



Village Farms International, Inc.

4700-80th Street
Delta, British Columbia
V4K 3N3

Annual Information Form

For the Year Ended December 31, 2011

March 22, 2012

TABLE OF CONTENTS

GLOSSARY OF TERMS	1
STRUCTURE OF THE COMPANY	3
Existing Structure of the Company’s Canadian and U.S. Subsidiaries	3
Intercorporate Relationships	5
GENERAL DEVELOPMENT OF THE COMPANY	6
History	6
GREENHOUSE VEGETABLE INDUSTRY	6
Industry Overview	6
DESCRIPTION OF THE BUSINESS	8
Overview	8
Core Operating Principles	8
Greenhouse Facilities and Products	9
Sales, Marketing and Distribution	9
Production and Packaging Process	10
Product Development and Specialization	11
Product Pricing	11
Intellectual Property	11
Competition	11
Employees	12
Capital Expenditures	12
Energy Management Strategy	12
Foreign Exchange Strategy	12
Environmental and Regulatory Matters	13
British Columbia Vegetable Marketing Commission	13
Agency and Producer Licenses	14
Quota	14
DESCRIPTION OF THE COMPANY	14
Common Shares	14
Special Shares	15
Preferred Shares	15
Retained Interest of the Village Farms Owners	15
Book-Entry System	17
Financial Year End	17
DESCRIPTION OF U.S. HOLDINGS	17
Share Capital of U.S. Holdings	17
Taxes	19
CREDIT FACILITIES	19
ADMINISTRATION, SERVICES AND EMPLOYMENT AGREEMENTS	20
Governance Arrangements	20
Share-based Compensation Plan	20
RISK FACTORS	23
Risks Relating to the Company	23
Risks Related to Tax	28
DIVIDENDS	29
Dividend Policy	29
Historical Distributions	30
MARKET FOR SECURITIES	30
Trading Price and Volume	30

DIRECTORS AND MANAGEMENT	31
Board Committees.....	33
Corporate Cease Trade Orders or Bankruptcies.....	33
Penalties or Sanctions.....	33
Personal Bankruptcies.....	33
Business Bankruptcies.....	34
Conflicts of Interest.....	34
LEGAL PROCEEDINGS	34
INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS.....	34
TRANSFER AGENT AND REGISTRAR.....	34
RECENT DEVELOPMENTS.....	34
Expansion	34
MATERIAL CONTRACTS	35
AUDIT COMMITTEE INFORMATION	35
Charter of the Audit Committee	35
Composition of the Audit Committee.....	35
Prior Approval Policies and Procedures	35
External Auditor Service Fees.....	36
ADDITIONAL INFORMATION	36

FORWARD-LOOKING STATEMENTS

This annual information form contains certain “forward-looking statements”. These statements relate to future events or future performance and reflect our expectations regarding our growth, results of operations, performance, business prospects, opportunities or industry performance and trends, including the Company’s expectations for 2012 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 annual information form. Actual results may differ materially from any forward-looking statement. Although the Company believes that the forward-looking statements contained in this annual information form 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 annual information form, 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.

GLOSSARY OF TERMS

“**APDI**” means Agro Power Development, Inc., a Delaware corporation;

“**Arrangement Agreement**” means the arrangement agreement dated as of November 2, 2009 among the Fund, VF Canada GP, VF Canada LP, VF Opco, U.S. Holdings and the Company;

“**Bank**” means the Canadian chartered bank referred to under “Credit Facilities”;

“**BCVMC**” means the British Columbia Vegetable Marketing Commission;

“**Business**” means the businesses carried on by the Company and its subsidiaries;

“**CBCA**” means the *Canada Business Corporations Act*, as amended;

“**CDS**” means CDS Clearing and Depository Services Inc.;

“**CDS Participant**” means a participant in the CDS depository service;

“**Class A Unit**” means the former Class A unit of the Fund that was issued to U.S. Holdings, prior to the Conversion, that was subsequently redeemed by the Fund as part of the Conversion;

“**Class A Unitholder**” means the former holder of the Class A Unit;

“**Combination Transaction**” means the combination transaction which closed on October 18, 2006 whereby the businesses of Hot House Growers and Village Farms were combined, as further described herein under “General Development of the Company – History”;

“**Company**” means Village Farms International, Inc. and, as the context requires, Village Farms International, Inc. together with its subsidiaries;

“**Compensation Plan**” means the share based compensation plan of the Company adopted on December 31, 2009 in connection with the Conversion;

“**Common Shares**” means the common shares in the capital of the Company;

“**Computershare**” means Computershare Investor Services Inc.;

“**Conversion**” means the plan of arrangement carried out under the CBCA and completed on December 31, 2009, as more fully described in the Management Information Circular of the Fund dated November 10, 2009, whereby the Fund was terminated and the ordinary unitholders of the Fund received common shares of the Company on a one for one basis and the Class A Unitholder of the Fund received 25,267,000 special shares of the Company;

“**EBITDA**” means earnings before interest, taxes, depreciation, amortization, foreign currency exchange gains and losses on translation of long term debt, and unrealized gains on the changes in the value of derivative instruments and non-controlling interest;

“**Exchange Rights**” means the right of holders of the Participating Preferred Shares to exchange the Participating Preferred Shares at any time for Common Shares or the cash equivalent thereof on a one for 100 basis, subject to adjustment in certain circumstances;

“**Fund**” means Village Farms Income Fund, which was terminated on December 31, 2009 as part of the Conversion;

“**Governance Arrangements**” means the arrangements as contained in the constating documents of U.S. Holdings and the Securityholders’ Agreement, that were agreed upon concurrent with the completion of the Conversion by the Company, U.S. Holdings and the Village Farms Owners, providing for the governance of the Company and its subsidiaries and establishing the respective rights of their securityholders as to board representation, approval rights in respect of certain transactions and related matters;

“**Hot House Growers**” means, collectively, the Fund and Hot House Growers Inc. (subsequently renamed Village Farms Canada Inc. and Village Farms International, Inc.) as these entities existed prior to the completion of the Combination Transaction;

“**IRS**” means the Internal Revenue Service;

“**m²**” means square metres;

“**Management**” means the management of the Company and its subsidiaries who operate the Business;

“**Participating Preferred Shares**” means the participating preferred shares of U.S. Holdings which are exchangeable for Common Shares pursuant to the Securityholders’ Agreement and were issued to the VF Owners on the completion of the Combination Transaction;

“**Preferred Shares**” the preferred shares in the capital of the Company;

“**Prime Rate**” means the floating annual rate of interest (based on a 365/366 day year) established and recorded by the Bank from time to time as a reference rate for purposes of determining rates of interest it will charge on loans denominated in Canadian dollars;

“**Securityholders’ Agreement**” means the agreement that was entered into on the completion of the Combination Transaction between, among others, the Fund, VF Opco and Michael A. DeGiglio and the other APDI shareholders, as amended and restated on December 31, 2009 by the Company, VF Opco and Michael A. DeGiglio and the other APDI shareholders;

“**Special Shares**” means the special voting shares in the capital of the Company;

“**Tax Act**” means the *Income Tax Act* (Canada), as amended;

“**TSX**” means Toronto Stock Exchange;

“**Units**” means the former ordinary units of the Fund, which were cancelled on December 31, 2009 in connection with the Conversion;

“**U.S. Base Rate**” means the floating annual rate of interest established and recorded as such by the Bank from time to time as a reference rate for the purposes of determining rates of interest the Bank will charge on commercial loans made in Canada in U.S. Funds based on a 360 day year;

“**U.S. Holdings**” means VF U.S. Holdings Inc., a Delaware corporation;

“**VFF**” means Village Farms International, Inc., the former Village Farms Canada Inc., a corporation incorporated under the laws of Canada which, prior to the completion of the Combination Transaction and the related restructuring, was named Hot House Growers Inc. and was the principal operating entity carrying on the Business as it existed at that time. Upon the completion of the Conversion this entity changed its name to Village Farms International, Inc. and is now the parent company of the Village Farms group;

“**VF Canada GP**” means Village Farms Canada GP Inc., a corporation incorporated under the laws of Canada that is the general partner of VF Canada LP;

“**VF Canada LP**” means Village Farms Canada Limited Partnership;

“**VFDR**” means Village Farms DR, SLR., a corporation established under the laws of the Dominican Republic;

“**VFLP**” means Village Farms, L.P.;

“**VF Opco**” means VF Operations Canada Inc., a corporation incorporated under the laws of Canada;

“**VF Owner Retained Interest**” means collectively, at any time, the aggregate number of Common Shares that may be acquired by the holders of the Participating Preferred Shares assuming the exercise in full of the Exchange Rights, based on the aggregate number of Participating Preferred Shares that are beneficially owned at the relevant time by such holders of Participating Preferred Shares and on the exchange ratio then in effect;

“**VF U.S. Entities**” means the U.S. based entities of the Company as set out under “Structure of the Company — Intercorporate Relationships”;

“**Village Farms**” means, collectively, APDI and its subsidiary entities, as these entities existed prior to the completion of the Combination Transaction;

“**Village Farms Owners**” means, collectively, Michael A. DeGiglio, Albert W. Vanzeyst and certain of their personal holding companies and their permitted transferees; and

“**Voting Shares**” means, collectively, the Common Shares and the Special Shares.

Words importing the singular number only include the plural and *vice versa* and words importing any gender include all genders. All dollar amounts set forth in this annual information form are in United States dollars, except where otherwise indicated.

STRUCTURE OF THE COMPANY

The Company, formerly Village Farms Canada Inc., is a corporation incorporated under the CBCA. The Company became a publicly-traded company following the completion of the Conversion on December 31, 2009. In connection with the Conversion, ordinary unitholders of the Fund received one Common Share of the Company in exchange for each Unit that they held and the holder of the Class A Unit received 25,267,000 Special Shares of the Company in exchange for surrendering the Class A Unit.

The head and registered office of the Company and each of its Canadian subsidiaries is located at 4700-80th Street, Delta, British Columbia, V4K 3N3.

Existing Structure of the Company’s Subsidiaries

VF Canada GP, a wholly-owned subsidiary of the Company, was incorporated under the laws of Canada on October 12, 2006 to act as the general partner of VF Canada LP. See “Description of VF Canada GP”.

VF Canada LP is a limited partnership established under the laws of the Province of British Columbia on October 16, 2006 to carry on the business of growing, marketing and distributing hydroponic produce and all activities, functions or operations ancillary or incidental thereto. VF Canada LP is governed by a limited partnership agreement between VF Canada GP, as general partner, and the Company, as limited partner, dated October 16, 2006, as amended on December 30, 2009 in connection with the Conversion. VF Canada LP is one of the principal operating entities of the Company. See “Description of VF Canada LP”.

VF Opco, a wholly-owned subsidiary of VF Canada LP, was incorporated under the laws of Canada on October 5, 2006.

The head and registered office of each of the Company's U.S. subsidiaries is located at 7 Christopher Way, Eatontown, New Jersey, 07724.

U.S. Holdings was incorporated under the laws of the State of Delaware on March 27, 2006 to purchase the shares of APDI as part of the Combination Transaction, and to serve as the holding company for the Company's U.S. operating entities. VF Opco owns 100% of the common shares of U.S. Holdings. Michael A. DeGiglio and Albert W. Vanzeyst, together with certain of their personal holding companies, collectively own 100% of the Participating Preferred Shares of U.S. Holdings. For greater certainty, where reference is made in this Annual Information Form to Participating Preferred Shares owned by Messrs. DeGiglio and Vanzeyst, such references also include any Participating Preferred Shares owned by certain personal holding companies controlled by Messrs. DeGiglio and Vanzeyst, respectively.

APDI, a wholly-owned subsidiary of U.S. Holdings, was incorporated under the laws of the State of Delaware on April 13, 1998 and is the parent company of the Company's U.S. operating entities.

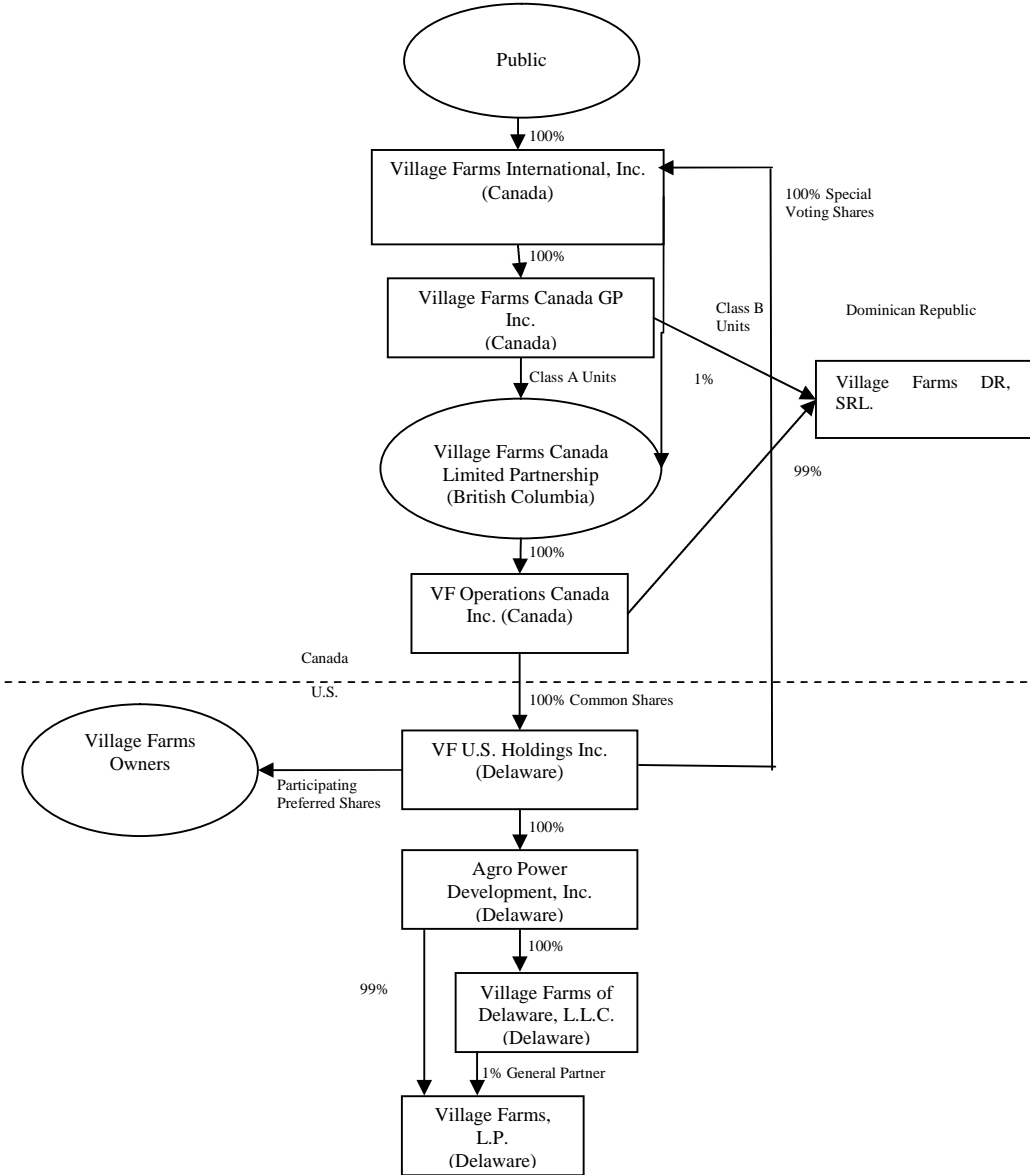
Village Farms of Delaware, L.L.C., a wholly-owned subsidiary of APDI, was incorporated under the laws of the State of Delaware on November 29, 1995 and acts as the general partner of VFLLP.

VFLLP, an indirect wholly-owned subsidiary of APDI, was established under the laws of the State of Delaware on December 9, 1999 to, among other things, carry on the business of owning, leasing and operating greenhouse facilities for the production of fruits and vegetables. VFLLP is governed by a limited partnership agreement between Village Farms of Delaware, L.L.C., as general partner, and APDI, as limited partner, dated as of December 9, 1999, as amended or restated from time to time.

VFDR, a subsidiary of VF Opco and VF Canada GP, was established under the laws of the Dominican Republic on April 4, 2011 to, among other things, carry on the business of leasing and operating a packaging and distribution facility for peppers.

Intercorporate Relationships

The following chart illustrates the structure of the Company and its subsidiaries (including jurisdiction of establishment/incorporation):



GENERAL DEVELOPMENT OF THE COMPANY

History

The Company's predecessor, Village Farms Income Fund, completed its initial public offering as an income trust on December 23, 2003. The Company converted from an income trust to a publicly-traded company on December 31, 2009 as part of the Conversion. The Conversion involved, among other things, the termination of the Fund following the exchange of all of the issued and outstanding Units and the Class A Unit for Common Shares and Special Shares, respectively. Prior to the Conversion, the Company was a wholly-owned subsidiary of the Fund, named Village Farms Canada Inc. In connection with the Conversion, the Company changed its name to Village Farms International, Inc.

On August 23, 2006, the Fund, U.S. Holdings and the Shareholders of APDI, entered into an acquisition agreement providing for the combination of the businesses of Village Farms and Hot House Growers. The Combination Transaction closed on October 18, 2006. The Combination Transaction resulted in what Management believes is one of the largest producers, marketers and distributors of greenhouse grown products in North America.

As of the date hereof, the Company has 19,433,394 Common Shares and 19,273,951 Special Shares issued and outstanding.

The Company's premium product is grown in sophisticated, highly intensive agricultural greenhouse facilities located in British Columbia and Texas and is marketed and distributed under its Village Farms® brand name and other brand names, primarily to retail supermarkets and dedicated fresh food distribution companies. The Company also markets and distributes produce under exclusive arrangements for other greenhouse producers primarily located in British Columbia, central Mexico and the north eastern part of the United States. The Company markets and distributes its products throughout the United States and Canada. It currently operates four distribution centres located across the United States and Canada. Since its inception, the Company has been guided by a sustainable agriculture policy which integrates three main goals – environmental health, economic profitability and social and economic equality

The Company's subsidiaries have operated vegetable producing greenhouses in British Columbia since 1989 and in Texas since 1995.

On February 6, 2007, VF Opco was issued an agency license by the BCVMC. This approval authorized the Company to buy and sell produce grown in British Columbia for trade.

GREENHOUSE VEGETABLE INDUSTRY

Industry Overview

The North American Industry

The greenhouse vegetable industry in North America has experienced rapid growth over the past 20 years, particularly in the southwest regions of the United States, southwest British Columbia and southern Ontario in Canada, and concentrated areas in Mexico. Greenhouse tomato production for 2010 was 699,000 metric tons or 1.53 billion pounds.

Based on figures from 2011, Mexico is the largest producer of greenhouse tomatoes, accounting for 40-60% of North American greenhouse vegetable production, followed by Canada and the United States. Based on figures from 2011, greenhouse tomatoes accounted for 53% of tomato sales at retail stores in the United States and 46% of the tomato volume sold. In 2011, U.S. retail store tomato sales increased 3.4% from the prior year, but retail volume decreased by (0.5)%. Retail sales data excludes big box retailers who have steadily increased their market share in grocery and fresh produce over the last several years.

The following table illustrates greenhouse tomato production for North America in 2009 (the most recent date for which this information is available):

Item	United States	Canada	Mexico	Total North America
Greenhouse tomato production (thousand's of metric tons)	170	230	299	699
Greenhouse tomato area (hectares).....	408	463	1,951	2,841
Average greenhouse tomato yield (metric tons/hectare).....	484	434	153	247

Conversion: 1 hectare = 2.471 acres; 1 metric ton = 2.205 pounds

Sources: Greenhouse Vegetable Production Statistics - A review of Current Data on the International Production of Vegetables in Greenhouses, 2011 Edition, Gary W. Hickman, Cueata Roble Greenhouse Consultants and Perishables Group Freshfact, Nielsen Business Media, Inc.

Greenhouse Industry — United States

The majority of greenhouse vegetable producers in the United States are located in the southwestern and western states, where the growing conditions are more ideal for winter growing operations and in some areas year round production. Producing in the winter months is advantageous as produce prices are generally higher, although with increasing Mexican production seasonal fluctuations are decreasing. The increased light levels in these areas, as compared to Canada and the northern parts of the United States, results in higher crop yields, which helps to reduce average production costs and can allow for year round production depending on other climate conditions. The majority of greenhouse tomatoes produced in the United States are used for domestic consumption. In addition, the United States imports a significant portion of its supply of greenhouse tomatoes from Canada and Mexico to meet domestic demand, it is estimated that Mexican greenhouse vegetables comprise between 40 to 60% of consumption in the United States. Producers in the United States benefit from high yields, consistent product quality, year round supply and closer proximity to its customers.

Greenhouse Industry — Canada

Among the North American greenhouse vegetable producers, Canada is the largest supplier from April to October of each year. Several factors, including climatic advantages (cooler summer temperatures) and the proximity of greenhouse producers to consumer markets, contribute to Canada's favourable positioning relative to the United States during that time period. The primary markets for greenhouse produce grown in British Columbia include the west and northwest regions of the United States, as well as western Canada, while the primary markets for Ontario produce include the east and central regions of the United States, as well as eastern Canada.

The strengths of the Canadian greenhouse vegetable industry include its high yields and consistent product quality. The main weakness of the Canadian greenhouse industry relates to its lack of production during the historically higher priced winter months. However, because of the high volume of tomatoes produced in Canada during the April to October growing season, profits generated during this time period generally are sufficient to sustain producers through the full year.

Greenhouse Industry — Mexico

Although Mexico was the last to enter the greenhouse tomato industry in North America, it already has more greenhouse tomato acreage than the United States and Canada combined. It should be noted there is no formal definition of a greenhouse and a significant portion of the greenhouse acreage in Mexico is very low tech, employing shade field structures but the product from the shade facilities may still be marketed as greenhouse. Average yields and product quality in Mexico are comparatively low, due to the wide range of greenhouse technologies. Currently, Mexican producers tend to grow and market during the winter months as they have

sufficient light levels to grow and cooler temperatures during these months, although the trend towards more sophisticated greenhouses is permitting a longer growing season, as well as increased yields.

Management believes that Mexico's industry, however, is often challenged by high heating costs, less experienced management, less developed infrastructure, higher distribution costs, inconsistent product quality and the lack of an experienced sales and marketing organization.

Pricing

Prices for vegetables fluctuate depending upon availability of supply and consumer demand. Greenhouse vegetable producers typically command a higher price for their products compared to field producers, as a result of the vegetables' consistent quality, taste, appearance and year round availability. This higher price, combined with higher production yields for greenhouse produce, typically offset the higher costs associated with greenhouse production relative to field production. Production costs for greenhouse grown produce are generally higher due to greater energy, labour, infrastructure and technological requirements. As the fresh produce market share of big box retailers increases, pricing is moving towards more contract pricing for six, nine or even twelve month periods reducing some of the traditional seasonal pricing. Contract pricing does not provide volume guaranties.

DESCRIPTION OF THE BUSINESS

Overview

The Company is one of the largest producers of premium quality greenhouse tomatoes in North America. The Company's vegetables are grown hydroponically (without the use of soil) in a glass enclosed, high technology environment using sophisticated computer systems to control irrigation, fertilizers, carbon dioxide, light, temperature, ventilation, humidity and other climatic factors. The Company's tomatoes are produced by plants that have been selected for their taste, quality and other characteristics and are not genetically modified.

The Company owns and operates eight greenhouse facilities in British Columbia and Texas, with the recent addition of the Company's new greenhouse facility in Monahans, Texas. These facilities, in combination, provide year round supply due to their superior growing conditions, in terms of light temperature and climate conditions.

The Company operates an industry leading sales, distribution and marketing organization. In particular, the Company's strategy focuses on forging strong customer relationships by servicing retailers on a year round basis, and maintaining the highest standards of food safety.

Core Operating Principles

The Company's core operating principle is to deliver fairness and satisfaction in its customer brand promise. Management strives to operate the business for optimal success by endeavouring to be:

- a leading supplier of greenhouse grown produce in North America;
- a producer of the highest quality product which adheres to the highest food safety standards;
- a low cost producer;
- a daily supplier to customers;
- a provider of excellence in customer service and logistics;
- a business with a solid balance sheet;

- enhancing investor value; and
- an employer with a dynamic environment in which employees can grow and prosper.

Greenhouse Facilities and Products

All of the Company’s greenhouses use state-of-the-art hydroponic technology and produce a combined estimated 132 to 140 million pounds of premium quality greenhouse tomatoes annually. All of the greenhouses are constructed of glass, aluminum and steel, and are located on land owned or leased by the Company. The Company continually evaluates its production facilities and has devised a planting strategy that optimizes its product mix.

The following table outlines the Company’s greenhouse facilities.

Greenhouse Facility	Growing Area		Products Grown
	Square Metres	Acres	
Marfa, TX (3 greenhouses)	318,460	82	Tomatoes on-the-vine, beefsteak tomatoes, specialty tomatoes, cucumbers
Fort Davis, TX (1 greenhouse)	156,530	40	Tomatoes on-the-vine
Monahans, TX (1 greenhouse)	118,200	30	Tomatoes on-the-vine
Delta, BC (3 greenhouses)	441,168	110	Tomatoes on-the-vine, beefsteak tomatoes, specialty tomatoes
Total	1,034,358	262	

The Company 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 some of its greenhouse roofs for irrigation purposes;
- recycling water and nutrients during the production process;
- growing plants in natural medium including coconut fibre, rock wool as opposed to growing in the soil and depleting nutrients; and
- using dedicated environmental control computer systems which monitor and control almost all aspects of the growing environment thereby maximizing the efficient use of energy.

Sales, Marketing and Distribution

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 as well as product produced under exclusive arrangements with other greenhouse producers is marketed and distributed under its Village Farms® brand name and other brand names, primarily to retail supermarkets and dedicated fresh food distribution companies. The Company markets and distributes throughout the United States and Canada and currently operates four distribution centres located across the United States and Canada. The Company has always implemented a sustainable agriculture policy which integrates three main goals – environmental health, economic profitability and social and economic equality.

The Company seeks to maintain high standards in food safety and requires the same of its exclusive contract growers, while providing on-time, effective and efficient distribution. Management strives to continually exceed the expectations of its customers by providing consistently superior product including adding new product varieties and packaging innovations.

Management believes that the Company's distribution capabilities exceed that of any competitor in the North American greenhouse vegetable industry. With distribution centres in Texas, Delaware, Washington and British Columbia, the Company can provide its customers with flexibility in purchasing. Historically, the Company has had an on-time delivery record of over 99%, while maintaining competitive freight rates.

The 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 the Company's packing facilities have recently undergone successful 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 third-party produce) is sold directly to supermarket chains, including Associated Grocers, Associated Wholesale Grocers, BJ Wholesale Club Inc, Costco Wholesale, Fred Meyer,, HEB Grocery Company, The Kroger Co., Loblaw Companies, Market Basket, Meijer, Inc., Military Produce, Publix Super Markets, Inc., Safeway Inc., Safeway Canada, Unified Western Grocers, Wal-Mart Store, Inc., Wakefern Food Corp., Wegmans Food Markets Inc., Whole Foods Market, 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 believes that the Company has a competitive advantage through its logistics and distribution network which includes strategically located distribution centres.

Production and Packaging Process

The production process for the Company's Texas facilities starts in the spring. Raw materials purchased by the Company for its greenhouse operations include seeds, fertilizers and growing media purchased from several different suppliers. From April to June, the seeds purchased by the Company are grown by an independent third party contractor, which has specialized equipment and growing space, until the plants are approximately four to six weeks old, at which time they are transported to the Company's Texas facilities. None of the Company's plants or products is genetically modified.

June through September, planting occurs in the greenhouses. From this point on, until the end of the season, plants are pruned to ensure that the optimal number of tomatoes are grown on each plant. Harvesting commences in September/October and generally continues until June of the following year. The tomatoes are vine ripened and

hand-picked for optimum taste and quality. Once harvested, products are sorted by grade and weight and packed for distribution to customers. Grading lines are product specific and are highly automated. The Company offers a variety of packaging for its tomatoes that are product and customer specific.

The production process in Canada for tomatoes is similar to the Company's Texas operations, although the timing for growing the seeds, planting, and harvesting occur at different times during the year. Specifically, from October to December, the seeds purchased by the Company's Canadian operations are grown by an independent third party contractor. In December, planting occurs in the Company's greenhouses. Harvesting commences in March and generally continues until late November of each year. Once harvested, the Company offers a variety of packaging for its tomatoes.

Product Development and Specialization

The Company is engaged in ongoing testing of new technologies and advanced growing systems, including test trials of new tomato varieties to determine whether they improve product quality, taste and production yields, or lower the cost of production. The Company tests these tomato varieties for their maturation period, resistance to disease, the size and quality of the tomatoes as well as the tomatoes' shelf life and adaptability to seasonal changes in light. If a new variety shows promising characteristics, the Company will conduct a commercial trial where the new variety is planted on a larger scale, with performance results compared to the Company's existing tomato varieties.

Product Pricing

Prices for the Company's products have historically followed a seasonal trend of higher prices during the first and fourth quarters of the calendar year and lower prices in the summer months. This historical trend is rapidly changing with the ever-increasing supply of Mexican production, which due to Mexican climate conditions is concentrated in the winter months, as well the increasing influence of big box retailers who operate off partial to full year pricing contracts. Going forward, assuming these trends continue, pricing is likely to become less seasonal than it has been in the past. The Company's goal is to exceed industry average prices by continuing to develop long-term customer relationships, providing a favourable product mix and delivering logistic efficiencies.

Intellectual Property

The Company owns, and has registered in the United States, the following trademarks and service marks related to the marketing and sale of its greenhouse products: Village Farms®, Home Choice®, Baby Beefs®, From Our House To Your Home®, Hydroperfect®, Red Splendor®, Where Freshness is Always in Season®, Mini Sensations™, Hydrobites®, Sinfully Sweet Campari™, Delectable TOV™, Savory Roma™ Lip-Smackn' Grape™, Juicy Beefsteak®, Heavenly Villagio Marzano™, Exquisite Heirloom™, Scrumptious Mini™, Sweet Bell™, Pure Rebel™, Good for the Earth™, Barefoot PlanSM and Triana®. Some of these marks are also registered in Canada, such as Village Farms®, Sinfully Sweet® and Hydroperfect®, as well as in some other jurisdictions such as Mexico.

Competition

The market for premium greenhouse grown produce is highly competitive. In addition to other domestic and foreign greenhouse producers, the Company competes with producers of field grown tomatoes that generally have prices substantially below those of greenhouse-grown tomatoes. Competition from producers in Mexico has increased due to increased acreage and improved yields due to the use of improved technology as well as a result of the North American Free Trade Agreement.

The Company's greenhouse competitors are located primarily in the United States, Canada and Mexico. Four of the larger North American greenhouse producers/distributors competing with the Company are Eurofresh Farms, Inc., Mastronardi Produce Ltd., Windset Farms Inc. and Houweling Nurseries Ltd.

Offsetting the competitive pressures faced by the Company are substantial barriers to entry in North America related to the sizeable initial capital outlay requirements, significant ramp-up time, the need for operational expertise and capable sales, marketing and distribution abilities.

Employees

The Company has approximately 1,200 employees and contract workers, the majority of whom are employed in the Company's greenhouse operations. None of the employees is covered by a collective bargaining agreement. In the opinion of Management, the Company enjoys a good working relationship with its employees.

Capital Expenditures

The Company has made significant capital investments to increase productivity and increase facility capacity through expansion and new construction. During 2011 the Company incurred \$40.6 million in capital expenditures. Most of these costs, \$37.1 million were incurred on the Company's new 30-acre greenhouse based in Monahans, Texas. The balance of \$3.5 million were for improvements to existing facilities, distribution centers or information technology systems or hardware. For the foreseeable future, Management estimates that average annual maintenance capital expenditures will be approximately \$2.0 - \$3.0 million per year. This amount will consist mainly of technological upgrades and improvements to existing facilities. In addition to maintenance capital expenditures, the Company incurs ongoing repair and maintenance costs which are expensed as incurred and therefore not included in capital expenditures. These expenses averaged \$1.7 million per year during the last three fiscal years.

During 2012, Management anticipates capital investment spending of approximately \$7.0 million, to complete the Monahans greenhouse and support facilities, as well as \$4.0 million to install lights in the Company's Monahans greenhouse. In addition, the Company expects to spend approximately \$2.5 million on its existing facilities.

Energy Management Strategy

The Company employs the following energy management strategy:

- when feasible, contract for forward purchases of natural gas at favourable rates. During 2007, the Company secured a five year fixed purchase contract for the majority of its natural gas requirement at its Texas greenhouse facilities for \$8.38 per delivered one million British thermal units ("MMBTU");
- develop techniques to reduce the use of natural gas. The Company has installed energy screens in all of its U.S. greenhouse facilities and most of its Canadian greenhouse facilities and has experienced a substantial reduction in gas usage;
- continue to investigate methods to extract food grade CO₂ from the landfill gas at the Delta, BC greenhouse facilities;
- continue to investigate alternate fuels, such as biomass or woodwaste; and
- continue to investigate the concept of closed greenhouses and the use of geothermal energy.

Foreign Exchange Strategy

The Company's reporting currency is the U.S. dollar to more accurately represent the economic environment in which it operates.

For the 2012 fiscal year, it is expected that approximately 80% to 85% of the Company's costs will be incurred in U.S. dollars, and approximately 80% to 85% of its revenues will be earned in U.S. dollars. As a result, Management believes that the Company is benefiting from a "matching" of revenues and expenses by currency. The Company also has the ability to enter into foreign exchange contracts and foreign exchange options for the purchase of Canadian dollars in order to reduce the risks of exchange rate fluctuations affecting the level of Canadian dollars needed for Canadian operations, as well as purchase of Euros affecting both its Canadian and US operations.

Environmental and Regulatory Matters

Greenhouse operations in the United States are subject to numerous environmental laws and regulations, including the *Food Quality Protection Act of 1996*, the *Clean Air Act*, the *Clean Water Act*, the *Resource Conservation and Recovery Act*, the *Federal Insecticide, Fungicide and Rodenticide Act*, the *Toxic Substances Control Act* and the *Comprehensive Environmental Response, Compensation and Liability Act*.

The Company's U.S. greenhouse operations are subject to regulations enforced by, among others, the U.S. Food and Drug Administration ("FDA") and the United States Department of Agriculture ("USDA"). The FDA enforces statutory standards regarding the branding and safety of food products and determines the safety of food substances in the United States. The USDA sets standards for raw produce and governs its inspection and certification. Under the *Perishable Agricultural and Commodities Act*, the USDA exercises broad control over the marketing of produce in domestic and foreign commerce, sets standards of fair conduct as to representations, sales, delivery, shipment and payment for goods, and regulates the licensing of produce merchants and brokers. The Company's U.S. growing operations are also subject to oversight by the U.S. Environmental Protection Agency regarding the use of fertilizers and pesticides protection.

Similar to the U.S. regulatory requirements described above, the Company's Canadian operations are subject to various general commercial regulations, including those relating to food safety, packaging and labelling, occupational health and safety, phyto-sanitary certificates for cross-border shipments, product source and re-call capability, and anti-bioterrorism measures for cross-border shipments.

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.

The *Natural Products Marketing (BC) Act* (the "Act") and certain federal orders issued under the *Agricultural Products Act* (Canada) give the British Columbia provincial government the authority to regulate the marketing and production of specific agricultural products. The British Columbia Marketing Board ("BCMB") was created in 1935 to supervise and regulate marketing boards and commissions created under the Act. Independent of government, the BCMB's primary mandate today is to administer the regulated marketing legislation in the public interest. The BCMB has three principal responsibilities: supervising all marketing boards and commissions; hearing appeals from organizations or persons who are dissatisfied or aggrieved by a decision of a marketing board or commission; and acting as a signatory to federal provincial agreements that govern the marketing of some regulated products.

British Columbia Vegetable Marketing Commission

The BCVMC has responsibility for promoting and regulating the production, transportation, packing, storage and marketing of regulated vegetables in British Columbia. It also requires greenhouse growers to market through agencies licensed by the BCVMC to encourage the orderly distribution of regulated products. The BCVMC has the right to regulate the time and place at which, and to designate the agency through which, a regulated product must be produced, packed, stored, transported or marketed, and can also determine the manner of distribution, the quantity and the quality, grade or class of these products. It can also (but in the case of greenhouse tomatoes and

bell peppers currently does not) set the prices at which a regulated product or a grade or class of it may be bought or sold in British Columbia

Agency and Producer Licenses

The BCVMC issues licenses to agencies and producers in British Columbia on an annual basis by way of general orders passed by the BCVMC. Licensed agencies are authorized to purchase greenhouse vegetables from licensed producers and to market those vegetables within British Columbia and for interprovincial or export trade. The Company, through one its Canadian subsidiaries, has been authorized to buy and sell produce grown in British Columbia since February 6, 2007.

Licensed producers, such as VF Canada LP, operate the facilities in which greenhouse vegetables are produced and must be a member of an agency licensed by the BCVMC. Only producers licensed by the BCVMC can sell their products to an agency licensed by the BCVMC.

Quota

Each year, VF Canada LP is allocated a quota by the BCVMC to plant a specified number of square metres of its greenhouses with a particular crop. There are no restrictions on the amount of product that VF Canada LP can produce in its allocated quota area. The table below summarizes VF Canada LP's allocations since 2010 at the start of each year:

(square metres)	2012	2011	2010
Tomatoes on-the-vine	272,144	276,459	276,459
Beef tomatoes	98,784	98,784	98,784
Specialty tomatoes	69,632	65,317	65,317
Total	440,560	440,560	440,560

VF Canada LP retains the right to be allocated the same amount of quota for each subsequent crop year. However, VF Canada LP can, and often does, apply for changes in specific quota allocations to optimize product mix and improve financial returns.

DESCRIPTION OF THE COMPANY

Common Shares

The Company is authorized to issue an unlimited number of Common Shares. Each Common Share entitles the holder thereof to receive notice of and to attend all meetings of shareholders of the Company and to one vote per Common Share at such meetings (other than meetings at which only the holders of another class of shares are entitled to vote separately as a class). The Common Shares entitle the holders thereof to receive, in any year, dividends on the Common Shares as and when declared by the board of directors of the Company, provided that payment of such dividends is not prohibited under law and after payment of any applicable amounts to which holders of any Preferred Shares may be entitled. In the event of the liquidation, dissolution or winding-up of the Company, whether voluntary or involuntary, after payment of or other proper provision for all of the liabilities of the Company and the payment of any amounts payable to holders of the Preferred Shares, the holders of the Common Shares will be entitled to share *pro rata* in all remaining property or assets of the Company.

The ability of a beneficial owner of Common Shares to pledge such Common Shares or otherwise take action with respect to such shareholder's interest in such Common Shares (other than through a CDS Participant) may be limited due to the lack of a physical Common Share certificate.

The Company has the option to terminate the registration of the Common Shares through the book-entry system in which case definitive certificates for the Common Shares in fully registered form would be issued to beneficial owners of such Common Shares or their nominees.

Special Shares

The Company is authorized to issue an unlimited number of Special Shares. The holders of Special Shares are entitled to one vote for each Special Share held at all meetings of shareholders of the Company other than meetings at which only the holders of another class of shares are entitled to vote separately as a class; 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 Special Shares then outstanding. In certain circumstances, the holders of Special Shares will not be entitled to vote separately as a class and are will not be entitled to dissent. The holders of Special Shares will not be entitled to share in any distribution of the property or assets of the Company upon the dissolution, liquidation or winding-up of the Company, whether voluntary or involuntary, or in the event of any other distribution of assets of the Company among its shareholders for the purpose of winding-up its affairs. The provisions of the Special Shares cannot be modified by the Company without first obtaining, by separate affirmative vote, two-thirds of the votes cast at a meeting of the holders of the shares of such class.

The holders of Special Shares are not entitled to receive any dividends. The Company may redeem the Special Shares from time to time in connection with the exercise of the Exchange Rights by holders of the Participating Preferred Shares. The number of Special Shares that the Company may redeem at such time will equal the number of Common Shares issued upon any exchange of Participating Preferred Shares for Common Shares.

Preferred Shares

The Company is authorized to issue an unlimited number of Preferred Shares. The Company's board of directors will fix the number of Preferred Shares, as well as the designation, rights, privileges, restrictions and conditions for each series of Preferred Shares that may be issued, subject to the Company filing the applicable articles of amendment under the CBCA. Preferred Shares will have preference over Common Shares with respect to the payment of dividends and in the distribution of assets in the event of the liquidation, dissolution or winding-up of the Company, be it voluntary or involuntary, or any other distribution of the assets of the Company among its shareholders for the purpose of winding-up its affairs. Preferred Shares will have no right to vote on shareholder matters, subject to certain exceptions. No changes to the provisions of the Preferred Shares may be made without the approval of the holders of the Preferred Shares.

Retained Interest of the Village Farms Owners

The Village Farms Owners hold 192,739.51 Participating Preferred Shares which, if exchanged for Common Shares pursuant to the Exchange Rights, would be exchangeable for 19,273,951 Common Shares, representing approximately 49.9% of the outstanding Common Shares. The Participating Preferred Shares are exchangeable by the Village Farms Owners for freely tradable Common Shares of the Company on a 1 - for - 100 basis (subject to adjustment as described below).

The Participating Preferred Shares carry rights to dividends from U.S. Holdings concurrently and *pro rata* with dividends paid by the Company on the Common Shares (the "Corresponding Cash Dividend"), based on the number of Common Shares that would be owned by the Village Farms Owners assuming the exercise in full of the Exchange Rights for Common Shares, such that each holder of Participating Preferred Shares receives dividends as if such holder were a holder of Common Shares (the "Preferred Distribution"), subject to certain conditions. U.S. Holdings

has two directors and the holders of the Participating Preferred Shares in conjunction with the holders of the common shares of U.S. Holdings, as a single class, to designate the directors of U.S. Holdings.

The Special Shares enable the holder to vote on all matters at any meeting of shareholders of the Company on the basis of one vote for each Special Share held; 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. Pursuant to the Securityholders' Agreement, the Village Farms Owners are entitled to transfer their Participating Preferred Shares to VF Opco in exchange for either Common Shares or cash pursuant to the Exchange Rights, as described below. In the event that VF Opco is unable to honour the Exchange Rights, the Company shall direct another subsidiary entity of the Company to satisfy the obligation to deliver Common Shares or cash, as applicable, in connection with the exercise of the Exchange Rights (a "Company Election"). The Company will guarantee the performance of the obligation to honour the Exchange Rights by VF Opco or another designated subsidiary entity of the Company, as applicable.

Pursuant to the Securityholders' Agreement, the Company has granted to VF Opco the right to indirectly acquire Common Shares or cash (at the option of the Company) in exchange for securities of VF Opco (the "VF Opco Exchange Rights"). The VF Opco Exchange Rights shall be assigned by VF Opco to any other subsidiary entity of the Company that is designated by the Company in the event of a Company Election. If a holder of Participating Preferred Shares exercises the Exchange Rights, the Common Shares indirectly received by VF Opco, or in the event of a Company Election such other subsidiary entity of the Company, upon its exercise of the VF Opco Exchange Rights will, in turn, be delivered to the holder that is exchanging its Participating Preferred Shares.

In the event that there are any accrued and unpaid dividends with respect to the Participating Preferred Shares at the time of exchange, subject to the approval of the TSX, the exchange ratio then in effect shall be adjusted with respect to the Participating Preferred Shares so that, after giving effect to such adjustment, the holder shall be entitled to receive on the exchange an additional number of Common Shares equal to the quotient of the aggregate amount of the accrued and unpaid dividends on the Participating Preferred Shares over the market price (defined in the Securityholders' Agreement as the weighted average trading price of the Common Shares for three trading days on the TSX ending on and including such date) per Common Share at such time.

If a Village Farms Owner would otherwise be entitled to exercise a registration right (as described below) (a "Registration Cash Right") and elects to sell some or all of its Participating Preferred Shares for cash, that Village Farms Owner will receive cash in an amount equal to the gross proceeds received by the Company from a public distribution of Common Shares, by way of prospectus, of the number of Common Shares which would be issued to that Village Farms Owner assuming the Exchange Rights in respect of that number of Participating Preferred Shares were exercised in full for Common Shares, less the aggregate of (A) underwriting fees, discounts and/or selling commissions applicable to that distribution and (B) any and all applicable reasonable out-of-pocket expenses incurred by the Company in connection with that distribution (the "Distribution Cash"). If a Village Farms Owner exercises its Exchange Rights for Common Shares and is unable to exercise a Registration Cash Right, such Village Farms Owner will receive Common Shares, subject to the right of the Company, upon decision of a majority of its directors to elect whether to deliver Common Shares or Distribution Cash.

The number of Common Shares to be delivered on exercise of the Exchange Rights will be subject to anti-dilution protections, providing for adjustments in the ratio upon the occurrence of certain events, including any distribution on the Common Shares, any subdivision or consolidation of the outstanding Common Shares, any reclassification of the Common Shares outstanding, any capital reorganization of the Company or reclassification of its capital stock, any consolidation, merger with or into another entity or sale, transfer or disposition of all or substantially all of the Company's property to another person.

The exercise of the Exchange Rights will be subject to applicable securities laws and stock exchange requirements. The rights under the Securityholders' Agreement may be assigned by the Village Farms Owners in whole or in part in connection with a permitted transfer of Participating Preferred Shares.

Subject to the terms of the Securityholders' Agreement, the Company has granted to the Village Farms Owners "demand" and "piggy-back" registration rights, which will enable the Village Farms Owners to require the Company to file a prospectus (in the case of a demand registration) and otherwise assist with a public offering of Common Shares, subject to certain limitations. In the event of a "piggy-back" offering, the Company's financing requirements are to take priority.

Concurrently with the completion of the Combination Transaction, the Fund, U.S. Holdings and Michael A. DeGiglio, and the other APDI shareholders entered into a trust agreement with Computershare Trust Company of Canada, as trustee, and U.S. Holdings (the "Trust Agreement"). The Trust Agreement provides, among other things, that each of U.S. Holdings, Michael A. DeGiglio and the other ADPI shareholders (together with certain of their personal holding companies) agree not to sell any Participating Preferred Shares, respectively, directly or indirectly, pursuant to a non-exempt takeover bid, unless a concurrent bid is made to all holders of Common Shares. The concurrent offer must be: (i) for the same percentage of Common Shares as the percentage of the Participating Preferred Shares offered to be purchased; and (ii) the same in all material respects as the offer for the Participating Preferred Shares.

Book-Entry System

Registration of interests in and transfers of the Common Shares are made only through the book-entry system administered by CDS. The Company has delivered to CDS one or more global share certificates evidencing the aggregate number of Common Shares that are currently issued and outstanding. Common Shares must be purchased, transferred and surrendered for redemption through a shareholder's applicable CDS Participant. All rights of shareholders must be exercised through, and all payments or other property to which such shareholder is entitled will be made or delivered by, CDS or the CDS Participant through which the shareholder holds such Common Shares. Upon the purchase of any Common Shares, a shareholder will receive only a customer confirmation from their applicable CDS Participant through which the Common Shares were purchased.

Financial Year End

The fiscal year end of the Company is December 31.

DESCRIPTION OF U.S. HOLDINGS

U.S. Holdings was incorporated under the laws of the State of Delaware on March 27, 2006 to be the purchaser of the shares of APDI in the Combination Transaction, and to serve as the holding company for the Company's U.S. operating entities.

Share Capital of U.S. Holdings

The authorized share capital of U.S. Holdings consists of 100,000 common shares and 300,000 Participating Preferred Shares. VF Canada LP indirectly owns approximately 100% of the issued and outstanding common shares of U.S. Holdings, and as at the date hereof the Village Farms Owners own 100% of the issued and outstanding Participating Preferred Shares.

Common Shares

Each common share entitles the holder thereof to receive notice of and to attend all meetings of shareholders of U.S. Holdings and to one vote per share at such meetings (other than meetings of another class of shares of U.S. Holdings). The common shares entitle the holders thereof to receive, in any year, dividends on the common shares as and when declared by the board of directors, provided that payment of such dividends is not prohibited under law. Upon the voluntary or involuntary liquidation, dissolution or winding-up of U.S. Holdings, the holders of U.S. Holdings common shares are entitled to share rateably in the remaining assets available for distribution, after

payment of liabilities and subject to the prior rights of the holders of the Participating Preferred Shares and any other shares ranking senior to the common shares.

Participating Preferred Shares

Pursuant to the Securityholders' Agreement, holders of the Participating Preferred Shares are entitled to have Participating Preferred Shares exchanged in whole or in part from time to time for Common Shares, on the basis of one hundred Common Shares for each Participating Preferred Share (subject to adjustment in certain circumstances) or the cash equivalent, as described under "Description of the Company — Retained Interest of the Village Farms Owners".

The Participating Preferred Shares carry rights to dividends from U.S. Holdings concurrently and *pro rata* with dividends declared by the Company on the Common Shares (the "Corresponding Cash Dividend"), based on the number of Common Shares that would be held assuming the exercise in full of the Exchange Rights for Common Shares; in other words each holder of Participating Preferred Shares receives dividends from U.S. Holdings as if such holder were a holder of Common Shares (the "Preferred Distribution"), subject to certain conditions. However, if a Corresponding Cash Dividend is not paid when called for, then the unpaid amount of such dividend shall cumulate from the date on which the corresponding dividend on the Common Shares is paid to the holders of outstanding Common Shares and be paid out of funds legally available therefore, on the next date on which a dividend becomes payable, or such earlier date when, as and if declared by the board of directors of U.S. Holdings. Upon a payment default of all or a portion of the Corresponding Cash Dividend, the holders of Participating Preferred Shares shall be (i) entitled to receive 150% of the Corresponding Cash Dividend that would have been payable upon the occurrence of such default and (ii) until all unpaid amounts have been paid in full, be entitled to receive 150% of all future Corresponding Cash Dividends. The Company is not obligated to provide funds to U.S. Holdings to enable U.S. Holdings to pay dividends on the Participating Preferred Shares. The holders of U.S. Holdings' common shares shall only be entitled to distributions if the holders of Participating Preferred Shares have received the Preferred Distribution. In the event of the winding-up, dissolution or liquidation of U.S. Holdings, the Participating Preferred Shares are entitled to distributions, out of the assets available therefore, in an amount equal to the value of the Participating Preferred Shares, based on the number of Common Shares that would be held assuming the exercise in full of the Exchange Rights for Common Shares and the weighted average trading price of the Common Shares on the TSX for the three trading days ending on and including the date of winding-up, dissolution or liquidation, together with any accrued and unpaid dividends on the Participating Preferred Shares.

The holders of Participating Preferred Shares will not be entitled to vote at a meeting of shareholders other than with respect to matters as to which the holders of Participating Preferred Shares are entitled by law to vote as a class or series, and provided that the affirmative vote or written consent of the holders of at least a majority of the outstanding Participating Preferred Shares, voting as a single class, is required to: (i) amend the rights, preferences, privileges or powers of the Participating Preferred Shares in any manner that adversely affects such holders including by way of merger or consolidation and including any changes to matters relating to the Special Shares and rights with respect hereto; (ii) increase or decrease the number of authorized or issued Participating Preferred Shares (or any securities convertible into or exchangeable for any additional Participating Preferred Shares); (iii) authorize, create (by way of reclassification or otherwise) or issue any class or series of capital stock which ranks senior to or on parity with the Participating Preferred Shares with respect to voting, the payment of dividends, redemptions or distributions upon liquidation or otherwise (including, without limitation, any securities convertible into or exchangeable for any shares of such class or series of capital stock); (iv) amend, repeal or alter U.S. Holdings' certificate of incorporation or by-laws in a manner that adversely affects such holders; (v) change the size of the board of directors or the voting rights of the directors; or (vi) approve any arrangement or contract to do any of (i) through (v) above.

The holders of the Participating Preferred Shares are subject to the transfer restrictions as set forth in the constating documents of U.S. Holdings.

Taxes

U.S. Holdings files a consolidated tax return that includes the operations of APDI and VFLP.

CREDIT FACILITIES

Credit Facilities

The following summary describes the provisions of the credit facilities among VF Canada LP (the "Borrower") and a Canadian chartered bank (the "Bank") (the "Credit Facilities"). This summary does not purport to be a complete description of the Credit Facilities. The Credit Facilities include (i) a revolving variable rate operating loan of up to CA\$15,000,000 with a term of 364 days (the "Operating Loan"), (ii) a non-revolving variable rate capital loan of up to \$49,500,000 (drawn down and outstanding on December 31, 2011 – \$47,772,058), which matures on September 30, 2014 (the "Term 1 Loan"), (iii) a non-revolving variable rate capital loan of up to \$28,000,000 (drawn and outstanding as at December 31, 2011- \$21,083,000) which matures on September 30, 2014 (the "Term 2 Loan") and together with the Term 1 Loan, the "Term Loans", (iv) an interest rate swap facility with respect to interest payable under the Capital Loan (the "Interest Rate Swap Facility"), and (v) a foreign exchange contracts facility for the purchase and/or sale of U.S. funds (the "FX Facility"). Interest payable on funds borrowed under the Operating Loan and the Term Loans is calculated by way of one or more of Canadian Prime Rate borrowings, U.S. Base Rate borrowings, LIBOR borrowings, or any combination thereof. The Operating Loan is subject to annual renewal by the Bank. Subject to acceleration upon an event of default, the outstanding balances of the Term Loans will be repayable by way of monthly instalments of principal and interest (based on an amortization of the Term 1 Loan in full over a period of 17 years and the Term 2 Loan of 20 years), with the balance of the term loans and all unpaid accrued interest to be paid in full on September 30, 2014. As of the date hereof, approximately \$48.5 million remains outstanding in respect of the Term 1 Loan, approximately \$23.7 million was drawn and outstanding in respect of the Term 2 Loan, and \$4.4 of borrowings remain outstanding in respect of the Operating Loan. The debt which comprises the Credit Facilities is, in all cases, senior in priority to the securities of VF Canada LP indirectly held by the Company.

As security for the borrowings, VF Canada LP has provided, among other things, promissory notes, a first mortgage on all of the greenhouse properties, and general security agreements over its assets. The borrowings are subject to certain positive and negative covenants customary for loans on terms similar to the Credit Facilities. The Company and certain of its direct and indirect subsidiaries, including APDI, have provided full recourse guarantees of the Credit Facilities and have granted security therefore. As at December 31, 2011, and the date hereof the Company was and is in compliance with all covenants.

The Company has two (2) fixed-for-floating interest rate swap agreements effective from January 25, 2012 through January 25, 2013 in the notional amount of \$39,700,000 in order to reduce the interest rate variability on its Term 1 Loan. The Company has effectively fixed its interest expense on its Term Loans at 6.94%. The Company cannot designate the swap agreements as a hedge for accounting purposes. The Company recognized a gain of \$247,000 for the year ended December 31, 2011 which represented the mark-to-market adjustment of the interest rate swap agreements. The fair value of the interest rate swap agreements as at December 31, 2011 was a liability of (\$1,286,000).

In September 2012, the Company continued its previous variable rate \$30 million U.S. dollar hedging facility. As of December 31, 2011, no borrowings were outstanding in respect of the FX Facility.

ADMINISTRATION, SERVICES AND EMPLOYMENT AGREEMENTS

Governance Arrangements

Governance of the Company

The Governance Arrangements provide for a minimum of a three person board of directors and a maximum of ten directors. The current six members of the Company's board of directors are John R. McLernon, who is the independent Chairman, Christopher C. Woodward, David Holewinski, John P. Henry, Heinz Wehner and Michael A. DeGiglio, who will hold office until the annual general meeting of the Company in 2012.

Governance of U.S. Holdings

The number of members of the board of directors of U.S. Holdings is set at two. The current members are Michael A. DeGiglio and Stephen C. Ruffini.

A majority of the members of the board of directors of U.S. Holdings must be non-residents of Canada.

See "Risk Factors — Risks Relating to the Company — Control of the Company".

Share-based Compensation Plan

Background

The Company adopted the Compensation Plan on December 31, 2009 in order to attract and retain directors, officers, employees and service providers to Company and to motivate them to advance the interests of Company by affording them with the opportunity to acquire an equity interest in Company. The Compensation Plan is compliant with the current policies of the TSX. The following is a summary of the Compensation Plan.

The Compensation Plan - "Rolling" Maximum Reserve

The TSX permits the adoption of a "rolling" type of share-based compensation plan whereby the number of shares available for issuance under the plan will not be greater than a rolling maximum number equal to a percentage of the outstanding shares. The Compensation Plan provides that the number of Shares reserved for issuance upon the exercise or redemption of awards granted under the Compensation Plan is a rolling maximum number that shall not be greater than ten percent (10%) of the outstanding Common Shares at any point in time. Currently, the Company has 19,433,394 Common Shares outstanding. Therefore, up to 1,943,339 Common Shares may be reserved for issuance under the Compensation Plan. The purpose of a "rolling" type of share based compensation plan is to ensure that a sufficient number of Common Shares remains issuable under the Compensation Plan at all times to meet the overall objective of the Compensation Plan. Any exercise, redemption, expiry or lapse of awards will make new grants available under the Compensation Plan effectively resulting in a "re-loading" of the number of awards available to be granted.

The Compensation Plan - Types of Awards

The Compensation Plan is an omnibus share-based compensation plan, pursuant to which Company is authorized to award options, stock appreciation rights, deferred share units, restricted share units, restricted stock and other share-based awards, which may be settled in shares issued from treasury or in cash.

An option is a right to purchase a Common Share for a fixed exercise price. A stock appreciation right is a right to either a cash payment or the issuance of Common Shares with a market price equal in value to the difference between the exercise price and the fair market value of a Common Share. A stock appreciation right may be granted in relation to an option or on a stand-alone basis. A deferred share unit is a right to a Common Share or a cash

payment equal to the fair market value of a Common Share redeemable only after the participant has ceased to hold all positions with Company and its affiliates. A restricted share unit is a right to a Common Share or a cash payment equal to the fair market value of a Common Share redeemable after the passage of time, the achievement of performance targets or both. A restricted share is a Common Share issued subject to conditions which may include the passage of time, the achievement of performance targets or both. Any voting rights and entitlements to dividends in respect of restricted shares will be determined by the board of directors of Company on the date of grant and will be set out in the applicable award agreement. Other share-based awards are awards which provide for the issuance of a Common Share or a payment equal to the fair market value of a Common Share on such terms and conditions as Company determines.

When dividends are paid on the Common Shares, an additional number of restricted share units and deferred share units, as the case may be, will be credited to the eligible holder thereof. The additional units credited will be determined as the amount of the dividend multiplied by the number of restricted share units or deferred share units, as the case may be, credited to the eligible holder thereof at the dividend payment date, and divided by the market price on the dividend payment date.

The Compensation Plan – Other Terms

The Compensation Plan authorizes the board of directors of Company (or a committee of the board of directors if so authorized by the board of directors) to grant awards to “Eligible Persons”. Eligible Persons are directors, officers, employees, consultants, management company employees and any other service providers of Company or its affiliates.

The aggregate number of Common Shares issued to insiders of Company within any one (1) year period under the Compensation Plan, together with any other security based compensation arrangement, cannot exceed 10% of the outstanding Common Shares. In addition, the aggregate number of Common Shares issuable to insiders of the Company at any time under the Compensation Plan, together with any other security based compensation arrangement, cannot exceed ten percent (10%) of the outstanding Common Shares. There are otherwise no limits on the maximum number of awards that may be issued to any single Eligible Person, unless the Eligible Person is an insider (under applicable securities legislation) in which case the maximum award is ten percent (10%) of the outstanding Common Shares.

The date of grant, the number of Common Shares, the vesting period and any other terms and conditions of awards granted pursuant to the Compensation Plan are determined by the board of directors of Company, subject to the express provisions of the Compensation Plan.

The exercise price of an option and a stock appreciation right will be the closing price of the Common Shares on the TSX for the trading day immediately preceding the date of the grant. There is no exercise price for other awards. The purchase price for restricted stock will generally be nil, although past service may be treated as consideration for the grant of restricted stock.

Unless otherwise specified by the board of directors of Company at the time an option is granted under the Compensation Plan, (i) the term of the option will be ten (10) years from the date of the grant (which is the maximum allowable term under the Compensation Plan), unless the expiry of the term falls during a black-out (or within ten (10) days following the end of blackout) from trading in the securities of Company imposed on certain persons including the optionee pursuant to any policies of Company; and where such black-out applies, the expiry of the term of the option shall automatically be extended to ten (10) business days following the end of the black-out; and (ii) the option will vest as to one-third ($\frac{1}{3}$) on each of the first three anniversaries of the date of grant.

Subject to the terms of the award agreement and the discretion of Company to accelerate the vesting of an award, or extend the term of an award (but not to later than the original expiry date of the awards), awards will terminate immediately upon the holder ceasing to be an Eligible Person, provided however, in the event of: (i) death, the award continues to be exercisable or redeemable for a period up to six (6) months from the date of death, or (ii)

termination without cause, the award continues to be exercisable or redeemable for a period up to ninety (90) days from the date of termination.

For stock appreciation rights, the market appreciation is the fair market value of a share, based on the closing price on the date prior to the exercise date, minus the exercise price. Stock appreciation rights can be granted in relation to an option either at the date of grant or at the later date.

For stock appreciation awards which are granted in relation to an option, the vesting, term and other terms and conditions will be the same as for the related option and the exercise of the stock appreciation right will result in a cancellation of the related option and *vice versa*.

For stock appreciation rights which are not granted in relation to an option and for all other awards, the vesting, redemption and expiry terms will be set out in the award agreement and the terms and conditions of the award will be as set out in the award agreement, or as otherwise set out in the Compensation Plan.

In the event an offer is made for the Common Shares which would result in the offeror exercising control of Company within the meaning of applicable securities laws, the board of directors of Company may, in its discretion, provide that any options then outstanding which are not otherwise exercisable may be exercised, in whole or in part, so as to allow the optionee to tender the Common Shares received upon such an exercise.

Awards are non-assignable. No financial assistance is provided to any Eligible Person to facilitate the purchase of Common Shares under the Compensation Plan.

The Compensation Plan contains a formal amendment procedure. The board of directors of Company may amend certain terms of the Compensation Plan without requiring the approval of Company shareholders, unless specifically required by the TSX. Amendments not requiring shareholder approval include, without limitation:

- (a) altering, extending or accelerating option vesting terms and conditions;
- (b) amending the termination provisions of an option;
- (c) accelerating the expiry date of an option;
- (d) determining adjustments pursuant to the provisions of the Compensation Plan concerning corporate changes;
- (e) amending the definitions contained in the Compensation Plan;
- (f) amending or modifying the mechanics of exercising or redeeming awards;
- (g) amending provisions relating to the administration of the Compensation Plan;
- (h) making “housekeeping” amendments, such as those necessary to cure errors or ambiguities contained in the Compensation Plan;
- (i) effecting amendments necessary to comply with the provisions of applicable laws; and
- (j) suspending or terminating the Compensation Plan.

The Compensation Plan specifically provides that the following amendments require shareholder approval:

- (a) increasing the number of Common Shares issuable under the Compensation Plan, except by operation of the “rolling” maximum reserve;

- (b) amending the Compensation Plan which amendment could result in the aggregate number of Common Shares issued to insiders within any one year period or issuable to insiders at any time under the Compensation Plan, together with any other security based compensation arrangement, exceeding ten percent (10%) of the outstanding Common Shares;
- (c) extending the term of any award beyond the expiry of the original term of the award;
- (d) reducing the option price or cancelling and replacing options with options with a lower exercise price;
- (e) amending the class of Eligible Persons which would have the potential of broadening or increasing participation in the Compensation Plan by insiders;
- (f) amending the formal amendment procedures; and
- (g) making any amendments required to be approved by the Company shareholders under applicable law.

As at December 31, 2011 and March 22, 2012 awards relating to an aggregate of 1,014,999 and 1,164,999, respectively Common Shares had been granted under the Compensation Plan.

RISK FACTORS

The risks and uncertainties described below are not the only risks and uncertainties facing the Company. Additional risks and uncertainties not currently known to Management or that Management currently deems immaterial also may impair the operations of the Company. If any of the following risks actually occur, our business, results of operations and financial condition, could be adversely affected.

Risks Relating to the Company

Product Pricing

The greenhouse vegetable industry is highly competitive and sensitive to changes in the price of greenhouse tomatoes, bell peppers and cucumbers. The price of greenhouse produce is affected by many factors including supply and demand, negotiations between buyers and sellers, quality and general economic conditions, all of which could have a material adverse effect on the financial condition of the Company. Demand for the Company's products is subject to fluctuations resulting from adverse changes in general economic conditions, evolving consumer preferences, nutritional and health-related concerns and public reaction to food spoilage or food contamination issues. General supply of tomatoes, bell peppers and cucumbers is subject to fluctuations relating to weather, insects, plant disease and changes in greenhouse acreage. There can be no assurance that consumption will increase or that present consumption levels will be maintained. If consumer demands for greenhouse produce decreases, the Company's financial condition and results of operations may be materially adversely affected.

Maintain Profitability

The Company's ability to continue to generate comparable net earnings is based, in part, on its ability to maintain its low cost structure to sustain its EBITDA margins. These margins are dependent upon the Company's ability to continue to profitably sell produce and to be the supplier of choice to its customers. The failure to develop and successfully adapt new products at favourable margins or an increase in cost of goods or operating costs could have a material adverse effect on the financial condition, results of operations, and cash available.

A principal objective of the Company is to pursue operational efficiencies. Profitability depends in significant measure on its ability to, among other things, successfully manage, identify and implement operational efficiencies.

There can be no assurance that the Company will be successful in managing its cost control and productivity improvement measures.

Risks Inherent in the Agricultural Business

The Company's revenue involves the growing of greenhouse produce, an agricultural product. As such, the Company is subject to the risks inherent in the agricultural business, such as weather, insects, plant diseases and similar agricultural risks. Although the Company grows its products in climate-controlled greenhouses, carefully monitors the growing conditions within its greenhouses and retains experienced production personnel, there can be no assurance that natural elements will not have a material adverse effect on the production of its products.

The Company experienced a production setback at one of its Texas greenhouses as a result of a plant virus transmitted by the silver leaf whitefly (the only insect that can carry the virus) which is not native to West Texas in the fall of 2010, which has had a detrimental impact on the yield from this greenhouse for the 2010/11 growing season. The Company had never experienced this insect before.

Natural Catastrophes

The Company's operations may be adversely affected by severe weather including wind, snow and rain, which may result in its operations having reduced harvest yields due to lower light levels. Although the Company anticipates and factors in certain periods of lower than optimal light levels, extended periods of severe or unusual light levels may adversely impact its financial results due to higher costs and missed sales opportunities arising from reduced production yields.

The Company's business operations, some of which are located on the British Columbia coast, are located in an area that is geologically active and considered to be at risk from earthquakes.

Climate change over time is predicted to lead to changes in the frequency of storm events as well as their severity. The Company is unable to predict the impact of climate change on its business.

While the Company maintains insurance coverage to the extent deemed prudent, it cannot predict that all potential insurable risks have been foreseen or that adequate coverage is maintained against known risks.

Vulnerability to Rising Energy Costs

The Company's greenhouse operations consume considerable energy for heat and carbon dioxide production, and are vulnerable to rising energy costs. Energy costs have shown volatility, which has and may continue to adversely impact the Company's cost structure. Should the cost of energy continue to rise, and should the Company face difficulties in sustaining price increases or further increasing prices to offset the impact of increasing fuel costs, gross profit margins could be adversely impacted. See "Description of the Business — Energy Management Strategy".

Competition

The greenhouse vegetable industry in North America is highly competitive. The Company faces competition from numerous greenhouse operators throughout North America and, to a lesser extent, Europe. Some of the Company's competitors have strong economic resources and are well established as suppliers to the markets in which the Company's products are sold. Accordingly, such competitors may be better able to withstand volatility within the industry and challenging economic times due to retaining greater operating and financial flexibility than the Company. There can be no assurance that the Company will be able to compete successfully against its current or future competitors or that such competition will not have a material adverse effect on the Company's financial condition and results of operations and the amount of cash available for distribution to shareholders.

Labour

The Company's operations are labour intensive, particularly during peak harvest months. In Canada, most of the Company's labour is supplied by contract labour suppliers on short-term contracts and workers hired through the Seasonal Agriculture Workers Program. There can be no assurance that the Company will be able to source sufficient skilled labourers in the future. In the case of the facilities in Texas, a significant portion of the Company's labour is documented workers in Mexico who cross the U.S. border on a daily basis into Texas. There can be no assurance that the Company would not be impacted by any decision relating to control of the U.S./Mexico border. Any shortage of such labour could restrict the ability of the Company to operate its greenhouses and to distribute its product to its customers.

Efforts by labour unions to organize the Company's employees could divert management attention away from regular day-to-day operations and increase the Company's operating expenses. Labour unions may make attempts to organize the Company's non-unionized employees. Management is not aware of any activities relating to union organizations at any of its greenhouse facilities. Management cannot predict which, if any, groups of employees may seek union representation in the future or the outcome of any collective bargaining. If the Company is unable to negotiate acceptable collective bargaining agreements, it may have to wait through "cooling off" periods, which are often followed by union initiated work stoppages, including strikes. Depending on the type and duration of any work stoppage, the Company's operating expenses could increase significantly, which could have a material adverse effect on its financial condition, results of operations and cash flows.

Foreign Exchange Exposure

The Company estimates that approximately 80% to 85% of its sales will be recorded in U.S. dollars; as such it is necessary to convert U.S. dollars to Canadian dollars and Euros to pay for some of its production and overhead costs. Any foreign currency hedge arrangements that the Company has entered into may not protect it against any losses which may occur as a result of a fluctuation in the U.S./Canadian dollar or U.S./Euro exchange rates. As a result, such fluctuations may have an adverse impact on the Company's financial results and the amount of free cash flow available for distribution to shareholders.

Key Executives

The Company depends heavily on each member of its management team and the departure of a member of management could cause its operating results to suffer. The future success of the Company will depend on, among other things, its ability to keep the services of these key executives and to hire other highly qualified employees at all levels. The Company will compete with other potential employers for employees, and it may not be successful in hiring and retaining the services of executives and other employees that it requires. The loss of the services of, or the Company's inability to hire, executives or key employees could hinder its business operations and growth.

Uninsured and Underinsured Losses

The Company maintains at all times insurance coverage in respect of potential liabilities of the Company and the accidental loss of value of the assets of the Company from risks, in those amounts, with those insurers, and on those terms as Management considers appropriate, taking into account all relevant factors including the practices of owners of similar assets and operations.

Management believes that the insurance coverage that is maintained by the Company in the form of comprehensive property and casualty insurance is at amounts at a prudent level to repair or replace any assets physically damaged or destroyed, including coverage for resultant business interruption losses or extra expenses sustained, and to cover in respect of claims for bodily injury or property damage arising out of assets or operations. However, not all risks are covered by insurance, and no assurance can be given that insurance will be consistently available or will be consistently available on an economically feasible basis or that the amounts of insurance will at all times be

sufficient to cover each and every loss or claim that may occur involving the assets or operations of the Company. In particular, damage caused by an accidental or natural disaster to any or all of the Company's key production facilities may result in significant replacement costs and loss of business that may not be fully recoverable under any insurance policy.

The Company does not carry crop loss insurance.

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 operational results and profitability.

Governmental Regulations

The Company's operations are governed by a broad range of federal, state, provincial and local environmental, health and safety laws and regulations, permits, approvals, common law and other requirements that impose obligations relating to, among other things: worker health and safety; the release of substances into the natural environment; the production, processing, preparation, handling, storage, transportation, disposal, and management of substances (including liquid and solid, non-hazardous and hazardous wastes and hazardous materials); and the prevention and remediation of environmental impacts such as the contamination of soil and water (including groundwater). Failure by the Company to comply with applicable laws, rules, regulations and policies may subject the Company to civil or regulatory proceedings, including fines, injunctions, administrative orders or seizures, which may have a material adverse effect on the Company's financial condition and results of operations. Also, as a result of the above requirements, the Company's operations and ownership, management and control of property carry an inherent risk of environmental liability (including potential civil actions, compliance or remediation orders, fines and other penalties), including with respect to the disposal of waste and the ownership, management, control or use of transport vehicles and real estate. Compliance with all such laws and future changes to them is material to the Company. The Company has incurred and will continue to incur significant capital and operating expenditures to comply with such laws. Future discovery of previously unknown environmental issues, including contamination of property underlying or in the vicinity of the Company's present or former properties or manufacturing facilities, could require the Company to incur material unforeseen expenses. All of these risks and related potential expenses may have a material adverse effect on the Company's financial condition and results of operations.

Risks Associated with Cross-Border Trade

The Company's Canadian and U.S. product is actively sold cross-border. Markets in the United States and other countries may be affected from time to time by trade rulings and the imposition of customs, duties and other tariffs. There can be no assurance that the Company's financial condition and results of operations will not be materially adversely affected by trade rulings and the imposition of customs duties or other tariffs in the future. Furthermore, there is no assurance that further trade actions will not be initiated by U.S. producers of greenhouse or field grown vegetables. Any prolonged disruption in the flow of the Company's product across the U.S.-Canada border could have an adverse effect on the Company's financial condition and results of operations.

Growth

The Company may not be able to successfully manage its growth. The Company's growth strategy will place significant demands on its financial, operational and management resources. In order to continue its growth, it will need to add administrative, management and other personnel, and make additional investments in operations and systems. The Company may not be able to locate and train qualified personnel, or do so on a timely basis, or expand its operations and systems to the extent, and in the time, required.

Accounting Estimates

The Company will be required to make accounting estimates and judgments in the ordinary course of business. Such accounting estimates and judgments will affect the reported amounts of its assets and liabilities at the date of the financial statements and the reported amounts of its operating results during the periods presented. Additionally, the Company will be required to interpret the accounting rules in existence as of the date of the financial statements when the accounting rules are not specific to a particular event or transaction. If the underlying estimates are ultimately proven to be incorrect, or if auditors or regulators subsequently interpret the Company's application of accounting rules differently, subsequent adjustments could have a material adverse effect on its operating results for the period or periods in which the change is identified. Additionally, subsequent adjustments could require the Company to restate its financial statements. A restatement of the Company's financial statements could result in a material change in the price of the Common Shares.

Retail Consolidation

The Company's top ten customers for the years ended December 31, 2011 and 2010 accounted for approximately 50% and 49%, respectively, of total revenues. As a result of continuing retail consolidation, the Company's U.S. retail customers grow larger and become more sophisticated enabling them to demand lower pricing and increased promotional programs. If the Company is unable to use its scale, marketing expertise and market leadership position to respond to these trends, it may have a material adverse effect on its financial condition and results of operations.

Product Liability

As a producer of food products, the Company is subject to potential product liabilities connected with its operations and the marketing and distribution of vegetable products, including liabilities and expenses associated with contaminated or unsafe product. There can be no assurance that the insurance against all such potential liabilities maintained by the Company will be adequate in all cases. In addition, even if a product liability claim was not successful or was not fully pursued, the negative publicity surrounding any such assertion could harm the Company's reputation with its customers. The consequences of any of the foregoing events may have a material adverse effect on the Company's financial condition and results of operations.

Technological Advances

It is possible that more economical or efficient greenhouse production technology than what is currently used by the Company will be developed, thereby potentially adversely affecting the Company's competitive position.

Transportation Disruptions

Due to the perishable and premium nature of the Company's products, the Company depends on fast and efficient road transportation to distribute its product. Any prolonged disruption of this transportation network could have an adverse effect on the Company's financial condition and results of operations.

Dependence Upon Credit Facilities

The Company is subject to fluctuations in its working capital on a month-to-month basis. Consistent with its past practice, the Company may draw down on revolving credit facilities available under its Credit Facilities. There can be no assurance that the Company will continue to have access to appropriate credit facilities on reasonable terms and conditions, if at all. An inability to draw down upon credit facilities could have a material adverse effect on the Company's business, financial condition and results of operations.

Risks of Regulatory Change

The Company is subject to extensive laws and regulations with respect to the production, handling, distribution, packaging and labelling of its products. Such laws, rules, regulations and policies are administered by various federal, state, provincial, regional and local health agencies and other governmental authorities. Changes to any of these laws and regulations could have a significant impact on the Company. There can be no assurance that the Company will be able to cost effectively comply with future laws and regulations. Failure by the Company to comply with applicable laws and regulations may subject the Company to civil or regulatory proceedings, including fines, injunctions, recalls or seizures, which may have a material adverse effect on the Company's financial condition and results of operations. In addition, the Company voluntarily submits to guidelines set by certain private industry associations. Failure to comply with such guidelines or to adopt more stringent guidelines set by such associations in the future may result in lower sales in certain retail markets and may adversely affect the Company's financial condition and results of operations. Among the regulations to which the Company is subject are those administered by the BCVMC. The BCVMC grants each licensed producer that it regulates an annual quota to produce specified products in a given year. The BCVMC also has the authority to set the prices at which a regulated product may be bought or sold in British Columbia. There can be no assurance that the BCVMC will not alter its quota allocation policy or that the BCVMC will not introduce pricing restrictions in a manner that could adversely affect the Company's financial condition and results of operations. There can be no assurance that a modification of the current regulatory schemes will not have an adverse effect on the Company's financial condition, results of operations.

Future Sales of Common Shares by or on Behalf of the Village Farms Owners

As of the date hereof, the Village Farms Owners hold an aggregate of 192,739.51 Participating Preferred Shares, representing approximately 49.9% of the Common Shares of the Company (on a fully-diluted basis) which can be exchanged for freely tradeable Common Shares or the cash equivalent. The Village Farms Owners have also been granted certain registration rights by the Company. If substantial amounts of Common Shares are sold by or at the request of the Village Farms Owners in the public market, the market price of the Common Shares could fall. The perception among the public that these sales will occur could also produce such an effect.

Risks Related to Tax

Potential U.S. Permanent Establishment of VF Canada GP and VF Canada LP

Under the Canada-U.S. Tax Convention, a Canadian resident will be subject to U.S. income taxation with respect to the business profits of such Canadian resident attributable to a permanent establishment ("PE") of such Canadian resident located in the United States. A Canadian resident generally will be treated as maintaining a PE in the United States if, among other situations, an agent of the Canadian resident (other than an independent agent acting in the ordinary course of its business) has, and habitually exercises in the United States, authority to conclude contracts in the name of the Canadian resident.

Due to the cross border activity of certain employees of the Company, the United States may be deem VF Canada GP and VF Canada LP to maintain a U.S. permanent establishment. In the event that such a U.S. permanent establishment is deemed to exist, VF Canada GP and VF Canada LP generally will be required to file U.S. federal

income tax returns and will be subject to U.S. federal income tax with respect to the business profits allocable to such permanent establishment.

Advances by VF Opco to U.S. Holdings

In connection with the completion of the Combination Transaction and the related rights offering, VF Opco loaned approximately CAD\$20,000,000 to U.S. Holdings (the “Advances”). As at December 31, 2011, CAD\$9,500,000 of the Advances remained outstanding. U.S. Holdings has claimed interest deductions with respect to the interest paid on the Advances in computing its income for U.S. federal income tax purposes. There can be no assurance that the IRS will not assert that any portion of the advances was equity in the U.S. borrower for U.S. federal income tax purposes. If the IRS were successful in this assertion, payments made by U.S. Holdings on such Advances would be treated as non-deductible distributions paid by U.S. Holdings to VF Opco and subject to U.S. federal withholding taxes. The Company anticipates that the amount of any such withholding taxes, net of positive tax consequences that may arise from related circumstances, will not be material. In addition, the deductibility of interest paid or accrued may be subject to various limitations. The Company anticipates that the amount of interest charged on such Advances that might otherwise be claimed as a deduction, will not be material.

Transfer Pricing

Pursuant to an annual sales agreement, VF Opco has agreed to sell some of its inventory to VFLP for resale in the United States, as well as VFLP has agreed to sell some of its inventory to VF Opco for resale in Canada. VF Opco and VFLP take the position that the amounts charged by VF Opco and VFLP for such inventory represent the fair market value of the goods sold. The IRS or the Canada Revenue Agency may, however, challenge the pricing as being in excess of fair market value. If the IRS or the Canada Revenue Agency were successful in challenging the pricing, VFLP’s U.S. taxable income could be increased and VF Opco’s taxable income could be increased to reflect the lowered price of goods purchased. The consequences being a higher effective tax rate, as well as the potential for higher tax payments.

U.S. Real Property Holding Corporation

If U.S. Holdings is, or has been within the prior five years, a United States real property holding corporation as defined under section 897 of the Internal Revenue Code, any portion of a distribution by U.S. Holdings to VF Opco which is treated as a gain for U.S. federal income tax purpose would be subject to United States federal income and withholding taxes.

DIVIDENDS

Dividend Policy

The Company has no immediate plans to pay dividends as it is growth focused. The amount of any dividends payable by the Company will be at the discretion of the board of directors of the Company and may vary depending on, among other things, the Company’s earnings, financial requirements for the Company’s operations, growth opportunities, the satisfaction of the solvency tests imposed by the CBCA for declaration and payment of dividends and the conditions existing from time to time.

Historical Distributions

Prior to the Conversion, the Company's predecessor declared paid the following cash distributions in fiscal year 2009 to ordinary unitholders of the Fund:

<u>Record Date</u>	<u>Payment Date⁽¹⁾</u>	<u>Distribution Per Unit</u>
January 30, 2009	February 27, 2009	\$0.01
February 27, 2009	March 31, 2009	\$0.01
March 31, 2009	April 30, 2009	\$0.005
April 30, 2009	May 29, 2009	\$0.005
May 29, 2009	June 30, 2009	\$0.005

(1) The Fund suspended distributions in June 2009.

MARKET FOR SECURITIES

Trading Price and Volume

The Common Shares are listed and posted for trading on the TSX under the symbol "VFF". The following table sets forth the trading price range and trading volume of the Common Shares as reported by the TSX for the most recently completed financial year:

	<u>Month</u>	<u>High</u>	<u>Low</u>	<u>Volume</u>
2011	January	1.41	1.21	1,005,117
	February	1.65	1.33	556,466
	March	1.51	1.10	1,454,863
	April	1.25	1.14	226,507
	May	1.30	1.20	922,513
	June	1.35	1.20	485,563
	July	1.50	1.24	316,884
	August	1.30	1.13	947,449
	September	1.33	1.20	198,540
	October	1.25	1.15	547,890
	November	1.37	1.07	344,231
	December	1.36	1.22	76,914

DIRECTORS AND MANAGEMENT

The following table sets forth the name, position with the Company, municipality of residence, principal occupation during the five preceding years, period of service for each of the directors and executive officers of the Company and the number of Voting Shares beneficially owned by him, directly or indirectly, or over which he exercises control or direction:

Name and Municipality of Residence ⁽¹⁾	Position	Principal Occupation During the Past Five Years ⁽¹⁾	Service as a Director/ Executive Officer	No. of Voting Shares Beneficially Owned ⁽²⁾
Michael A. DeGiglio Florida, USA	Director, and Chief Executive Officer	Chief Executive Officer of VF Canada GP and VF LP	Director and Executive Officer since October 18, 2006	9,967,250
John P. Henry ⁽³⁾ Massachusetts, USA	Director	Retired senior executive	Director since October 18, 2006	Nil
David Holewinski Virginia, USA	Director	Management Consultant	Director since June 21, 2011	Nil
John R. McLernon ⁽⁴⁾ British Columbia, Canada	Chair of the Board Directors	Honorary Chairman and Co-Founder of the Colliers Macaulay Nicolls Group Inc.	Director since January 18, 2005	52,500
Stephen C. Ruffini Texas, USA	Senior Vice President and Chief Financial Officer	Chief Financial Officer of VF Canada GP and VF LP	Executive Officer since January 5, 2009	107,300
Heinz Wehner ⁽³⁾⁽⁴⁾ Kansas, USA	Director	Retired senior executive	Director since October 18, 2006	Nil
Christopher C. Woodward ⁽³⁾⁽⁴⁾ British Columbia, Canada	Director	President, Woodcorp Investments Ltd. (private investment company)	Director since November 10, 2003	85,000

(1) The information as to municipality of residence and principal occupation, not being within the knowledge of the Company, has been furnished by the respective directors and executive officers individually.

(2) The directors and executive officers of the Company beneficially own, directly or indirectly, or exercise control or direction over an aggregate of 325,100 Common Shares, representing approximately 1.7% of the issued and outstanding Common Shares, and 98,869.50 of the 192,739.51 Participating Preferred Shares, which if exchanged for Common Shares, and together with their currently held 325,100 Common Shares, would represent approximately 26% of the issued and outstanding Common Shares. The information as to Common Shares beneficially owned or over which a director exercises control or direction, not being within the knowledge of the Company, has been furnished by the director individually.

(3) Member of the Audit Committee of the Company.

(4) Member of the Compensation and Corporate Governance Committee of the Company.

Each of the directors of the Company holds office for a term expiring at the close of the next annual meeting of shareholders or until his successor is appointed, unless his or her office is earlier vacated.

The following are brief profiles of the directors and executive officers of the Company:

Michael A. DeGiglio, Director and Chief Executive Officer of the Company. Mr. DeGiglio is a co-founder of Village Farms and has served as Chief Executive Officer of Village Farms since its inception in 1990. Mr. DeGiglio joined EcoScience (the former parent company of Village Farms) upon its acquisition of Agro Dynamics, Inc. (“ADI”) in November 1992, and served as President and Chief Executive Officer of EcoScience from July 1995 to 2001. Prior to co-founding ADI, Mr. DeGiglio served on active duty in the United States Navy as an officer and jet aviator from July 1976 through January 1983, and the Naval Air Reserves from 1983 to 2001, retiring at the rank of Captain with the United States Naval Reserve. Throughout his Naval career, he held various department head positions, completed a tour as commanding officer of a jet aviation squadron, performed multiple tours overseas,

and has completed numerous senior advanced management courses. Mr. DeGiglio received a Bachelor of Science degree in Aeronautical Science and Aviation Management from Embry Riddle Aeronautical University in Daytona Beach, Florida.

John P. Henry, Director of the Company. Mr. Henry has served as a director and member of the audit committee of Village Farms since 2001. From 1981 to 2000, Mr. Henry was employed by Ocean Spray Cranberries, Inc. as Senior Vice-President of Grower Relations and Chief Financial Officer, retiring in 2000. Ocean Spray grew from \$400 million to \$1.3 billion in revenues during his tenure. Mr. Henry also served as a Director of Nantucket Nectors, a majority owned subsidiary of Ocean Spray. From 1980 to 1981 he was Chief Financial Officer of Castle Toy Co, Inc. Prior to this, Mr. Henry was employed by Laventhol and Horwath providing auditing, consulting and tax services to large public and private companies. He received a Bachelor of Science in Fund Administration and Master in Taxation degrees from Bryant College in Smithfield, Rhode Island. Mr. Henry is a non-practicing CPA in the State of Rhode Island.

David Holewinski. Mr. Holewinski is a Management Consultant. He served as a director of Agro Power Development Inc. (“APDI”) from 2004 until October 2006. Between 1995 and 2000, Mr. Holewinski also served as Senior Vice President of Business Development for APDI. Mr. Holewinski has co-founded two biotechnology companies and also co-founded a company with novel precast concrete technology for the construction industry. Between 1983 and 1988, Mr. Holewinski was a Manager of Business Development for ConAgra, International. Mr. Holewinski has a Bachelor of Arts degree from Pennsylvania State University and a Master of Business Administration degree from Harvard University.

John R. McLernon, Chairman and Director of the Company. Mr. McLernon is Honourary Chairman and Co-Founder of the Colliers Macaulay Nicolls Group Inc. Colliers Macaulay Nicolls is the largest partner of Colliers International Commercial Real Estate Services (“Colliers”) a global organization with over 240 offices in 50 countries. He served as Chairman and Chief Executive Officer of Colliers from 1977 to 2002, and as Chairman until December 2004. Mr. McLernon also serves as a director of numerous corporations, income trusts, and theatre and arts organizations, and is Chairman of A&W Revenue Royalties Income Fund.

Stephen C. Ruffini, Chief Financial Officer of the Company. Mr. Ruffini joined Village Farms in January 2009. Mr. Ruffini came to Village Farms from Performing Brands, Inc. where he served as Chief Operating Officer and Chief Financial Officer. Mr. Ruffini has 25 years of extensive financial, operations, investor relations and mergers and acquisitions experience with leading international companies, including Hit Entertainment plc, Lyrick Corporation and Arthur Andersen LLP. Mr. Ruffini is a Certified Public Accountant who holds an M.B.A. from the University of Texas, in Austin, Texas and a B.B.A. in Finance from the Southern Methodist University in Dallas, Texas.

Heinz Wehner, Director of the Company. Mr. Wehner has served as a director of Village Farms since 1998. From March 1976 to June 1992, Mr. Wehner served in several management positions with Chemagro Corporation and Mobay Corporation, both subsidiaries of Bayer A.G. in Germany and, Bayer Corporation, where he served as President of the Agricultural, Animal Health and Consumer Products Divisions. Previously, Mr. Wehner held several management positions with Bayer Quimicas Unidas S.A. in Peru, including Vice President of the Agricultural Chemicals and Animal Health Division, and with Bayer de Mexico S.A., including Vice President of the Crop Protection and Consumer Products Division. Mr. Wehner attended Escuelas Americanas in Peru where he studied business administration.

Christopher C. Woodward, Director of the Company Mr. Woodward serves as a director of a number of private, public companies and charitable institutions. These include the P.A. Woodward Medical Foundation, Hy’s of Canada, past Chairs of Brentwood College School, The Nature Trust of British Columbia and the Judicial Council of British Columbia. He serves as current Chair of the Vancouver Coastal Health Authority.

Board Committees

The board of directors of the Company currently has an audit committee and a compensation and corporate governance committee. The composition of these board committees is governed by the requirements of the Governance Arrangements. See ‘Administration, Services and Employment Agreements — Governance Arrangements’.

Audit Committee of the Company. This committee is comprised of John P. Henry, Heinz Wehner and Christopher C. Woodward, independent directors of the Company, and is responsible for maintaining management’s accounting and financial reporting practices and procedures, the adequacy of internal accounting controls and procedures, the quality and integrity of the Company’s financial statements and related financial public disclosure and for liaising with the external auditors of the Company. The chairperson of the audit committee of the Company is John P. Henry.

Compensation and Corporate Governance Committee of the Company. This committee is comprised of John R. McLernon, Heinz Wehner and Christopher C. Woodward, who are all independent directors and is responsible for assisting the board in determining compensation of senior management as well as reviewing the adequacy and form of directors’ compensation. The committee reviews annually the Chief Executive Officer’s goals and objectives for the upcoming year and each year perform an appraisal of the Chief Executive Officer’s performance. This committee also administers and makes recommendations regarding the operation of the Compensation Plan and other incentive plans of the Company. See “Administration, Services and Employment Agreements — Compensation Plan”. The committee is responsible for developing the Company’s approach to corporate governance issues, advising the board in filling vacancies on the board and periodically reviewing the compensation and effectiveness of the board and the contribution of individual directors. The chairperson of the compensation and corporate governance committee of the Company is John R. McLernon.

Corporate Cease Trade Orders or Bankruptcies

On March 30, 2001, VFLP, APDI and certain affiliated entities (collectively, the “Debtors”) filed voluntary petitions in the United States Bankruptcy Court, Western District of Texas (the “Court”), under Chapter 11 of the United States Bankruptcy Code. At that time, Mr. DeGiglio was a director and executive officers of Village Farms. An Amended Joint Plan of Reorganization was confirmed by the Court on June 22, 2001, and on June 17, 2002, the Court granted an order closing each of the Debtor’s bankruptcy cases.

Penalties or Sanctions

To the knowledge of the directors of the Company, no director or officer of the Company, has been subject to any penalties or sanctions imposed by a court relating to Canadian securities legislation or by a Canadian securities regulatory authority or has entered into a settlement agreement with a Canadian securities authority, or any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

Personal Bankruptcies

To the knowledge of the directors of the Company, no director or officer of the Company, or a shareholder holding a sufficient number of Common Shares to affect materially the control of the Company, or a personal holding company of any such persons has, during the ten years prior to the date hereof, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or was subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold such persons assets.

Business Bankruptcies

John R. McLernon was a director of Syscan International Inc. (“Syscan”), a public company whose shares were listed on the TSX Venture Exchange. Mr. McLernon resigned as a director of Syscan within the year preceding Syscan making an assignment to a trustee pursuant to the *Bankruptcy and Insolvency Act* (Canada) in December 2008.

Stephen C. Ruffini was Chief Operating Officer and Chief Financial Officer of Performing Brands, Inc., which filed for Chapter 7 bankruptcy protection on December 19, 2008, in the North District of Texas – Dallas division.

Conflicts of Interest

To the knowledge of the directors of the Company, there are no existing or potential material conflicts of interest among the Company and a director or officer of the Company.

LEGAL PROCEEDINGS

The Company is not involved in any legal proceedings which would have a material effect on the Company. To the knowledge of Management, no legal proceedings of a material nature involving the Company are contemplated by any individuals, entities or governmental authorities.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

On December 31, 2009, the Company completed the Conversion. All of the outstanding Units of the Fund were exchanged for Common Shares of the Company on a one-for-one basis. In addition, the Class A Unit of the Fund was exchanged for 25,267,000 Special Shares. As a result, there were 13,440,345 Common Shares and 25,267,000 Special Shares of the Company issued and outstanding following the completion of the Conversion.

During fiscal year 2010, one of the original holders of Participating Preferred Shares, and two other holders of the Participating Preferred Shares, exchanged 599,304.90 of their Participating Preferred Shares into 5,993,049 common shares of the Company.

As of the date hereof, the Village Farms Owners (one of which is the Company’s CEO) and their associates, directly and indirectly, hold all of the 192,273.51 outstanding Participating Preferred Shares of U.S. Holdings. Should the Village Farms Owners, pursuant to the Exchange Rights, elect to exchange their Participating Preferred Shares for Common Shares, the Village Farms Owners would collectively control approximately a 49.9% interest in the Company as of the date hereof. Mr. DeGiglio would own approximately 25.8% of the Common Shares if he elected to convert his Participating Preferred Shares. The Participating Preferred Shares carry the right to dividends from U.S. Holdings, concurrently and *pro rata* with dividends paid by the Company on its Common Shares. See “Description of the Company – Retained Interest of the Village Farms Owners.”

TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for the Common Shares is Computershare Investor Services Inc. at its principal offices in Vancouver, British Columbia or Toronto, Ontario.

RECENT DEVELOPMENTS

Expansion

The Company is currently in the final stages of finishing its new 30-acre Monahans, Texas greenhouse based on its proprietary GATES™ technology (closed greenhouse system). The Company is actively seeking additional opportunities to develop additional GATES™ greenhouse facilities, as well as having the ability, after further

infrastructure improvements at its new Monahans facility, to build new greenhouses in Monahans, Texas. Upon selection of a new expansion facility, the Company will seek financing for this additional greenhouse.

MATERIAL CONTRACTS

The only contracts entered into, other than in the ordinary course of business, that are material and that were entered into within the most recently completed financial year, or before the most recently completed financial year but are still in effect, are as follows:

- (a) the Credit Facilities;
- (b) the Securityholder's Agreement; and
- (c) the Interest Rate Swap Agreements.

The material contracts are described elsewhere in this Annual Information Form.

AUDIT COMMITTEE INFORMATION

Charter of the Audit Committee

The terms of reference of the audit committee of the Company (the "Audit Committee") are attached as Schedule A to this Annual Information Form.

Composition of the Audit Committee

The Audit Committee presently consists of John P. Henry (Chair), Heinz Wehner and Christopher C. Woodward. The education and experience of each member is described under "Directors and Management".

Each member of the Audit Committee is independent and financially literate, as such terms are defined in *National Instrument 52-110 — Audit Committees*.

Prior Approval Policies and Procedures

All non-audit services to be provided to the Company by the external auditors must either be approved explicitly in advance by the Audit Committee, or by Management pursuant to certain pre-approval policies and procedures established by the Audit Committee that are detailed as to the particular services that may be pre-approved.

The Audit Committee may delegate to one or more members of the Audit Committee the authority to grant such pre-approvals. The decisions of such member(s) regarding approval of non-audit services shall be reported by such member(s) to the full Audit Committee at its first scheduled meeting following such pre-approval.

External Auditor Service Fees

The following table sets forth, by category, the fees billed in Canadian dollars by PricewaterhouseCoopers LLP, the Company's auditors, for the periods ended December 31, 2011 and 2010:

<u>Fee Category</u>	<u>2011</u>	<u>2010</u>
Audit fees	\$168,000	\$168,000
Audit related fees	77,000	12,000
All other fees	-	4,100
Tax fees	153,000	127,000
Total	\$398,000	\$311,100

“**Audit fees**” and “**Audit-related fees**” include all fees paid to PricewaterhouseCoopers LLP for the audit of the annual consolidated financial statements, review of the interim financial statements, conversion to International Financial Reporting Standards and other services in connection with regulatory filings.

“**Tax fees**” include all fees paid to PricewaterhouseCoopers LLP for tax compliance, tax advice and tax planning, and advisory services.

ADDITIONAL INFORMATION

Additional information relating to the Company may be found on SEDAR at www.sedar.com. Additional information, including directors' and officers' remuneration and indebtedness, principal holders of our securities and securities authorized for issuance under equity compensation plans, as applicable, is contained in the Company's management information circular for its most recent annual meeting of shareholders that involves the election of directors. Additional financial information is provided in the Company's audited consolidated financial statements and management's discussion and analysis for the Company's most recently completed financial year.

SCHEDULE A

VILLAGE FARMS INTERNATIONAL, INC. (together with its subsidiaries, as the context requires, the “Company”)

AUDIT COMMITTEE CHARTER

December 31, 2009

The Company wishes to adopt certain procedures specified in this Charter.

1. PURPOSE

The Audit Committee (the “Committee”) is a standing committee of the board of directors of the Company (the “Board”). The primary function of the Committee is to assist the Board in fulfilling its oversight responsibilities with respect to monitoring the Company’s accounting and financial reporting and practices and procedures; the adequacy of the Company’s internal accounting controls and procedures; and for reviewing the quality and integrity of financial statements and other financial information provided by the Company to securityholders and others, and approving the interim financial statements and the related management’s discussion and analysis as delegated by the Board.

2. STRUCTURE AND OPERATIONS

The Committee shall be comprised of three or more members of the Board, who all satisfy the “independence” and “financial literacy” requirements of National Instrument 52-110 – Audit Committees (“NI 52-110”), as amended. No member of the Committee shall be an officer or employee of the Company, or any affiliate of the Company.

For the purposes of this Charter, a member of the Committee is “independent” if the member has no direct or indirect material relationship with the Company, as more fully defined in NI 52-110, and a member of the Committee is “financially literate” if he or she has the ability to read and understand a set of financial statements that present a breadth and level of complexity of the accounting issues that can reasonably be expected to be raised by the financial statements of the Company.

The members of the Committee shall be annually appointed by the Board and shall serve until such member’s successor is duly elected and qualified or until such member’s earlier resignation or removal. The members of the Committee may be removed, with or without cause, by a majority of the Board. Unless a chairperson (a “Committee Chair”) is elected by the full Board, the members of the Committee shall designate a Committee Chair by the majority vote of the full Committee membership. The Committee Chair shall be entitled to vote to resolve any ties. The Committee Chair will chair all regular sessions of the Committee and set the agendas for Committee meetings.

3. MEETINGS

The Committee shall meet at least quarterly or more frequently as circumstances dictate. As part of its goal to foster open communication, the Committee shall periodically meet with management of the Company and the external auditors to discuss any matters that the Committee or each of these groups believes should be discussed. The Committee may meet privately with the auditors, outside counsel of its choosing and the Chief Financial Officer of the Company, as necessary. In addition, the Committee may meet with the external auditors and management of the Company quarterly to review the Company’s financial statements in a manner consistent with that outlined in Section 4 of this Charter.

The Committee may invite to its meetings any directors of the Company, management of the Company and such other persons as it deems appropriate in order to carry out its responsibilities. The Committee may exclude from its meetings any persons it deems appropriate in order to carry out its responsibilities.

A majority of the Committee members, but not less than two, will constitute a quorum. A majority of members present at any meeting at which a quorum is present may act on behalf of the Committee. The Committee may meet by telephone or videoconference and may take action by unanimous written consent with respect to matters that may be acted upon without a formal meeting.

The Committee Chair shall designate a person who need not be a member thereof to act as Secretary, who shall record the proceedings of the meetings. The agenda of each meeting will be prepared by the Secretary and, whenever reasonably practicable, circulated to each member prior to each meeting. The Committee shall maintain minutes or other records of meetings and activities of the Committee.

4. RESPONSIBILITIES, DUTIES, AUTHORITY

The following functions shall be the common recurring activities of the Committee in carrying out its responsibilities outlined in Section 1 of this Charter. These functions should serve as a guide with the understanding that the Committee may carry out additional functions and adopt additional policies and procedures as may be appropriate in light of changing business, legislative, regulatory, legal and other conditions. The Committee shall also carry out any other responsibilities and duties delegated to it by the Board from time to time related to the purposes of this Committee outlined in Section 1.

The Committee in discharging its oversight role is empowered to investigate any matter of interest or concern that the Committee deems appropriate. In this regard, the Committee shall have the authority to retain outside counsel, accounting, or other advisors for this purpose, including authority to approve the fees payable to such advisors and other terms of retention.

The Committee shall be given full access to the Board, management of the Company, employees of the Company, directly and indirectly responsible for financial reporting, and independent accountants, as necessary, to carry out these responsibilities. While acting within the scope of this stated purpose, the Committee shall have all the authority of the Board.

Notwithstanding the foregoing, the Committee is not responsible for certifying the financial statements of the Company or guaranteeing the external auditors' report. The fundamental responsibility for the financial statements and disclosures rests with management of the Company.

The Committee, through discussions with management of the Company and the external auditors, shall satisfy itself that management of the Company has established appropriate and cost-effective systems of internal control to safeguard assets from loss and unauthorized use, manage significant business risks and ensure accurate and timely financial reporting, and as otherwise contemplated by National Instrument 52-109 – Certification and Disclosure in Issuers' Annual and Interim Filings, as amended.

5. DOCUMENT REPORTS/REVIEWS

Annual Financial Statements and Management's Discussion and Analysis

The Committee shall review with management of the Company and the external auditors prior to their public dissemination:

- (a) the annual audited consolidated financial statements of the Company;
- (b) the annual Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company ("MD&A");
- (c) the results of external auditor's examination of the annual consolidated financial statements and their report;

- (d) any significant changes that were required in the external audit plan;
- (e) any significant issues raised with management of the Company during the course of the audit, including any restrictions on the scope of activities or access to information; and
- (f) those matters related to the conduct of the audit that are required to be discussed under generally accepted auditing standards applicable to the Company.

Following completion of the matters contemplated above, the Committee shall make a recommendation to the Board with respect to the approval of the annual financial statements and annual MD&A with such changes contemplated and further recommended by the Committee as the Committee considers necessary.

Interim Financial Statements and Interim MD&A

The Committee shall review with management of the Company prior to their public dissemination, the interim unaudited consolidated financial statements of the Company and the interim MD&A. The Committee shall approve the interim financial statements and interim MD&A, as the Board has delegated this function to the Committee. The Committee shall have the authority to determine whether to request the Company's external auditors to undertake a review engagement in respect of the interim unaudited consolidated financial statements from time to time, including in conjunction with a public offering of securities by the Company.

Press Releases

The Committee shall review with management of the Company, prior to their public dissemination, the annual and interim earnings press releases (paying particular attention to the use of any "pro forma" or "adjusted" non-GAAP information) as well as financial information and earnings guidance provided to analysts and rating agencies.

Reports and Regulatory Returns

The Committee shall review and discuss with management of the Company, and the external auditors to the extent the Committee deems appropriate, such reports and regulatory returns of the Company as may be specified by law.

Other Financial Information

The Committee shall review the financial information included in any prospectus, annual information form or information circular of the Company with the management of the Company and the external auditors, both together and separately, prior to their public dissemination, and shall make a recommendation to the Board with respect to the approval of such prospectus, annual information form or information circular with such changes contemplated and further recommended as the Committee considers necessary. The Committee shall review each annual information form of the Company to ensure the completeness and veracity of the mandated disclosure (as required by Form 52-110F1) about the Committee.

Charter

The Committee shall review and update this Charter periodically, as conditions warrant.

6. FINANCIAL REPORTING PROCESSES

Establishment and Assessment of Procedures

The Committee shall satisfy itself that adequate procedures are in place for the review of the Company's public disclosure of financial information extracted or derived from the financial statements of the Company and periodically assess the adequacy of these procedures annually.

Application of GAAP

The Committee shall assure itself that the external auditors are satisfied that the accounting estimates and judgments made by management of the Company, and their selection of accounting principles reflect an appropriate application of generally accepted accounting principles.

Practices and Policies

The Committee shall review with management of the Company and the external auditors, together and separately, the principal accounting practices and policies of the Company.

7. EXTERNAL AUDITORS

Oversight and Responsibility

The Committee is directly responsible for overseeing the work of the external auditors engaged for the purpose of preparing or issuing an auditor's report or performing other audit, review or attest services for the Company, including the resolution of disagreements between management of the Company and the external auditors regarding financial reporting.

Reporting

The external auditors shall report directly to the Committee and are ultimately accountable to the Committee.

Performance and Review

The Committee shall annually review the performance of the external auditors and recommend to the Board the nomination of the external auditors (and the compensation of the external auditors) or approve any discharge of the external auditors when circumstances warrant, for the purpose of preparing or issuing an auditor's report or performing other audit, review or attest services for the Company.

Annual Audit Plan

The Committee shall review with the external auditors and management of the Company, the overall scope of the annual audit plan and the resources the external auditors will devote to the audit. The Committee shall annually review and approve the fees to be paid to the external auditors with respect to the annual audit, and shall recommend to the Board the fees to be paid to the external auditors.

Non-Audit Services

"Non-audit services" means all services performed by the external auditors other than audit services. All "non-audit" services to be provided to the Company by the external auditors must either be approved explicitly in advance by the Committee, or by management pursuant to certain pre-approval policies and procedures established by the Committee that are detailed as to the particular services that may be pre-approved.

The Committee may delegate to one or more members of the Committee the authority to grant such pre-approvals. The decisions of such member(s) regarding approval of "non-audit" services shall be reported by such member(s) to the full Committee at its first scheduled meeting following such pre-approval. Notwithstanding the foregoing, pre-approval is not necessary for certain *de minimis* "non-audit" services performed by the external auditors, as specified in Section 2.4 of NI 52-110.

Independence Review

The Committee shall review and assess the qualifications, performance and independence of the external auditors, including the requirements relating to such independence of the law governing the Company. At least annually, the

Committee shall receive from and review with the external auditors, their written statement delineating all relationships with the Company and, if necessary, recommend that the Board take appropriate action to satisfy itself of the external auditors' independence and accountability to the Committee.

8. REPORTING

Reports to the Board

In addition to such specific reports contemplated elsewhere in this Charter, the Committee shall report regularly to the full Board regarding such matters, including:

- (a) any issues that arise with respect to the quality or integrity of the financial statements of the Company, compliance with legal or regulatory requirements by the Company, or the performance and independence of the external auditors of the Company;
- (b) proceedings at meetings of the Committee; and
- (c) such other matters as are relevant to the Committee's discharge of its responsibilities.

Recommendations

In addition to such specific recommendations contemplated elsewhere in this Charter, the Committee shall provide such recommendations as the Committee may deem appropriate. The report to the Board may take the form of an oral report by the Committee Chair or any other member of the Committee designated by the Committee to make such report.

Reports to the Compensation and Corporate Governance Committee

The Committee shall provide reports or otherwise communicate with the Compensation and Corporate Governance Committee of the Company, as appropriate.

9. WHISTLE-BLOWING

Procedures

The Committee shall establish procedures for:

- (a) the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls, or auditing matters; and
- (b) the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters.

Such procedures will be reflected in the Code of Ethics and Whistleblower Policy of the Company and its subsidiaries, as amended from time to time.

10. GENERAL

Access to Counsel

The Committee may review, periodically, with outside counsel of its choosing, any legal matter that could have a significant impact on the financial statements of the Company.

Hiring of Partners and Employees of External Auditors

The Committee shall annually review and approve the Company's hiring policies regarding partners, employees and former partners and employees of the present and former external auditors of the Company.

General

The Committee shall perform such other duties and exercise such powers as may, from time to time, be assigned or vested in the Committee by the Board, and such other functions as may be required of an audit committee by law, regulations or applicable stock exchange rules.