the Company have been detected.

Based on this evaluation, the CEO and CFO of the Company have concluded that, subject to the inherent limitations noted above, the Company's disclosure controls and procedures are effective in providing reasonable assurance that the objectives of the Company's disclosure control system have been met.

Internal Control over Financial Reporting

NI 52-109 also requires CEOs and CFOs to certify, among other things, that they are responsible for establishing and maintaining internal controls over financial reporting for the issuer, that those internal controls have been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with Canadian generally accepted accounting principles, and that the issuer has disclosed any changes to its internal controls during its most recent period that has materially affected, or is reasonably likely to materially affect, its internal control over financial reporting.

As at September 30, 2011, the Company's management evaluated the effectiveness of the Company's internal control over financial reporting, as defined under rules adopted by the CSA. This evaluation was performed under the supervision of, and with participation of, the Company's CEO and CFO.

The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Internal control over financial reporting, no matter how well designed has inherent limitations. Therefore, internal control over financial reporting can provide only reasonable, not absolute, assurance with respect to financial statement preparation and may not prevent or detect all misstatements.

Based on this evaluation, the Company's CEO and CFO have concluded that, subject to the inherent limitations noted above, the Company's internal control over financial reporting is effective in providing reasonable not absolute assurances regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

There were no changes in the Company's internal control over financial reporting during the three months ended September 30, 2011 that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Risks and Uncertainties

The Company is subject to various risks and uncertainties which are summarized below. Additional details are contained in the Company's current Annual Information Form filed on SEDAR, which can be accessed electronically at *www.sedar.com*.

Risks Relating to the Company

- Product Pricing
- Construction Risk

- Maintain Profitability
- Risks Inherent in the Agricultural Business
- Natural Catastrophes
- Vulnerability to Rising Energy Costs
- Competition
- Labour
- Foreign Exchange Exposure
- Key Executives
- Uninsured and Underinsured Losses
- Environmental, health and safety risk
- Governmental Regulations
- Risks Associated with Cross Border Trade
- Growth
- Accounting Estimates
- Retail Consolidation
- Product Liability
- Technological Advances
- Transportation Disruptions
- Dependence Upon Credit Facilities
- Risks of Regulatory Change
- Future Sales of Common Shares by or on Behalf of the Village Farms Owners

Risks Related to Tax

- Potential U.S. Permanent Establishment of VF Canada GP, VFCLP and VFF
- Advances by VF Operations Canada Inc. to U.S. Holdings
- Participating Preferred Shares
- Transfer Pricing

Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements.

Critical Accounting Estimates

Accounts Receivable

Accounts receivable are measured at amortized cost and due within contractual payment terms and are stated at amounts due from customers net of an allowance for doubtful accounts. Credit is extended based on an evaluation of a customer's financial condition. Accounts outstanding longer than the contractual payment terms are considered past due. The Company determines its allowance by considering a number of factors, including the length of time trade accounts receivable are past due, the Company's previous loss history and the customer's current ability to pay its obligation to the Company. The Company writes off accounts receivable when they become uncollectible, and payments subsequently received on such receivables are credited to the bad debt expense.

Inventories

Inventories of Company-grown produce consist of raw materials, labour and overhead costs incurred less costs charged to cost of sales throughout the various crop cycles, which end at various times throughout the year. Growing crops are valued at the lower of cost or net realizable value which is determined as sales less estimated cost of completion and cost to sell. Cost of sales is based upon incurred and estimated costs to be incurred of each crop allocated to both actual and estimated future yields over each crop cycle. The cost of produce inventory purchased from third parties is valued at the lower of cost or net realizable value which approximates replacement cost

Biological Assets

Biological assets consist of the Company's produce on the vines at the period end. The produce on the vine is measured at fair value less costs to sell, 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.

Income Taxes

The Company utilizes the assets and liability method of accounting for income taxes under which future income tax assets and liabilities are recognized for the estimated future income tax consequences attributable to differences between the financial statement carrying value amount and the tax basis of assets and liabilities. Management uses judgment and estimates in determining the appropriate rates and amounts in recording future taxes, giving consideration to timing and probability. Actual taxes could significantly vary 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.

Future income tax assets are recognized to the extent that realization is considered more likely than not. The Company considers past results, current trends and outlooks for future years in assessing realization of income tax assets.

Impairment of Financial and Non-Financial Assets

Financial and Non-Financial assets are tested at each reporting date for impairment and whenever circumstances indicate that the carrying value may not be recoverable. When events or circumstances indicate that the carrying value of long-lived assets, other than indefinite life intangibles, are not recoverable, the long-lived assets are tested for impairment by comparing the estimate of future expected cash flows to the carrying amount of the assets or groups of assets. If the carrying value of long-lived assets is not recoverable from future expected cash flows, any loss is measured as the amount by which the asset's carrying value exceeds fair value and recorded in the period. Recoverability is assessed relative to undiscounted cash flows from the direct use and disposition of the asset or group of assets.

The Company performed the asset recoverability tests using discounted cash flows and grouped the definite lived assets at the lowest level for which the Company determined. Identifiable cash flows are largely independent of the cash flows of other assets and liabilities. This was determined to be the Canadian and U.S. operations. The cash flow analysis did not extend beyond the remaining useful life of the assets which was estimated as the remaining amortization period of the greenhouse assets in the Canadian and U.S. operations. Internal forecasts were used to derive revenues, cost of sales and other expenditures associated with the Canadian and U.S. operations. The forecasts reflected the market price of tomatoes and gross margins percentages consistent with those that have historically been realized.

Due to the above-noted considerations, which are based on the Company's best available information, the Company has not recorded any impairment charge on its non-financial assets in the three or nine months ended September 30, 2011. However, given the current state of the economy, the Company expects to continue to perform asset recoverability tests in future periods.

Property, Plant and Equipment – Useful Lives

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.

Intangible Assets

The intangible assets of the Company were recorded at their estimated fair values at October 18, 2006. Intangible assets are subject to impairment tests under IFRS at each reporting period or when events or circumstances indicate a potential impairment. If the carrying value of such assets exceeds the fair values, the assets are written down to fair value. No write down was required as at September 30, 2011.

Changes in Accounting Policies

Future Accounting Changes

International Financial Reporting Standard 9, Financial Instruments ("IFRS 9")

IFRS 9 was issued in November 2009 and contained requirements for financial assets. This standard addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments, and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where such equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent not clearly representing a return of investment, are recognized in profit or loss; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely.

Requirements for financial liabilities were added in October 2010 and they largely carried forward existing requirements in IAS 39, *Financial Instruments – Recognition and Measurement*, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss would generally be recorded in other comprehensive income.

International Financial Reporting Standards 10 – Consolidation ("IFRS 10")

IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement 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.*

International Financial Reporting Standards 11 – Joint Arrangements ("IFRS 11")

IFRS 11 requires a venture 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 venture 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 interests in joint ventures. IFRS supersedes IAS 31, *Interest in Joint Ventures*, and SIC-13, *Jointly Controlled Entities-Non-monetary Contributions by Ventures*.

International Financial Reporting Standards 12 – Disclosure of Interests in Other Entities ("IFRS 12")

IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities.

International Financial Reporting Standards 13 – Fair Value Measurement ("IFRS 13")

IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures.

These standards are required to be applied for accounting periods beginning on or after January 1, 2013, with earlier adoption permitted. The Company has not yet assessed the impact of these standards or determined whether it will adopt these standards early.

Transition to IFRS

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, the Company has commenced reporting on this basis. The effect of the Company's transition to IFRS is summarized as follows:

(i) **Transition Elections**

The Company has applied the following transition exceptions and exemptions to 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 elect 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.**

	Note 5(iii)	December 31, 2010 Canadian GAAP	Adjustments	IFRS	September 30, 2010 Canadian GAAP	Adjustments	IFRS
Assets							
Current assets:							
Cash and cash equivalents		$9,734		$9,734	$12,236		$12,236
Trade receivables		8,131		8,131	9,956		9,956
Other receivables		510		510	558		558
Inventories	a	12,810	(2,096)	10,714	11,382	(3,602)	7,780
Assets held for sale		407		407	407		407
Income taxes receivable		775		775	-		-
Prepaids and deposits		801		801	705		705
Biological asset	a	-	5,223	5,223	-	5,960	5,960
Total current assets		33,168	3,127	36,295	35,244	2,358	37,602
Non-current assets:							
Property, plant and equipment		62,972		62,972	63,488		63,488
Deferred tax asset	b	2,967		2,967	3,216	(451)	2,765
Intangible assets		1,301		1,301	1,327		1,327
Other assets		1,125		1,125	936		936
Total assets		$101,533	$3,127	$104,660	$104,211	$1,907	$106,118
Liabilities							
Current liabilities:							
Trade AP and accrued liabilities	b	$9,774	($24)	$9,750	$12,182	($18)	$12,164
Income taxes payable	b	-	24	24	-	18	18
Current maturities of l/t debt		3,260		3,260	3,260		3,260
Current portion of capital leases		264		264	301		301
Total current liabilities		13,298	-	13,298	15,743	-	15,743
Non-current liabilities							
Long-term debt		48,208		48,208	49,023		49,023
Derivatives		2,340		2,340	2,628		2,628
Obligations under capital leases		14		14	42		42
Deferred tax liability	b	3,474	1,095	4,569	3,210	261	3,471
Total liabilities		67,334	1,095	68,429	70,646	261	70,907
Shareholders' equity:							
Share capital		24,850		24,850	24,850		24,850
Contributed surplus	c	40	35	75	30	26	56
Accumulated other comp income		55		55	55		55
Retained earnings	d	9,254	1,997	11,251	8,630	1,620	10,250
Total shareholders' equity		34,199	2,032	36,231	33,565	1,646	35,211
Total liabilities and equity		$101,533	$3,127	$104,660	$104,211	$1,907	$106,118

	Note	Three months ended September 30, 2010			Nine months ended September 30, 2010		
		Canadian GAAP	Adj	IFRS	Canadian GAAP	Adj	IFRS
Net sales		$35,487		$35,487	$113,065		$113,065
Cost of sales		(33,492)		(33,492)	(94,582)		(94,582)
Change in biological asset	**a**	-	1,055	1,055	-	(2,787)	(2,787)
Selling, general and administrative expenses	**c**	(3,409)	(9)	(3,418)	(9,580)	(26)	(9,606)
Income (loss) from operations		(1,414)	1,046	(368)	8,903	(2,813)	6,090
Interest expense, net		699		699	2,078		2,078
Foreign exchange loss		(100)		(100)	45		45
Amortization of intangible assets		26		26	78		78
Loss on derivatives		117		117	536		536
Other (income)		(1,070)		(1,070)	(1,379)		(1,379)
Loss on disposal of asset		-		-	330		330
Earnings before income taxes		(1,086)	1,046	(40)	7,215	(2,813)	4,402
Provision (recovery) of income taxes	**b**	(534)	363	(171)	2,241	(1,089)	1,152
Net income and comprehensive income		(552)	683	131	4,974	(1,724)	3,250
Earnings per share - basic		$ (0.01)	$ 0.01	$ (0.00)	$ 0.13	$ (0.05)	$ 0.08
Number of shares outstanding - basic		38,707,345		38,707,345	38,707,345		38,707,345
Earnings per share - diluted		$ (0.01)	$ 0.01	$ (0.00)	$ 0.13	$ (0.05)	$ 0.08
Number of shares outstanding - diluted		39,057,344		39,057,344	39,057,344		39,057,344

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. These vines are measured as the fair value of the produce on the vine less costs to sell and finishing costs.

(b) Future income taxes

The Company evaluated the impact of IAS 12 *Income Tax* on its reported results and took into consideration the change in future income taxes caused by the reporting of both the additional share based compensation costs and the biological assets. The changes in the statement of financial position, income statement and equity reflect the application of IAS 12 and IAS 41.

The re-classification between income taxes payable and trade accounts payable reflects the requirements of IAS 12 to separately disclose state taxes payable.

(c) Share based compensation and contributed surplus

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, $9 for the three months ended September 30, 2010 and $26 for the nine months ended September 30, 2010. This amount is recorded in both retained earnings and contributed surplus.

(d) Retained earnings Reconciliation

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

	Note	Dec 31, 2010	Sep 30, 2010
Retained earnings as reported under Canadian GAAP		$ 9,254	$ 8,630
IFRS adjustments increase (decrease):			
Change in fair value of biological asset	a	5,223	5,960
Change in inventories	a	(2,096)	(3,602)
Provision for income tax	b	(1,095)	(712)
Share-based compensation	c	(35)	(26)
Retained earnings as reported under IFRS		$ 11,251	$ 10,250

(iii) **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.

Related Party Transactions

As at September 30, 2011, included in other assets is a $378 promissory note from an employee of the Company in connection with a relocation agreement. The note is secured by real property.

Outstanding Share Data

The beneficial interests in the Company are currently divided into interests of three classes, described and designated as "Common Shares", "Special Shares" and "Preferred Shares", respectively. An unlimited number of Common Shares, Special Shares and Preferred Shares are issuable pursuant to VFF's constating documents.

As of the date hereof, VFF has outstanding: (i) 19,433,394 Common Shares carrying the right to one vote at a meeting of voting shareholders of VFF; (ii) 19,273,951 Special Shares carrying the right to one vote at a meeting of voting shareholders of VFF; 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 then outstanding; and (iii) nil (0) Preferred Shares.

As of the date hereof, VF U.S. Holdings Inc., which holds all of the Special Shares, has 192,739.51 Participating Preferred Shares outstanding which, if exchanged for Shares of VFF pursuant to certain exchange rights, would be exchangeable for 19,273,951 Common Shares of the Company.

For further details on the structure of the Company or the rights attached to each of the above-mentioned securities, please refer to the Company's current Annual Information Form dated March 25, 2011 which is available electronically at www.sedar.com.

Forward-looking Statements

This MD&A contains certain "forward looking statements". These statements, including those set out under "Outlook", relate to future events or future performance and reflect the Company's expectations regarding its growth, results of operations, performance, business prospects, opportunities or industry performance and trends, including the Company's expectations for 2011 performance. These forward looking statements reflect the Company's current internal projections, expectations or beliefs and are based on information currently available to the Company. In some cases, forward looking statements can be identified by terminology such as "may", "will", "should", "expect", "plan", "anticipate", "believe", "estimate", "predict", "potential", "continue" or the negative of these terms or other comparable terminology. A number of factors could cause actual events or results to differ materially from the results discussed in the forward-looking statements. In evaluating these statements, you should specifically consider various factors, including, but not limited to, such risks and uncertainties as availability of resource, competitive pressures and changes in market activity, risks associated with U.S. and international sales and foreign exchange, regulatory requirements and all of the other matters discussed under "Risk Factors" and elsewhere in this MD&A. Actual results may differ materially from any forward-looking statement. Although the Company believes that the forward-looking statements contained in this MD&A are based upon reasonable assumptions, you cannot be assured that actual results will be consistent with these forward-looking statements. These forward-looking statements are made as of the date of this MD&A, and other than as specifically required by applicable law, the Company assumes no obligation to update or revise them to reflect new events or circumstances.

Public Securities Filings

You may access other information about the Company, including its current Annual Information Form and other disclosure documents, reports, statements or other information that it files with the Canadian securities regulatory authorities, through SEDAR at www.sedar.com.