Village Farms International, Inc.

Management's Discussion and Analysis

Year Ended December 31, 2011

March 22, 2012

Management's Discussion and Analysis

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

Introduction

This management's discussion and analysis ("MD&A") should be read in conjunction with the audited, annual consolidated financial statements and accompanying notes of Village Farms International, Inc. ("VFF" and, together with its subsidiaries, the "Company"), for the years ended December 31, 2011 and 2010. The information provided in this MD&A is current to March 22, 2012 unless otherwise noted.

VFF is a corporation existing under the *Canada Business Corporations Act* (the "CBCA"). The Company's principal operating subsidiaries at December 31, 2011 are Village Farms Canada Limited Partnership ("VFCLP"), Village Farms, L.P. ("VFLP") and Village Farms DR, SRL. ("VFDR").

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

Business Overview

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

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

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

The Company's assets include eight greenhouses providing 1,034,358 square metres (approximately 262 acres) of growing space in Canada and the United States. All of the Company's greenhouses are constructed of glass, aluminum and steel, and are located on land owned or leased by the Company. The Company also has exclusive marketing agreements with growers in the United States, Canada, Mexico and Dominican Republic that currently operate approximately 726,000 square metres (approximately 157 acres) of growing area.

The following table outlines the Company's greenhouse facilities:

	Growing Area		
Greenhouse Facility	**Square Metres**	**Acres**	**Products Grown**
Marfa, TX (3 greenhouses)	318,460	82	Tomatoes on-the-vine, beefsteak tomatoes, specialty tomatoes, long English cucumbers, mini cucumbers
Fort Davis, TX (1 greenhouse)	156,530	40	Tomatoes on-the-vine, specialty tomatoes
Monahans, TX	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	

Crop Cycles

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

Northern Facilities

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

Southern Facilities

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

Marketing

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

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

The Company has distribution capabilities that it believes exceed those of most of its competitors in the North American greenhouse vegetable industry. With owned or leased distribution centres in Delaware, Texas, Washington, Dominican Republic and British Columbia the Company provides its customers with flexibility in purchasing. For the year ended December 31, 2011, the Company had an on-time delivery record of 99.2%, while maintaining competitive freight rates that management of the Company believes to be among the best in the industry.

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

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

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

Results of Operations

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

	For the three months ended December 31,	
	2011	**2010**
Revenue	$34,743	$31,703
Cost of sales	32,041	29,050
Selling, general and administrative expenses	3,586	3,593
Change in biological asset (1)	2,540	769
Income (loss) from operations	1,656	(171)
Interest expense	816	700
Other income (expense)	361	299
Provision for (recovery of) income taxes	228	(1,573)
Net (loss) income	973	1,001
EBITDA (2)	804	586
Earnings/(loss) per share/ basic and diluted	$0.03	$0.03

(1) Biological assets consist of the Company's produce on the vines at the period end. Details of the changes are described in note 8 of the Company's current financial statements.
(2) EBITDA is not a recognized earnings measure and does not have a standardized meaning prescribed by IFRS. Therefore, EBITDA may not be comparable to similar measures presented by other issuers. See "Non-IFRS Measures". Management believes that EBITDA is a useful supplemental measure in evaluating the performance of the Company.

Results of Operations for the Three Months Ended December 31, 2011 Compared to the Three Months Ended December 31, 2010

Revenue

Revenue for the three month period ended December 31, 2011 increased $3,040 or 10% to $34,743 from $31,703 for the three month period ended December 31, 2010. The increase in revenue is primarily due to a 10% increase in the Company's production, and a 19% increase in supply partner revenue partially offset a decrease of 18% in the average selling price of tomatoes as compared to 2010.

The average selling price, for the three months ended December 31, 2011 versus the three months ended December 31, 2010; for tomatoes was a decrease of 18%, for peppers was a decrease of 19% and for cucumbers was an increase of 15%. The tomato price decrease in the fourth quarter of 2011 was a result of increased supply from Mexico and Florida field grown tomatoes as compared to 2010. For the three months ended December 31, 2011, total tomato pounds sold increased 15% over the comparable period in 2010; pepper pounds sold for the three months ended December 31, 2011 increased 27% over the comparable period in 2010 and cucumber pieces sold for three months ended December 31, 2011 increased 39% over the comparable period in 2010. The increase in tomato and cucumber pounds sold was due to an increase in production at the Village Farms owned locations and increased produce pounds from supply partners.

Cost of Sales

Cost of sales for the three months ended December 31, 2011 increased $2,991 or 10% to $32,041 from $29,050 for the three months ended December 31, 2010. The increase is due to higher costs related to the purchase of supply partner product and higher transportation cost related to the additional produce pounds shipped.

Selling, General and Administrative Expenses

Selling, general and administrative expenses for the three month period ended December 31, 2011 decreased $7 to $3,586 from $3,593 for the three month period ended December 31, 2010.

Change in Biological Asset

The net change in fair value of biological asset for the three months ended December 31, increased $1,771 to $2,540 from $769 for the three months ended December 31, 2010. The increase in the three months ended December 31, 2011 is due to a lower opening value in 2011 versus 2010.

Income (Loss) from Operations

Income from operations for the three months ended December 31, 2011, increased by $1,827, to $1,656 from a loss of ($171) for the three months ended December 31, 2010. The increase was the result of an increase in the change in biological asset value of $2,540 in the three months ended December 31, 2011 versus an increase of $769 in the change in biological asset value in the same period in 2010.

Interest Expense

Interest expense, for the three month period ended December 31, 2011 increased $116 to $816 from $700 for the three month period ended December 31, 2010. The increase is due to an increase in the Company's borrowing balance on its new term loans.

Other Income

Other income for the three months ended December 31, 2011, increased $62 to $361 from $299 for the three months ended December 31, 2010. The increase was primarily due to the gain on derivative of $105 in the three months ended December 31, 2011.

Income Taxes

Income tax expense for the three month period ended December 31, 2011 was $228 compared to a recovery of ($1,573) for the three month period ended December 31, 2010, due to higher income from operations as compared to the three months period ended December 31, 2010. In addition, the 2010 expense is reduced by the reversal of an U.S tax reserve originally created for a prior year tax loss carry-forward claim that is now closed.

Net Income (Loss)

Net income for the three months ended December 31, 2011 decreased by ($28), to $973 from net income of $1,001 for the three months ended December 31, 2010. The decrease was the result of a combination of the increase in the change in biological asset value of $1,771 and the gain on derivative of $105 offset by an increase in the provision for income taxes of $1,801 for the three months ended December 31, 2011.

EBITDA

EBITDA for the three month period ended December 31, 2011 increased $218 to $804 from $586 for the three month period ended December 31, 2010, as a result of higher revenue, partially offset by an increase in cost of sales due to higher volumes and a higher percentage of supply partner revenue. See the EBITDA calculation in "Non-IFRS Measures - Reconciliation of Net Income to EBITDA."

Annual Results of Operations

Annual Consolidated Financial Performance

(in thousands, except per Share amounts)	**For the year ended December 31,**			
	2011 (IFRS)	**2010 (IFRS)**	**2010[4] (CGAAP)[3]**	**2009[4] (CGAAP)[3]**
Revenue	$164,448	$144,768	$144,768	$130,524
Cost of Sales	140,627	123,632	123,632	115,759
Selling, general and administrative	14,594	13,199	13,164	12,093
Change in biological asset [1]	269	(2,018)	N/A	N/A
Income (loss) from operations	9,496	5,919	7,972	2,672
Interest expense, net	3,016	2,775	2,775	3,159
Other cost (income)	(1,251)	(686)	(686)	(876)
(Recovery of) provision for income taxes	1,926	(421)	285	(6,280)
Net earnings	5,805	4,251	5,598	6,669
EBITDA [2]	$15,657	$15,134	$15,135	$9,122
Earnings per share – basic and diluted	$0.15	$0.11	$0.14	$0.17

(1) Biological assets consist of the Company's produce on the vines at the period end. Details of the changes are described in note 8 of the Company's current financial statements.
(2) EBITDA is not a recognized earnings measure and does not have a standardized meaning prescribed by IFRS. Therefore, EBITDA may not be comparable to similar measures presented by other issuers. See "Non-IFRS Measures". Management believes that EBITDA is a useful supplemental measure in evaluating the performance of the Company.
(3) CGAAP stands for older Canadian GAAP.
(4) Information for year ended is presented in accordance with Canadian GAAP.

Selected Statement of Financial Position Data

	As at December 31,		
	2011	**2010**	**As at January 1, 2010**
Total assets	$131,018	$104,660	$104,228
Total liabilities	($88,745)	($68,429)	($72,323)
Shareholders' equity	($42,273)	($36,231)	($31,905)

Results of Operations for the Year Ended December 31, 2011 Compared to the Year Ended December 31, 2010

Revenue

Revenue for the year ended December 31, 2011, increased $19,680, or 14%, to $164,448 from $144,768 for the year ended December 31, 2010. The increase in revenue is primarily due to a 27% increase in supply partner revenue driven by increased volumes and a 5.6% increase in Village Farms' owned facilities revenues driven by a 5.5% increase in production.

The average selling price, for the year ended December 31, 2011 versus the year ended December 31, 2010; for tomatoes was a decrease of 2%, for peppers was a decrease of 4% and for cucumbers was an increase of 34%. For the year ended December 31, 2011, total tomato pounds sold increased 9% over the comparable period in 2010; pepper pounds sold for the year ended December 31, 2011 increased 21% over the comparable period in 2010 and cucumber pieces sold for year ended December 31, 2011 increased 34% over the comparable period in 2010. The increase in tomato pounds is due to a 36% increase in supply partner pounds and a 4% increase in Village Farms owned facility pounds. The increase in peppers is due to increase supply partner pounds. The increase in cucumber pounds was due to a 200% increase in volume from Village Farms owned facilities and a 12% increase in supply partner pounds.

Cost of Sales

Cost of sales for the year ended December 31, 2011 increased $16,995 or 14% to $140,627 from $123,632 for the year ended December 31, 2010. The increase is due to higher costs related to the purchase of supply partner product, higher transportation cost related to the additional produce pounds shipped and higher cost at Village Farms owned greenhouses from increased input cost relating to the increased production acreage of specialty tomatoes and cucumbers.

Selling, General and Administrative Expenses

Selling, general and administrative expenses for the year ended December 31, 2011 increased $1,395 or 11% to $14,594 from $13,199 for the year ended December 31, 2010. The increase is due to higher overhead costs due to an increase in personnel to support the Company's growth initiatives, professional fees, bank fees and information technology services.

Change in Biological Asset

The net change in fair value of biological asset for the year ended December 31, 2011, increased $2,287, to $269 from ($2,018) for the year ended December 31, 2010. The increase is due to the different opening value of the asset as at December 31, 2010 and January 1, 2010. The fair value of the biological asset at December 31, 2011 is $5,572 which is higher than the value of $5,223 at December 31, 2010 due to increased production for the fruit on the vine in early first quarter 2012 compared to early first quarter 2011, at the respective reporting dates.

Income from Operations

Income from operations for the year ended December 31, 2011, increased $3,577, or 60%, to $9,496 from $5,919 for the year ended December 31, 2010. The increase was the result of higher revenue, an increase in the fair value of biological asset of $2,287, which were partially offset by higher cost of sales due to higher volumes and higher supply partner revenues as well as an increase in overhead costs.

Interest Expense

Interest expense, for the year ended December 31, 2011 increased $219 to $3,033 from $2,814 for the year ended December 31, 2010. The increase is due to an increase of the Company's borrowing rate on its term loans versus the year ended December 31, 2010 as well as additional borrowings.

Other Income

Other income for the year ended December 31, 2011, increased $543 to $1,268 from $725 for the year ended December 31, 2010. The increase was due to a gain on derivatives of $1,054 and other income of $285 in 2011, versus the one-time receipt, in 2010, of a prior year Canadian government subsidy of $1,030, which was reduced by a loss of ($247) on derivatives and a loss on disposal of assets of ($339).

Income Taxes

Income tax expense (recovery) for the year ended December 31, 2011 was $1,926 compared to ($421) for the year ended December 31, 2010, due to higher income from operations in 2011 and the reversal of an U.S tax reserve originally created for a prior year tax loss carry-forward claim that closed in 2010.

Net Income

Net income for the year ended December 31, 2011 increased $1,554 to $5,805 from $4,251 for the year ended December 31, 2010. The increase was due to higher production resulting in higher revenue and an increase in the change in biological asset of $2,287 and a gain on derivatives of $1,054 (versus a $247 loss for same period in 2010), partially offset by higher cost of sales, a one off government subsidy of $1,030 received in 2010 and higher overhead costs in 2011 versus 2010.

EBITDA

EBITDA for the year ended December 31, 2011 increased $523 to $15,657 from $15,134 for the year ended December 31, 2010, as a result of increased product production, offset by higher cost of sales and overhead costs. See the EBITDA calculation in "Non-IFRS Measures - Reconciliation of Net Earnings to EBITDA."

Results of Operations for the Year Ended December 31, 2010 Compared to the Year Ended December 31, 2009[(1)]

(1) Information for year ended December 31, 2009 is presented in accordance with Canadian GAAP.

Revenue

Revenue for the year ended December 31, 2010 increased $14,244, or 11%, to $144,768 from $130,524 for the year ended December 31, 2009. The increase in revenue was primarily due to higher average pricing throughout most of 2010 versus 2009. The comparable period pricing for the Company's tomato products was 13% higher in 2010 versus 2009.

The increase in the average selling price, for the year ended December 31, 2010 versus the year ended December 31, 2009, for tomatoes was 13%, for peppers was 38% and for cucumbers was 13%. The price increase for tomatoes during the year ended December 31, 2010 was a result of average pricing returning to historical averages from low price levels for the year ended December 31, 2009. This higher pricing was due to a stronger consumer demand for tomatoes, as measured by The Nielsen Company, in 2010 compared to 2009. For the year ended December 31, 2010, tomato pounds sold increased 1.5% over the same period in 2009; the increase was due to an increase in the Company's own production and increases in supply from third party providers under contract with the Company. Pepper pounds sold for the year ended December 31, 2010 decreased 24% over the same period in 2009 and cucumber pieces sold for the year ended December 31, 2010 decreased 15% over the same period in 2009. Peppers pounds sold decreased due to the reduction in supply by a supply partner provider under contract with the Company.

Cost of Sales

Cost of sales for the year ended December 31, 2011 increased $7,873 or 7% to $123,632 from $115,759 for the year ended December 31, 2010. The increase is due to higher cost related to the purchase of supply partner product.

Selling, General and Administrative Expenses

Selling, general and administrative expenses for the year ended December 31, 2010 increased $1,106, or 9%, to $13,199 from $12,093 for the year ended December 31, 2009. The increase was primarily due to higher personnel costs.

Interest Expense

Interest expense for the year ended December 31, 2010 decreased ($345), or 12%, to $2,814 from $3,180 for the year ended December 31, 2009. The decrease was due to the continued reduction in debt balances.

Other Income

Other income for the year ended December 31, 2010 decreased ($190) to $686 from $876 for the year ended December 31, 2009. The decrease was primarily due to a loss on derivatives of ($247) (2009 - gain of $709), an asset write-off of ($339) (2009 - gain on disposal of asset of $34), offset by other incidental income of $217 and a $1,055 payment from the Canadian government's AgriStability program in 2010.

Income Taxes

Income tax recovery for the year ended December 31, 2010 was ($421) compared to a recovery of ($6,280) for the year ended December 31, 2009. The 2010 expense was reduced, resulting in a tax recovery, by the reversal of an U.S. tax reserve originally created for a prior year tax loss carry-forward claim that is now closed. The recovery in 2009 is from the recognition of a Canadian future tax asset in the fourth quarter as a result of the completion of the Company's conversion from an income trust to a corporate structure.

Net Income

Net income for the year ended December 31, 2010 decreased ($2,418), or 36%, to $4,251 from $6,669 for the year ended December 31, 2009. The decrease is due to a tax recovery in 2009 from the recognition of a Canadian future tax asset in the fourth quarter as a result of the completion of the Company's conversion from an income trust to a corporate structure and partially by increases in gross profit.

EBITDA

EBITDA for the year ended December 31, 2010 increased $6,012, or 66%, to $15,134 from $9,122 for the year ended December 31, 2009, primarily due to the increase in gross profit, partially offset by an increase in other costs. See the EBITDA calculation in "Reconciliation of Net Income to EBITDA."

Non-IFRS Measures

References in this MD&A to "EBITDA" are to earnings before interest, taxes, depreciation, amortization, foreign currency exchange gains and losses on translation of long-term debt, unrealized gains on the changes in the value of derivative instruments, unrealized change in biological asset, stock compensation, costs on conversion and gains and losses on asset sales. EBITDA is a cash flow measure that is not recognized under International Financial Reporting Standards ("IFRS") and does not have a standardized meaning prescribed by IFRS. Therefore, EBITDA may not be comparable to similar measures presented by other issuers. Investors are cautioned that EBITDA should not be construed as an alternative to net income or loss determined in accordance with IFRS as an indicator of the Company's performance or to cash flows from operating, investing and financing activities as measures of liquidity and cash flows. Management believes that EBITDA is an important measure in evaluating the historical performance of the Company.

Reconciliation of Net Income to EBITDA

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

(in thousands of U.S. dollars)	For the three months ended December 31,		For the years ended December 31,		
	2011	**2010**	**2011**	**2010**	**2009**
Net income	$973	$1,001	$5,805	$4,251	$6,669
Add:					
Amortization	1,647	1,479	6,011	5,793	5,770
Foreign currency exchange (gain) loss	(13)	12	(1)	57	62
Interest expense, net	814	697	3,016	2,775	3,159
Income taxes	228	(1,573)	1,926	(421)	(6,280)
Stock compensation	89	19	237	75	-
Derivatives	(394)	(289)	(1,054)	247	(709)
Change in biological asset	(2,540)	(769)	(269)	2,018	N/A
(Gain) loss on disposal of assets	-	9	(14)	339	-
Costs related to conversion to a corporation	-	-	-	-	451
EBITDA	$804	$586	$15,657	$15,134	$9,122

Liquidity

Cash flows

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

Although, the Monahans, Texas greenhouse was operational in December 2011, the estimated cost to complete the final areas total $7 million in 2012. For the year ended December 31, 2011, cash flows from operating activities before changes in non-cash working capital and change in biological asset totalled $15,592 (2010 – $14,151).

Capital expenditures totalled ($16,880) for the three months ended December 31, 2011 (2010 – ($946)) and ($40,560) for the year ended December 31, 2011 (2010 – $2,809). The significant increase is almost entirely due to the new greenhouse the Company built in Monahans, Texas.

The Company is in the final stages of completing a 30-acre greenhouse which has been built based on its GATES™ technology. The total expected construction cost is $44.1 million. Through December 31, 2011 the Company has spent approximately $37.1 million on this project. The costs to date have been paid for with available cash and new term loan funding. See "Credit Facilities" under the "Liquidity" section for further discussion. Based on what the Company has spent to date and the new credit facilities, the Company is confident that it has adequate financing to complete the final areas of the new greenhouse.

The cash received by (used in) financing activities for the year ended December 31, 2011 totalled $15,093 (2010 – ($6,306)). These primarily consisted of additional borrowings of $69,855 in year ended December 31, 2011 offset by debt payments of ($51,468) in year ended December 31, 2011 (2010 – ($3,264)).

Capital Resources

(in thousands of US dollars unless otherwise noted)	**Maximum**	**Outstanding December 31, 2011**
Operating Loan	CA$15,000	$-
Term Loan 1	$49,500	$48,772
Term Loan 2	$28,000	$21,083
FX Facility	-	-

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

Credit Facilities:

- Revolving variable rate operating loan of up to CA$15,000 with a term of 364 days (the "Operating Loan");
- Non-revolving variable rate term loan with a balance of $48,772 with a maturity date on September 30, 2014 ("Term Loan 1");
- Non-revolving variable rate term loan up to $28,000 with a balance of $21,083 at December 31, 2011 with a maturity date on September 30, 2014 ("Term Loan 2") and together with Term Loan 1 the "Term Loans"; and
- Foreign exchange contracts facility for the purchase and/or sale of U.S. funds (the "FX Facility").

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

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

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

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

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

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

As security for the borrowings, the Company has provided, among other things, promissory notes, a first mortgage on the greenhouse properties, and general security agreements over its assets. The Company has provided full recourse guarantees and has granted security therein. The carrying value of the assets and securities pledged as collateral as at December 31, 2011 was $131,080 (December 31, 2010 - $104,660).

Contractual Obligations and Commitments

Information regarding the Company's contractual obligations at December 31, 2011 is set forth in the table below:

(in thousands of US dollars)	**Total**	**Less than 1 year**	**2-3 years**	**4-5 years**	**More than 5 years**
Long-term debt	$69,855	$4,312	$65,543	$-	$-
Operating leases	7,243	1,354	2,503	1,123	2,263
Total	$77,098	$5,666	$68,046	$1,123	$2,263

US Greenhouse expansion – Monahans, Texas

The Company completed a greenhouse expansion project in Monahans, Texas. The estimated cost of the project is $44.1 million with $37.1 million of the expenditures occurring in fiscal 2011, the remaining expenditures to occur in the spring or summer of 2012, the greenhouse became operational in December 2011 and harvesting started in the first quarter of 2012.

Capital Expenditures

During the three months and year ended December 31, 2011, the Company purchased approximately $16,880 and $40,560 of capital assets (2010 - $946 and $2,809); respectively. These capital expenditures are primarily related to the Company's US greenhouse expansion in Monahans, Texas, and were financed from cash from operations and the new Term Loan 2.

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

During the three month period and year ended December 30, 2011, the Company incurred $491 and $1,752, respectively, in costs to maintain its capital assets. Management estimates approximately $1,750 of annual costs to maintain the Company's capital assets.

Summary of Quarterly Results

For the three months ended:

(in thousands, except per share amounts)	Dec 31, 2011	Sept 30, 2011	Jun 30, 2011	Mar 31, 2011	Dec 31, 2010	Sep 30, 2010	Jun 30, 2010	Mar 31, 2010
Revenue	$34,743	$43,715	$53,649	$32,341	$31,703	$35,487	$46,476	$31,102
Net earnings (loss)	$973	($218)	$538	$4,512	$1,006	$131	($1,633)	$4,751
Basic earnings (loss) per share	$0.03	($0.01)	$0.01	$0.12	$0.03	$0.00	($0.04)	$0.12
Diluted earnings (loss) per share	$0.03	($0.01)	$0.01	$0.12	$0.03	$0.00	($0.04)	$0.12

The Company's Canadian operations peak production period is in the summer months, with no production during the winter season, due to light levels. Conversely, the Company's U.S. operations production period begins in September and carries through June. As a result, the Company's revenues peak in the second quarter of each calendar year, as both operations are in full production during this quarter. Due to the entire industry, Canadian, Mexican and US producers having production in the second quarter prices seasonally drop during the summer months resulting in lower margins. With reduced supply in the first quarter, plus the impact on colder weather on U.S. field production, generally pricing in the first quarter is higher than in other quarters resulting in higher margins and net earnings than in other quarters. Due to the complementary nature of the growing seasons of the Company's Canadian and U.S. operations, Management is focused on entering into more fixed contract pricing with big box retailers which will contribute to more predictable and stable cash flows for the Company throughout the year.

Financial Instruments and Risk Management

Risk Management

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

Market Risk

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

Credit Risk

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

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

The Company's trade receivables have two customers that individually represent more than 10% of total trade receivables and which collectively; they represent 21.5% of the balance of trade receivables as at December 31, 2011. The Company believes that its trade receivables risk is limited due to the high credit quality of its customers and the protection afforded to the Company by the *Perishable Agricultural Commodities Act* (the "PACA") for its sales in the United States, which represent approximately 80% to 85% of the Company's sales. The PACA protection gives a claim filed under the PACA first lien on all PACA assets (which include cash and trade receivables). The PACA fosters trading practices in the marketing of fresh and frozen fruits and vegetables in interstate and foreign commerce. It prohibits unfair and fraudulent practices and provides a means of enforcing contracts. Historical write-offs have represented less than 1% of sales. The maximum amount of credit risk exposure is limited to the carrying amount of the balances on the financial statements.

Given the current economic environment, trade receivables for each customer at year end were evaluated for collectability and an allowance for doubtful accounts has been estimated. A general provision is also taken based on the Company's historic exposure to bad debts based on revenue. At December 31, 2011, the allowance for doubtful accounts balance was $254 (December 31, 2010 - $254; January 1, 2010 - $254). In addition, the Company recorded a bad debt expense of $nil during the year ended December 31, 2011 (December 31, 2010 – $nil).

At December 31, 2011, 91.9% (December 31, 2010 – 88.6%; January 1, 2010 - 91.6%) of trade receivables were outstanding less than 30 days, 6.9% (December 31, 2010 – 10.5%; January 1, 2010 - 8.2%) were outstanding for between 30 and 90 days and the remaining 1.2% (December 31, 2010 – 0.9%; January 1, 2010 - 0.2%) were outstanding for more than 90 days. Trade receivables are considered past due based on the contract terms agreed to with a customer. As noted above, aged receivables that are past due are not considered impaired unless customer specific information indicates otherwise.

Interest Rate Risk

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

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

Environmental, Health and Safety Risk

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

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

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they fall due. The following are the contractual maturities of financial liabilities as at December 31, 2011:

(in thousands of US dollars) Financial liabilities	Contractual cash flows	0 to 12 months	12 to 24 months	After 24 months
Accounts payable and accrued liabilities	$13,651	$13,651	$-	$-
Bank debt	69,855	4,312	4,312	61,231
	$83,506	$17,963	$4,312	$61,231

It is the Company's intention to meet these obligations through the collection of current accounts receivable and cash. The Company has available lines of credit of CA$15,000 (as at December 31, 2011, $nil was outstanding on the line of credit, and a letter of credit, of $1,145 is outstanding). If the current resources and cash generated from operations are insufficient to satisfy its obligations, the Company may seek to issue additional equity or to arrange debt or other financing as discussed in the "Liquidity" section of the MD&A under "Financing Commitments".

Fair values

The carrying amount of short-term financial instruments, less provisions for impairment if applicable, is used to estimate the fair value of such instruments. The Company's debt bears a variable interest rate and therefore its carrying value approximates its fair value. The fair value of derivatives is determined based on published interest rates and contractual terms of the interest rate swap agreements. These swaps are subject to counterparty credit risk and the term of the swaps extend beyond the current loan agreement. The Company has entered into the agreements with a Canadian chartered bank to reduce the credit risk. The Company has two fixed for floating interest rate swap agreements, effective through January 25, 2013, in the notional amount of $39,700 in order to reduce the interest rate variability on its Term Loans. The Company has effectively fixed its interest expense on a portion of its Term Loans at 6.94%. The Company recognized a gain of $1,054 for the year ended December 31, 2011 (December 31, 2010 – a loss of $247), which represented the mark-to-market adjustment of the interest rate swap agreements. The Company could not designate the swap agreements as a hedge for accounting purposes. The fair value of the interest rate swap agreements as at December 31, 2011 was a liability of $1,286 (December 31, 2010 – $2,340). The interest rate swap agreements remaining at December 31, 2011 are as follows:

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

Outlook

Overview

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

Overall, management expects demand for hydroponic produce to increase over the prior year, although supply is also increasing primarily due to growth in Mexican supply and new U.S. based production facilities. EBITDA on existing facilities will come under pressure due to pricing pressure as a result of increasing supply, but with the recent expansion by the Company it expects its overall Company EBITDA to exceed the 2011 full year results. Management is focused on a stronger emphasis on retailer contracts and improvements in the Company's channel mix to improve gross margin.

Growth expenditures

The Company has paid $37.1 million through December 31, 2011 in capital asset additions through operating cash flows and a new credit facility for the Monahans, Texas greenhouse. The Company is expecting to spend an additional $7.0 million, in 2012, completing the Monahans greenhouse support buildings as well as adding light fixtures within the greenhouse to enhance production volumes. The greenhouse was operational by the end of fiscal 2011 and began producing fruit in February 2012.

Growth expenditures represent capital and greenhouse asset additions required to meet the demands of growth or expenditures that specifically benefit a future period or periods. For the remainder of 2012, management expects to incur growth expenditures that will benefit a future period or periods and to grow the Company's greenhouse operations.

Financing strategic growth

Management's principal objective is to grow organically, through the construction of new greenhouse facilities based on its GATES™ technology. As the Company demonstrated in 2006 it will also seek out strategic acquisitions. Growth is dependent on the Company's ability to access debt and equity in the capital markets. Any restrictions will affect the Company's growth objective.

Internal Control over Financial Reporting

Disclosure Controls and Procedures

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

As at December 31, 2011, the Company's management evaluated the effectiveness of the Company's disclosure controls and procedures, as defined under rules adopted by the CSA. This evaluation was performed under the supervision of, and with the participation of, the Company's CEO and CFO.

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

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

Internal Control over Financial Reporting

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

As at December 31, 2011, the Company's management evaluated the effectiveness of the Company's internal control over financial reporting, as defined under rules adopted by the CSA. This evaluation was performed under the supervision of, and with participation of, the Company's CEO and CFO.

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

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

Based on this evaluation, the Company's CEO and CFO have concluded that, subject to the inherent limitations noted above, the Company's internal control over financial reporting is effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles/IFRS.

There were no changes in the Company's internal control over financial reporting during the year ended December 31, 2011 that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Risks and Uncertainties

The Company is subject to various risks and uncertainties which are summarized below. Additional details are contained in the Company's current Annual Information Form dated March 22, 2012 filed on SEDAR, which can be accessed electronically at *www.sedar.com*.

Risks Relating to the Company

- Product Pricing
- Maintain Profitability

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

Risks Related to Tax

- Potential U.S. Permanent Establishment of VF Canada GP, VFCLP and VFF
- Advances by VF Operations Canada Inc. to U.S. Holdings
- Transfer Pricing
- U.S. Real Property Holding Corporation

Off-Balance Sheet Arrangements

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

Critical Accounting Estimates

Accounts Receivable

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

Inventories

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

Biological Assets

Biological assets consist of the Company's produce on the vines at the period end. The produce on the vine is measured at fair value less costs to sell and complete, with any change therein recognized in profit or loss. Costs to sell include all costs that would be necessary to sell and complete the assets, including finishing and transportation costs.

Income Taxes

The Company utilizes the assets and liability method of accounting for income taxes under which future income tax assets and liabilities are recognized for the estimated future income tax consequences attributable to differences between the financial statement carrying value amount and the tax basis of assets and liabilities. Management uses judgment and estimates in determining the appropriate rates and amounts in recording future taxes, giving consideration to timing and probability. Actual taxes could significantly vary from these estimates as a result of future events, including changes in income tax law or the outcome of reviews by tax authorities and related appeals. The resolution of these uncertainties and the associated final taxes may result in adjustment to the Company's tax assets and tax liabilities.

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

Impairment of Financial and Non-Financial Assets

At the end of each reporting period, the Company reviews the carrying amounts of its long lived assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit ("CGU") to which the asset belongs.

Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGU's, or otherwise they are allocated to the smallest group of CGU's for which a reasonable and consistent allocation basis can be identified. Identifiable cash flows are largely independent of the cash flows of other assets and liabilities. This was determined to be the Canadian and U.S. operations. The cash flow analysis did not extend beyond the remaining useful life of the assets which was estimated as the remaining amortization period of the greenhouse assets in the Canadian and U.S. operations. Internal forecasts were used to derive revenues, cost of sales and other expenditures associated with the Canadian and U.S. operations. The forecasts reflected the market price of tomatoes and gross margins percentages consistent with those that have historically been realized.

Recoverable amount is the higher of the fair value less costs to sell and the value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognized immediately in the statement of operations.

Where an impairment loss subsequently reverses for assets with a finite useful life, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or CGU in prior periods. A reversal of an impairment loss is recognized immediately in the statement of operations.

Due to the above-noted considerations, which are based on the Company's best available information, the Company has not recorded any impairment charge on its non-financial assets in the year ended December 31, 2011.

Property, Plant and Equipment – Useful Lives

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

Intangible Assets

The intangible assets of the Company were recorded at their estimated fair values at October 18, 2006. Intangible assets are subject to impairment tests under IFRS at each reporting period or when events or circumstances indicate a potential impairment. If the carrying value of such assets exceeds the fair values, the assets are written down to fair value. No write down was required as at December 31, 2011.

Changes in Accounting Policies

Future Accounting Changes

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

Consolidation and interests in other entities

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

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

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

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

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

Employee benefits

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

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

Other standards and amendments

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

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

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

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

Transition to IFRS

In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards ("IFRS"), and require publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, the Company has commenced reporting on this basis. The effect of the Company's transition to IFRS is summarized as follows:

(i) **Transition Elections**

The Company has applied the following transition exceptions and exemptions to full retrospective application of IFRS:

Deemed cost of property, plant and equipment

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

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

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

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

Related Party Transactions

As at December 31, 2011, included in other assets is a $372 promissory note from an employee of the Company in connection with a relocation agreement. The note is secured by real property.

Outstanding Share Data

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

As of the date hereof, VFF has outstanding: (i) 19,433,394 Common Shares carrying the right to one vote at a meeting of voting shareholders of VFF; (ii) 19,273,951 Special Shares carrying the right to one vote at a meeting of voting shareholders of VFF; provided that in no event shall the votes attached to the Special Shares exceed 45% of the votes otherwise attached to the Common Shares and the Special Shares then outstanding; and (iii) nil (0) Preferred Shares.

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

For further details on the structure of the Company or the rights attached to each of the above-mentioned securities, please refer to the Company’s current Annual Information Form dated March 22, 2012 which is available electronically at www.sedar.com.

Forward-looking Statements

This MD&A contains certain “forward looking statements”. These statements, including those set out under “Outlook”, relate to future events or future performance and reflect the Company’s expectations regarding its growth, results of operations, performance, business prospects, opportunities or industry performance and trends, including the Company’s expectations for 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 MD&A. Actual results may differ materially from any forward-looking statement. Although the Company believes that the forward-looking statements contained in this MD&A are based upon reasonable assumptions, you cannot be assured that actual results will be consistent with these forward-looking statements. These forward-looking statements are made as of the date of this MD&A, and other than as specifically required by applicable law, the Company assumes no obligation to update or revise them to reflect new events or circumstances.

Public Securities Filings

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