

**Village Farms International, Inc.**  
**Consolidated Condensed Interim Financial Statements**  
**Three Months Ended**  
**March 31, 2012 and 2011**

## **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.**  
**Consolidated Condensed Statement of Financial Position**  
(In thousands of United States dollars, unaudited)

	<u>March 31, 2012</u>	<u>December 31, 2011</u>
<b>ASSETS</b>		
<i>Current assets</i>		
Cash and cash equivalents	\$ 836	\$ 2,865
Trade receivables	8,415	8,579
Other receivables	419	512
Inventories (note 6)	15,766	11,624
Assets held for sale (note 5)	407	407
Prepays and deposits	1,039	590
Biological asset (note 7)	<u>6,677</u>	<u>5,572</u>
Total current assets	33,559	30,149
<i>Non-current assets</i>		
Property, plant and equipment (note 8)	101,841	97,601
Deferred tax asset	689	689
Intangible assets (note 9)	1,172	1,198
Other assets (note 10)	<u>1,487</u>	<u>1,381</u>
Total assets	<u>\$ 138,748</u>	<u>\$ 131,018</u>
<b>LIABILITIES</b>		
<i>Current liabilities</i>		
Trade payables	\$ 11,890	\$ 10,440
Accrued liabilities	3,146	3,211
Income taxes payable	8	22
Line of Credit (note 11)	2,878	-
Current maturities of long-term debt (note 11)	4,312	4,312
Current portion of derivatives (note 12)	<u>1,063</u>	<u>1,235</u>
Total current liabilities	23,297	19,220
<i>Non-current liabilities</i>		
Long-term debt (note 11)	69,861	65,543
Derivatives (note 12)	-	51
Deferred tax liability (note 18)	3,661	3,931
Other liabilities	<u>289</u>	<u>-</u>
Total liabilities	<u>97,108</u>	<u>88,745</u>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (note 22)	24,850	24,850
Contributed surplus	371	312
Accumulated other comprehensive income	55	55
Retained earnings	<u>16,364</u>	<u>17,056</u>
Total shareholders' equity	<u>41,640</u>	<u>42,273</u>
Total liabilities and shareholders' equity	<u>\$ 138,748</u>	<u>\$ 131,018</u>

Contingencies (note 21)

**Approved by the Board of Directors**

/s/ John P. Henry, Director

/s/ Christopher C. Woodward, Director

*The accompanying notes are integral part of these consolidated interim financial statements*

**Village Farms International, Inc.**  
**Consolidated Condensed Statement of Changes in Shareholders' Equity**  
**For the Three months Ended March 31, 2011 and March 31, 2012**  
(In thousands of United States dollars, except for shares outstanding, unaudited)

	Common Shares	Share Capital	Contributed Surplus	Retained earnings	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance at January 1, 2011	19,433,394	24,850	75	11,251	55	36,231
Share-based compensation (note 25)			10			10
Net income and comprehensive income for the period ended March 31, 2011				4,512		4,512
Balance at March 31, 2011	<u>19,433,394</u>	<u>\$ 24,850</u>	<u>\$ 85</u>	<u>\$15,763</u>	<u>\$ 55</u>	<u>\$ 40,753</u>
Balance at January 1, 2012	19,433,394	24,850	312	17,056	55	42,273
Share-based compensation (note 25)			59			59
Net income and comprehensive income for the period ended March 31, 2012				(692)		(692)
Balance at March 31, 2012	<u>19,433,394</u>	<u>\$ 24,850</u>	<u>\$ 371</u>	<u>\$16,364</u>	<u>\$ 55</u>	<u>\$ 41,640</u>

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

**Village Farms International, Inc.**  
**Consolidated Condensed Statement of Income and Comprehensive Income**  
**For the Three Months Ended**  
**(In thousands of United States dollars, except per share data, unaudited)**

	<u>March 31, 2012</u>	<u>March 31, 2011</u>
Net sales	\$ 28,192	\$ 32,341
Cost of sales	(23,684)	(25,601)
Change in biological asset (note 7)	(1,214)	2,978
Selling, general and administrative expenses	<u>(3,585)</u>	<u>(3,508)</u>
Income (loss) from operations	(291)	6,210
Interest expense	960	728
Interest income	(2)	(12)
Foreign exchange (gain) loss	7	(62)
Amortization of intangible assets (note 9)	26	26
(Gain) loss on derivatives (note 12)	(223)	(282)
Other income, net	(124)	(183)
(Gain) loss on disposal/sale of assets	<u>-</u>	<u>(14)</u>
Income before income taxes	(935)	6,009
(Recovery of) Provision for income taxes (note 18)	<u>(243)</u>	<u>1,497</u>
Net income (loss) and comprehensive income (loss)	<u>(692)</u>	<u>4,512</u>
Basic (loss) earnings per share	<u>\$ (0.02)</u>	<u>\$ 0.12</u>
Diluted (loss) earnings per share	<u>\$ (0.02)</u>	<u>\$ 0.12</u>

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**Village Farms International, Inc.**  
**Consolidated Condensed Statement of Cash Flow**  
**For the Three Months Ended**  
**(In thousands of United States dollars, unaudited)**

	<u>March 31, 2012</u>	<u>March 31, 2011</u>
<b>Cash flows from operating activities:</b>		
Net income	(\$692)	\$4,512
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,893	1,453
Gain (loss) on sale of assets	-	(14)
Gain (loss) on derivatives	(223)	(282)
Foreign exchange (gain) loss	-	(62)
Net interest expense	958	716
Share based compensation (note 25)	59	10
Deferred income taxes	(270)	1,457
Change in biological asset (note 7)	1,214	(2,978)
Changes in non-cash working capital items (note 19)	(5,281)	(7,722)
Net cash (used in) provided by operating activities	<u>(2,342)</u>	<u>(2,910)</u>
<b>Cash flows from investing activities:</b>		
Purchases of property, plant and equipment	(6,108)	(388)
Proceeds from sale of property, plant and equipment	-	37
Other	183	(155)
Net cash used in investing activities	<u>(5,925)</u>	<u>(506)</u>
<b>Cash flows from financing activities:</b>		
Proceeds from line of credit	2,878	-
Proceeds from (payments on) long-term debt	4,318	(815)
Interest paid on debt	(960)	(728)
Interest income	2	12
Payments on obligations under capital leases	-	(161)
Net cash used in financing activities	<u>6,238</u>	<u>(1,692)</u>
Effect of exchange rate changes on cash and cash equivalents	<u>-</u>	<u>62</u>
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(2,029)</b>	<b>(5,046)</b>
<b>Cash and cash equivalents beginning of period</b>	<b>2,865</b>	<b>9,734</b>
<b>Cash and cash equivalents end of period</b>	<b><u>\$836</u></b>	<b><u>\$4,688</u></b>
<b>Supplemental cash flow information:</b>		
Income taxes paid	<u>\$27</u>	<u>\$33</u>

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

# VILLAGE FARMS INTERNATIONAL, INC.

Notes to Consolidated Condensed Financial Statements for the Three Months Ended March 31, 2012 and 2011  
(in thousands of United States dollars, except per share amounts and unless otherwise noted)

## 1 NATURE OF OPERATIONS

Village Farms International, Inc. (“VFF” the parent company and, together with its subsidiaries, the “Company”) is incorporated under the *Canada Business Corporation Act*. VFF’s principal operating subsidiaries at March 31, 2012 are Village Farms Canada Limited Partnership (“VFCLP”), Village Farms, L.P. (“VFLP”) and Village Farms DR, SLR (“VFDR”). The address of the registered office of VFF is 4700 80<sup>th</sup> Street, Delta, British Columbia, Canada, V4K 3N3.

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

The Company, through its subsidiaries VFCLP and VFLP, owns and operates sophisticated, highly intensive agricultural greenhouse facilities in British Columbia and Texas, where it produces, markets and sells premium-quality tomatoes, bell peppers and cucumbers. The Company also markets and sells third party produce through its subsidiaries.

## 2 BASIS OF PRESENTATION

### Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34, “Interim Financial Reporting” (“IAS 34”) as issued by the International Accounting Standards Board, and as such, do not include all of the disclosures that would be included in annual consolidated financial statements.

### Basis of presentation

The condensed consolidated interim financial statements are prepared on a going concern basis. The accounting policies have been applied consistently in all material respects. These interim consolidated financial statements have been prepared by applying the same accounting policies, assessments of estimates and judgments, and methods of computation as compared with the most recent annual consolidated financial statements.

### Basis of Measurement

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

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

### Functional and Presentation Currency

These condensed consolidated interim financial statements are presented in United States dollars (“U.S. dollars”), which is the Company’s functional currency. All financial information presented in U.S. dollars has been rounded to the nearest thousand.

## 3 SIGNIFICANT ACCOUNTING POLICIES, JUDGMENTS AND ESTIMATION UNCERTAINTY

The significant accounting policies set out below have been applied consistently to all periods presented in these interim financial statements.

### Consolidation

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

# VILLAGE FARMS INTERNATIONAL, INC.

Notes to Consolidated Condensed Financial Statements for the Three Months Ended March 31, 2012 and 2011  
(in thousands of United States dollars, except per share amounts and unless otherwise noted)

## Segment Reporting

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

## Foreign Currency Translation

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

## Financial Instruments

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

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

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

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

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

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

- (ii) Available-for-sale investments:

Available-for-sale investments are non-derivatives that are either designated in this category or not classified in any of the other categories. The Company currently has no available-for-sale investments on its statement of financial position.

Available-for-sale investments are recognized initially at fair value plus transaction costs and are subsequently carried at fair value. Gains or losses arising from changes in fair value are recognized in other comprehensive income. Available-for-sale investments are classified as non-current, unless the investment matures within twelve months, or management expects to dispose of them within twelve months.

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

## VILLAGE FARMS INTERNATIONAL, INC.

Notes to Consolidated Condensed Financial Statements for the Three Months Ended March 31, 2012 and 2011  
(in thousands of United States dollars, except per share amounts and unless otherwise noted)

(iii) Loans and receivables:

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

(iv) Financial liabilities at amortized cost:

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

(v) Derivative financial instruments:

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

### Impairment of Financial Assets

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

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

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

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

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

- i) Financial assets carried at amortized cost: The loss is the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account.
- ii) Available-for-sale financial assets: The impairment loss is the difference between the original cost of the asset and its fair value at the measurement date, less any impairment losses previously recognized in the statement of income. This amount represents the cumulative loss in accumulated other comprehensive income that is reclassified to net income.

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

# VILLAGE FARMS INTERNATIONAL, INC.

Notes to Consolidated Condensed Financial Statements for the Three Months Ended March 31, 2012 and 2011  
(in thousands of United States dollars, except per share amounts and unless otherwise noted)

## Impairment of Non-financial Assets

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

## Assets Held for Sale

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

## Cash and Cash Equivalents

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

## Trade Receivables

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

## Inventories

Inventory refers to deferred crop costs which are incurred to date on current production and are not defined as a biological asset. Inventories of Company-grown produce consist of raw materials, labour and overhead costs incurred less costs charged to cost of sales throughout the various crop cycles, which end at various times throughout the year. Growing crops are accounted for in accordance with our policy on “Biological Assets”. Cost of sales is based on estimated costs over the crop cycle allocated to both actual and estimated future yields at each period end date.

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

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

## Property, Plant and Equipment

### *Recognition and measurement*

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

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

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

# VILLAGE FARMS INTERNATIONAL, INC.

## Notes to Consolidated Condensed Financial Statements for the Three Months Ended March 31, 2012 and 2011

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

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

### *Subsequent costs*

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

### *Depreciation*

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

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

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

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

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

### **Intangible Assets**

Intangible assets consist of an energy supply agreement and are recorded at cost less accumulated amortization. Amortization is recorded on a straight-line basis over the life of the related contract, which is 20 years.

### **Biological Assets**

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

### **Leased Assets**

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

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

# VILLAGE FARMS INTERNATIONAL, INC.

## Notes to Consolidated Condensed Financial Statements for the Three Months Ended March 31, 2012 and 2011

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

### **Borrowing Costs**

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

### **Revenue Recognition**

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

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

### **Income Taxes**

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

For interim periods, the company follows the guidance of IAS 34, "Income Taxes" ("IAS 34") which requires income tax expense to be calculated using the estimated average annual effective income tax rate. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of the amounts expected to be paid to the tax authorities.

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

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

### **Share-Based Compensation**

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

### **Provisions**

Provisions for legal claims, where applicable, are recognized in accrued liabilities when the Company has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required

# VILLAGE FARMS INTERNATIONAL, INC.

## Notes to Consolidated Condensed Financial Statements for the Three Months Ended March 31, 2012 and 2011

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

to settle the obligation, and the amount can be reliably estimated. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the end of the reporting period, and are discounted to present value where the effect is material. The Company performs evaluations to identify onerous contracts and, where applicable, records provisions for such contracts.

### Earnings Per Share

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

### Significant Accounting Judgments and Estimation Uncertainties

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

#### *Critical accounting estimates and judgments*

- i) Estimated useful lives of property, plant and equipment

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

- ii) Financial instruments

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

- iii) Financial instruments traded in an active market

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

- iv) Biological asset

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

## VILLAGE FARMS INTERNATIONAL, INC.

Notes to Consolidated Condensed Financial Statements for the Three Months Ended March 31, 2012 and 2011  
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v) Intangible assets

The intangible assets of the Company (note 9) were recorded at their estimated fair value comparing the cost of energy from the supplier against the cost to purchase a natural gas contract at October 18, 2006.

vi) Inventory and cost of sales

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

vii) Income taxes and deferred income tax assets

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

#### 4 CHANGES IN ACCOUNTING POLICIES

##### *Accounting standards issued and not applied*

In 2011, the International Accounting Standards Board ("IASB") issued a number of new and revised accounting standards which are effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. These new and revised accounting standards have not yet been adopted and the Company does not plan to early adopt any of the standards.

The following new or revised standards are not expected to have a material impact on the amounts recorded in the financial statements of the Company:

- IFRS 10 - Consolidated Financial Statements;
- IFRS 12 - Disclosure of Interests in Other Entities;
- IAS 27 - Separate Financial Statements;
- IFRS 13 - Fair Value Measurement;
- IFRS 11 - Joint Arrangements;
- Amended IAS 19 - Employee Benefits; and
- Amended IAS 28 - Investments in Associates and Joint Ventures.

In 2011, the IASB also issued amended IAS 1 - Presentation of Financial Statements, IFRS 7 - Financial instrument disclosures which is effective for annual periods beginning on or after July 1, 2012 and IFRS 9 - Financial Instruments, which is effective for annual periods beginning on or after January 1, 2015, with early adoption permitted. IAS 1, IFRS 7 and IFRS 9 are not expected to have a material impact on amounts recorded in the financial statements of the Company.

Further details of the new or revised accounting standards and potential impact on the Company can be found in the Annual Report for the year ended December 31, 2011.

#### 5 ASSETS HELD FOR SALE

The Company has classified its Buffalo, New York warehouse as an asset held for sale; the Company no longer operates it as a distribution centre and has listed the property for sale and has a non-binding sales agreement. The property is being held at the carrying value and is no longer being amortized.

## VILLAGE FARMS INTERNATIONAL, INC.

**Notes to Consolidated Condensed Financial Statements for the Three Months Ended March 31, 2012 and 2011**  
(in thousands of United States dollars, except per share amounts and unless otherwise noted)

### 6 INVENTORIES

	March 31, 2012	December 31, 2011
Deferred crop costs	\$19,873	\$13,255
Purchased produce inventory	388	545
Biological asset adjustment ( note 7)	(4,495)	(2,176)
	\$15,766	\$11,624

The cost of inventories recognized as expense and included in cost of sales for the three months ended March 31, 2012 amounted to \$18,327 (March 31, 2011 - \$21,449).

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

### 7 BIOLOGICAL ASSET

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

	March 31, 2012	December 31, 2011	March 31, 2011
Estimated sales value of biological asset	\$14,755	\$9,373	\$18,550
Less			
Estimated remaining costs relating to the biological asset	7,336	3,182	6,874
Estimated selling costs	742	619	1,168
Fair value of biological asset less costs to sell	6,677	5,572	10,508
Less actual costs (note 6)	4,495	2,176	4,403
Increase in fair value of biological asset over cost	2,182	3,396	6,105
Fair value over cost of harvested and sold biological asset	3,396	3,127	3,127
Change in biological asset	(\$1,214)	\$269	\$2,978

## VILLAGE FARMS INTERNATIONAL, INC.

Notes to Consolidated Condensed Financial Statements for the Three Months Ended March 31, 2012 and 2011  
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### 8 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

	Land \$	Leasehold and land improve- ments \$	Green- house building \$	Green- house equipment \$	Machinery and Equipment \$	Construction in process \$	Total \$
<b>Year ended December 31, 2011</b>							
Opening net book value	5,050	707	37,012	17,737	1,875	591	62,972
Additions	-	1,356	17,138	15,755	356	6,545	41,150
Placed in service	-	-	-	-	-	(591)	(591)
Disposals, net	(23)	-	-	-	-	-	(23)
Depreciation for the year	-	(152)	(2,955)	(2,004)	(796)	-	(5,907)
Closing net book value	<u>5,027</u>	<u>1,911</u>	<u>51,195</u>	<u>31,488</u>	<u>1,435</u>	<u>6,545</u>	<u>97,601</u>
<b>At December 31, 2011</b>							
Cost	5,027	3,389	74,418	44,754	3,950	6,545	138,083
Accumulated depreciation	-	(1,478)	(23,223)	(13,266)	(2,515)	-	(40,482)
Net book value	<u>5,027</u>	<u>1,911</u>	<u>51,195</u>	<u>31,488</u>	<u>1,435</u>	<u>6,545</u>	<u>97,601</u>
<b>Period ended March 31, 2012</b>							
Opening net book value	5,027	1,911	51,195	31,488	1,435	6,545	97,601
Additions	-	-	1,273	3,187	490	1,158	6,108
Placed in service	-	-	-	-	-	-	-
Disposals, net	-	-	-	-	-	-	-
Depreciation for the year	-	(42)	(937)	(784)	(105)	-	(1,868)
Closing net book value	<u>5,027</u>	<u>1,869</u>	<u>51,531</u>	<u>33,891</u>	<u>1,820</u>	<u>7,703</u>	<u>101,841</u>
<b>At March 31, 2012</b>							
Cost	5,027	3,389	75,691	47,941	4,440	7,703	144,191
Accumulated depreciation	-	(1,520)	(24,160)	(14,050)	(2,620)	-	(42,350)
Net book value	<u>5,027</u>	<u>1,869</u>	<u>51,531</u>	<u>33,891</u>	<u>1,820</u>	<u>7,703</u>	<u>101,841</u>

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

## VILLAGE FARMS INTERNATIONAL, INC.

Notes to Consolidated Condensed Financial Statements for the Three Months Ended March 31, 2012 and 2011  
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### 9 INTANGIBLE ASSETS

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

#### Year ended December 31, 2011

Opening book value	1,301
Amortization for the year	<u>(103)</u>
Closing net book value	<u>1,198</u>

#### At December 31, 2011

Cost	1,735
Accumulated amortization	<u>(537)</u>
Net book value	<u>1,198</u>

#### Period ended March 31, 2012

Opening book value	1,198
Amortization for the year	<u>(26)</u>
Closing net book value	<u>1,172</u>

#### At March 31, 2012

Cost	1,735
Accumulated amortization	<u>(563)</u>
Net book value	<u>1,172</u>

### 10 OTHER ASSETS

The following table summarizes the components of other assets:

	<u>March 31, 2012</u>	<u>December 31, 2011</u>
Patronage stock	\$437	\$411
Note receivable (note 15)	370	372
Security deposits	154	138
Other	526	460
Total	<u>\$1,487</u>	<u>\$1,381</u>

## VILLAGE FARMS INTERNATIONAL, INC.

**Notes to Consolidated Condensed Financial Statements for the Three Months Ended March 31, 2012 and 2011**  
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### 11 DEBT

	Three months ended March 31, 2012	Year ended December 31, 2011
<b>Long-term debt:</b>		
Opening balance	\$69,855	\$51,468
Repayment of debt	(1,078)	(51,468)
New debt	5,396	70,583
Repayment of debt	-	(728)
Closing balance	\$74,173	\$69,855
Current portion	4,312	4,312
Non-current portion	69,861	65,543
	\$74,173	\$69,855

#### Credit Facilities:

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

- Revolving variable rate Operating Loan of up to CA\$15,000 with a maturity date on September 30, 2014 (the "Operating Loan");
- Non-revolving variable rate term loan with a balance of \$48,044 with a maturity date on September 30, 2014 ("Term Loan 1");
- Non-revolving variable rate term loan with a balance of \$26,129 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 ("line of credit") is subject to margin requirements stipulated by the bank; \$2,878 was drawn on this facility at March 31, 2012 (December 31, 2011 – \$nil). The Company has available lines of credit of CA\$15,000. As at March 31, 2012, letters of credit totaling \$1,145 are outstanding.

Term Loan 1 was fully drawn as at March 31, 2012. The outstanding balance of Term Loan 1 is repayable by way of monthly installments of principal and interest based on an amortization period of 17 years, with the balance and any accrued interest is to be paid in full on September 30, 2014. Monthly principal payments on Term Loan 1 are \$243. As at March 31, 2012, borrowings under the Term Loan 1 agreement are subject to LIBOR plus 3.25% (effective rate of 3.49% as at March 31, 2012).

Term Loan 2 has a maximum draw of up to \$28,000. The outstanding balance as at March 31, 2012 is \$26,129 with monthly installments of principal and interest based on an amortization period of 20 years. The balance and any accrued interest to be paid in full on September 30, 2014. Monthly principal payments on Term Loan 1 are \$117. As at March 31, 2012, borrowings under the Term Loan 2 agreement are subject to LIBOR plus 3.25% (effective rate of 3.49% as at March 31, 2012).

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

The borrowings are subject to certain positive and negative covenants. As at March 31, 2012 and December 31, 2011, the Company was in compliance with all covenants on all of its Credit Facilities.

Accrued interest payable on the credit facilities and loans as at March 31, 2012 was \$42 (December 31, 2011 - \$42) and these amounts are included in accrued liabilities in the statement of financial position. The Company has entered into fixed for floating rate interest rate swaps (as described in note 12) effectively fixing its interest rate on its Term Loans at 6.94%.

## VILLAGE FARMS INTERNATIONAL, INC.

**Notes to Consolidated Condensed Financial Statements for the Three Months Ended March 31, 2012 and 2011**  
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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 March 31, 2012 was \$138,748 (December 31, 2011 - \$131,018).

The aggregate annual maturities of long-term debt as at March 31, 2012 are as follows:

2012	\$ 4,312
2013	4,312
2014	65,549
2015	-
2016	-
Thereafter	-
	\$74,173

### 12 DERIVATIVES

As at March 31, 2012, the Company has a fixed for floating interest rate swap agreements, effective through January 25, 2013, at the notional amount of \$38,500, in order to reduce the interest rate variability on its Term Loan 1. The Company recognized a gain of \$223 for the three months ended March 31, 2012 (March 31, 2011 – \$282), 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 March 31, 2012 was a liability of \$1,063 (December 31, 2011 – \$1,286). The interest rate swap agreement remaining as at March 31, 2012 is as follows:

<u>Term</u>	<u>Amount</u>	<u>Interest Rate</u>
January 25, 2008 - January 28, 2013	\$38,500	6.95%

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

The current portion of the derivative on the statement of financial position at March 31, 2012 is \$1,063 (December 31, 2011 - \$1,235).

### 13 COMMITMENTS

#### Operating Leases

The Company has entered into certain operating lease commitments for land, office space and equipment through 2022. The future minimum lease payments as at March 31, 2012 are as follows:

	March 31, 2012
Remaining 2012	\$1,242
2013	1,464
2014	1,057
2015	662
2016	462
Thereafter	2,263
	\$7,150

# VILLAGE FARMS INTERNATIONAL, INC.

**Notes to Consolidated Condensed Financial Statements for the Three Months Ended March 31, 2012 and 2011**  
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## 14 Financial Instruments

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

	<u>March 31, 2012</u>	<u>December 31, 2011</u>
Cash and cash equivalents	\$836	\$2,865
Trade receivables	8,415	8,579
Other receivables	1,255	1,295
Other financial liabilities	92,384	83,528
Derivatives	1,063	1,286

Interest income and other gains and losses from held-for-trading and held-to-maturity financial assets are recognized in interest expense. Interest income, expense and gains and losses from loans, receivables and other financial liabilities are recognized in income, (gain) loss on derivatives and other income. The following table summarizes interest income and expense for the three months ended March 31, 2012 and 2011:

	For the three months ended	
	<u>March 31, 2012</u>	<u>March 31, 2011</u>
Interest income from held-for-trading assets	\$2	\$12
Interest expense from other financial liabilities	960	728

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

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

	<b>Financial instruments at fair value – March 31, 2012</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	\$	\$	\$	\$
Interest swap agreements	-	(1,063)	-	(1,063)
	-	(1,063)	-	(1,063)

	<b>Financial instruments at fair value – December 31, 2011</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	\$	\$	\$	\$
Interest swap agreements	-	(1,286)	-	(1,286)
	-	(1,286)	-	(1,286)

### Management of financial risks

The Company, through its financial assets and liabilities, is exposed to various risks. The following analysis provides a measurement of some of these risks as at March 31, 2012. The Company uses derivative financial instruments only for risk management purposes, not for generating trading profit.

#### i) Credit risk

Credit risk is the risk that the Company will incur a loss due to the failure by its customers or other parties to meet their contractual obligations. Financial instruments that potentially subject the Company to significant concentrations of credit risk consist primarily of cash and cash equivalents and trade receivables.

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

## VILLAGE FARMS INTERNATIONAL, INC.

### Notes to Consolidated Condensed Financial Statements for the Three Months Ended March 31, 2012 and 2011

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

The Company's trade receivables has one customer that individually represents more than 10% of total trade receivables and it's 10.5% of the balance of total trade receivables as at March 31, 2012. The Company believes that its trade receivables risk is limited due to the high credit quality of its customers and the protection afforded to the Company by the *Perishable Agricultural Commodities Act* (the "PACA") for its sales in the United States, which represent approximately 80% of the Company's sales. The PACA protection gives a claim filed under the PACA first lien on all PACA assets (which include cash and trade receivables). The PACA fosters trading practices in the marketing of fresh and frozen fruits and vegetables in interstate and foreign commerce. It prohibits unfair and fraudulent practices and provides a means of enforcing contracts. Historical write-offs have represented less than 1% of sales. The maximum amount of credit risk exposure is limited to the carrying amount of the balances on the financial statements.

Given the current economic environment, trade receivables for each customer at year end were evaluated for collectability and an allowance for doubtful accounts has been estimated. A general provision is also taken based on the Company's historic exposure to bad debts based on revenue. At March 31, 2012, the allowance for doubtful accounts balance was \$254 (December 31, 2011 - \$254). In addition, the Company recorded a bad debt expense of \$nil during the three months ended March 31, 2012 (March 31, 2011 - \$nil).

At March 31, 2012, 92.7% (December 31, 2011 - 91.9%) of trade receivables were outstanding less than 30 days, 4.1% (December 31, 2011 - 6.9%) were outstanding for between 30 and 90 days and the remaining 3.1% (December 31, 2011 - 1.2%) were outstanding for more than 90 days. Trade receivables are considered past due based on the contract terms agreed to with a customer. As noted above, aged receivables that are past due are not considered impaired unless customer specific information indicates otherwise.

#### ii) Interest rate risk

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

The Company is exposed to interest rate risk on its long-term debt, for which the interest rates charged fluctuate based on the LIBOR rate. Interest is compounded daily at LIBOR plus 3.25%. The Company has limited its interest rate risk by entering into interest rate swap agreements for its Term Loan 1 (note 12).

The Company is exposed to interest rate risk on its long-term debt for which interest rates charged and the value of the related interest rate swap agreements fluctuate. If interest rates had been 50 basis points higher (lower), the net income during the three months ended March 31, 2012 would have been higher (lower) by \$3; this represents a \$48 gain on derivatives partially offset by \$45 in additional interest expense (March 31, 2011 - \$35; \$49 gain on derivatives offset by \$14 in additional interest expense).

#### iii) Foreign exchange risk

At March 31, 2012, the Canadian/U.S. foreign exchange rate was CA\$1.00 = US\$1.0025 (December 31, 2011 - CA\$1.00 = \$0.9833). Assuming that all other variables remain constant, an increase of \$0.10 in the Canadian dollar would have the following impact on the ending balances of certain statement of financial position items at March 31, 2012 and December 31, 2011 with the net foreign exchange gain or loss directly impacting net income for the period.

	<u>March 31, 2012</u>	<u>December 31, 2011</u>
<b>Financial assets</b>		
Cash and cash equivalents	\$-	\$40
Trade receivables	123	162
<b>Financial liabilities</b>		
Trade payables and accrued liabilities	(108)	(72)
<b>Net foreign exchange gain (loss)</b>	\$15	\$130

## VILLAGE FARMS INTERNATIONAL, INC.

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### iv) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they fall due. The following are the contractual maturities of financial liabilities as at March 31, 2012:

Financial liabilities	Total	Less than 1 year	1-3 years	4-5 years	More than 5 years
Long-term debt	\$74,173	\$4,312	\$69,861	\$-	\$-
Line of credit	2,878	2,878	-	-	-
Trade payables	11,890	11,890	-	-	-
Accrued liabilities and income taxes payable	3,154	3,154	-	-	-
<b>Total</b>	<b>\$92,095</b>	<b>\$22,234</b>	<b>\$69,861</b>	<b>\$-</b>	<b>\$-</b>

It is the Company's intention to meet these obligations through the collection of current accounts receivable and cash from sales. If the current resources and cash generated from operations are insufficient to satisfy its obligations, the Company may seek to issue additional equity or to arrange debt or other financing. In addition, the Company has available a line of credit of up to CA\$15,000.

### v) Fair values

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

## 15 RELATED PARTY TRANSACTIONS AND BALANCES

Included in other assets is a \$370 (December 31, 2011 - \$372) 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 \$370 represents the unpaid amount the Company advanced on this employee's behalf in connection with the relocation.

## 16 COMPENSATION OF KEY MANAGEMENT

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

	For the three months ended March 31,	
	2012	2011
Salaries and other employee benefits	\$412	\$409
Share-based payments	22	10
	<b>\$434</b>	<b>\$419</b>

## VILLAGE FARMS INTERNATIONAL, INC.

**Notes to Consolidated Condensed Financial Statements for the Three Months Ended March 31, 2012 and 2011**  
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### 17 EXPENSES BY NATURE

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

#### *Cost of sales*

	<u>Three Months Ended</u> <u>March 31, 2012</u>	<u>Three Months Ended</u> <u>March 31, 2011</u>
Purchased produce	\$6,878	\$8,236
Raw materials and consumables used	3,089	5,665
Depreciation and amortization	1,770	1,292
Transportation and storage	4,595	4,056
Employee compensation and benefits	7,352	6,352
	<u>\$23,684</u>	<u>\$25,601</u>

#### *Selling, general and administrative expenses*

	<u>Three Months Ended</u> <u>March 31, 2012</u>	<u>Three Months Ended</u> <u>March 31, 2011</u>
Employee compensation and benefits	\$2,047	\$2,156
Marketing	149	93
Professional services	419	351
Office expenses	425	491
Other	545	417
	<u>\$3,585</u>	<u>\$3,508</u>

#### *Employee compensation and benefits*

	<u>Three Months Ended</u> <u>March 31, 2012</u>	<u>Three Months Ended</u> <u>March 31, 2011</u>
Salaries and short-term employee benefits	\$9,399	\$8,508
Share-based compensation	59	10
	<u>\$9,458</u>	<u>\$8,518</u>

### 18 DEFERRED INCOME TAXES

Income tax expense is recognized based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual rate used for the three months ended March 31, 2012 was 26% and the three months ended March 31, 2011 was 25%.

### 19 CHANGES IN NON-CASH WORKING CAPITAL

	<u>For the three months ended March 31,</u>	
	<u>2012</u>	<u>2011</u>
Trade receivables	\$164	(\$3,910)
Inventories	(4,142)	(1,124)
Inventories reclassified to Biological asset	(2,319)	(2,307)
Other receivables	93	867
Prepays and deposits	(635)	16
Trade payables	1,637	(1,897)
Accrued liabilities	(79)	633
	<u>(\$5,281)</u>	<u>(\$7,722)</u>

# VILLAGE FARMS INTERNATIONAL, INC.

**Notes to Consolidated Condensed Financial Statements for the Three Months Ended March 31, 2012 and 2011**  
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## 20 GEOGRAPHIC INFORMATION

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

Net Sales	For the three months ended March 31,	
	2012	2011
United States	\$24,006	\$29,470
Canada	4,138	2,871
Other	48	-
	\$28,192	\$32,341

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

Property, plant and equipment	March 31, 2012	December 31, 2011
United States	\$60,363	\$55,920
Canada	41,035	41,226
Dominican Republic	443	455
	\$101,841	\$97,601

## 21 CONTINGENCIES

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

## 22 SHARE CAPITAL AND EQUITY

The following is a summary of share capital:

	The VFF Common Shares	
	# of Shares	Amount
Share capital – January 1, 2011	19,433,394	\$24,850
Issued in financing	-	-
Issued on exercise of employee stock options	-	-
Share capital – March 31, 2012 and December 31, 2011	19,433,394	\$24,850

  

	The VFF Special Shares	
	# of Shares	Amount
Share capital – January 1, 2011	19,273,951	\$-
Share capital – March 31, 2012 and December 31, 2011	19,273,951	\$-

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

(i) Special shares:

The special shares were issued to VF U.S. Holdings Inc. ("U.S. Holdings") for the benefit of the holders of the PPSs of U.S. Holdings. The PPSs were issued in connection with the business combination between U.S. Holdings and Hot House Growers Income Trust. The special shares entitle the holder to exercise voting and other rights as a shareholder of VFF as though the holder held the number of shares that would be owned by the holders of the PPSs assuming the exercise in full of the PPS Exchange Rights; provided that in no event shall the votes attached to the special shares exceed 45% of the votes otherwise attached to the common shares and the special shares of VFF then outstanding. The

# VILLAGE FARMS INTERNATIONAL, INC.

## Notes to Consolidated Condensed Financial Statements for the Three Months Ended March 31, 2012 and 2011

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combination of the PPSs and special shares are the economic equivalent of common shares. For financial reporting purposes, the special shares have been treated as common shares and are included in the Company's share capital and in the calculation of earnings per share.

(ii) 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.

(iii) Preferred shares:

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

### 23 EARNINGS PER SHARE

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

	March 31, 2012	March 31, 2011
Net (loss) income attributable to owners of the Company	(\$692)	\$4,512
Weighted average number of common shares and special shares outstanding (thousands)	38,707	38,707
Basic (loss) earnings per share	(\$0.02)	\$0.12

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

	March 31, 2012	March 31, 2011
Net (loss) income attributable to owners of the Company	(\$692)	\$4,512
Weighted average number of common shares and special shares outstanding (thousands)	38,707	38,707
Adjustment for:		
Share options (thousands)	209	156
Weighted average number of common shares and special shares outstanding for diluted earnings per share (thousands)	38,916	38,863
Diluted (loss) earnings per share	(\$0.02)	\$0.12

# VILLAGE FARMS INTERNATIONAL, INC.

Notes to Consolidated Condensed Financial Statements for the Three Months Ended March 31, 2012 and 2011  
(in thousands of United States dollars, except per share amounts and unless otherwise noted)

## 24 CAPITAL DISCLOSURES

The Company's objectives when managing capital are to safeguard its assets and maintain a competitive cost structure, continue as a going concern and provide returns to its shareholders. In addition, the Company works with all relevant stakeholders to ensure the safety of its operations and employees and remain in compliance with all environmental regulations.

The Company's main objectives when managing capital are:

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

The Company's capital comprises net debt and equity:

	<u>March 31, 2012</u>	<u>December 31, 2011</u>
Total bank debt	\$77,051	\$69,855
Less cash and cash equivalents	(836)	(2,865)
Net debt	<u>76,215</u>	<u>66,990</u>
Total equity	<u>41,640</u>	<u>42,273</u>
	<u>\$117,855</u>	<u>\$109,263</u>

It is the Company's intention to meet these obligations through the collection of current accounts receivable and cash. The Company has an available line of credit up to CA\$15,000 (as at March 31, 2012 \$2,878 was outstanding on the line of credit, and a letter of credit, of \$1,145 are outstanding), at March 31, 2012 the borrowing base is \$6,598 based on a percentage of the Company's outstanding accounts receivable. 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.

## 25 SHARE-BASED COMPENSATION PLAN

In December 2009, the Company introduced a new share-based compensation plan. The maximum number of common shares that can be issued upon the exercise of options granted is equal to 10% of the aggregate number of common shares issued and outstanding from time to time. The maximum period during which an option may be exercised is 10 years from the date of the grant. Options vest at a rate of 33% per year, beginning one year following the grant date of the options. Share-based compensation expense for the three months ended March 31, 2012 of \$59 (March 31, 2011 - \$10) was recorded in selling, general and administrative expenses and the corresponding amount credited to contributed surplus.

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

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Expected volatility	54.5%	66.1%	53.2%
Dividend	\$nil	\$nil	\$nil
Risk-free interest rate	2.14%	2.53%	2.53%
Expected life	6.5 years	6.5 years	6.5 years
Fair value	\$0.694	\$0.7848	\$0.367

Expected volatility was based on five years of historical data.

## VILLAGE FARMS INTERNATIONAL, INC.

### Notes to Consolidated Condensed Financial Statements for the Three Months Ended March 31, 2012 and 2011 (in thousands of United States dollars, except per share amounts and unless otherwise noted)

The following table summarizes stock options granted during the year. There were no forfeitures of stock options for the three months March 31, 2012.

	Three Months Ended March 31,			
	2012		2011	
	Stock options	Weighted average exercise price	Stock options	Weighted average exercise price
Beginning of period	1,014,999	CA\$1.05	349,999	CA\$0.70
Granted	150,000	CA\$1.27	-	-
End of period	1,164,999	CA\$1.08	344,999	CA\$0.70

The following table summarizes stock options outstanding and granted as at March 31, 2012:

Exercise price	Number outstanding	Remaining contractual life (years)	Number of exercisable options
CA\$0.70	349,999	7.8	233,332
CA\$1.24	665,000	9.2	Nil
CA\$1.27	150,000	9.9	Nil
	1,164,999		

No options were exercised in the three months ended March 31, 2012 and 2011.

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

	Exercise price in CA\$ per share	March 31, 2012	December 31, 2011
Expire date - January 13, 2020	0.70	349,999	349,999
Expire date - May 20, 2021	1.24	665,000	665,000
Expire date - March 13, 2022	1.27	150,000	-
		1,164,999	1,014,999

## 26 SUBSEQUENT EVENTS

After the statement of Financial Position date, the British Columbia Ministry of Agriculture announced that "B.C.'s high-tech greenhouse vegetable and floriculture growers will receive \$7.6 million from the Province in carbon tax relief ...". The Company estimates its refund to be CA\$1.0 million. The funds are being distributed by the B.C Greenhouse Growers Association and are expected to be distributed in July.