Village Farms International, Inc.

Management's Discussion and Analysis

Year Ended December 31, 2012

March 28, 2013

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, 2012 and 2011. The information provided in this MD&A is current to March 28, 2013 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, 2012 are Village Farms Canada Limited Partnership (“VFCLP”), Village Farms, L.P. (“VFLP”) and Village Farms DR, SRL (“VFDR”).

Basis of Presentation

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 preparation of annual financial data requires the use certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the annual financial data are disclosed in note 3 of the Company’s Consolidated Financial Statements.

Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the CEO. Based on the aggregation criteria in IFRS 8, *Operating Segments*, the operating segments of the Company are treated as one reporting segment.

Functional and Presentation Currency

The annual financial data is presented in United States dollars (“U.S. dollars”), which is the Company’s functional currency. All financial information presented in U.S. dollars has been rounded to the nearest thousand.

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. These premium products are 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 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 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 a 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 six greenhouses providing 871,820 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. See "Hail Storm Damage to our Facilities and Crops" section for an update on three of the Company's greenhouses, as of the date of this report. The Company also has exclusive marketing agreements with growers in the United States, Canada and Mexico that currently operate approximately 345,000 square metres (approximately 86 acres) of growing area.

The following table outlines the Company's greenhouse facilities:

	Growing Area		
Greenhouse Facility	**Square Metres**	**Acres**	**Products Grown**
Marfa, TX (1 greenhouse)	156,530	40	Tomatoes on-the-vine, beefsteak tomatoes
Fort Davis, TX (1 greenhouse)	156,530	40	Specialty tomatoes
Monahans, TX (1 greenhouse)	118,200	30	Tomatoes on-the-vine, long English cucumbers, mini cucumbers
Delta, BC (3 greenhouses)	440,560	110	Tomatoes on-the-vine, beefsteak tomatoes, specialty tomatoes
Total	1,033,750	220	

Hail Storm Damage to our Facilities and Crops

On May 31, 2012 a hail storm severely damaged all three greenhouses (approximately 82 acres) located in Marfa, Texas forcing a shutdown of these facilities. The Company has completed repairs on one of the Marfa facilities (40 acres), which is now in full production. The remaining two facilities have not been repaired, at this time, due to insufficient insurance proceeds, as well as a shortage of experienced construction crews to repair the damage. At this time, it is uncertain if and when the remaining facilities (approximately 42 acres) will be repaired, replaced or retired.

The Company is insured and as at December 31, 2012, $32,532 had been received from its insurance carrier for repairs and business interruption. The Company has incurred $1,301 of fees associated with this recovery, of which $800 has been paid and $501 is accrued in current liabilities. Insurance proceeds net of fees is included in income from operations pursuant to International Accounting Standard ("IAS") 16, *Property, Plant and Equipment*.

In March 2013, the Company received additional business interruption advances of $2,216 and incurred fees associated with its recovery of $89. The Company has also made a settlement offer to the insurance carrier which is under consideration.

As at December 31, 2012, writedowns of $4,352 for property and equipment destroyed or damaged were recognized. Additionally, the Company took a writedown to inventories of $4,649 for the damaged crops, growing materials and packaging supplies.

The Company property and equipment writedown were based on management's and consultant's judgments of the damage incurred to the facilities.

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 the late October 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 or early December.

Southern Facilities

The west Texas facilities begin their growing cycles in May of one year and extend into July of the next year. To start, seeds are purchased and sent to an external propagator in May. Meanwhile, harvesting for the previous year's crop concludes in late June or early July. These plants are removed from the greenhouse and replaced with the new seedlings from May's propagation. In August, the pollination process begins and fruit typically begins to appear on the vines. The timing of growth and ripening of the fruit depends on the variety of the fruit. Harvesting begins in September. In order to maintain the highest level of quality and yield, a portion of the facilities are planted with a second crop (interplant) alongside the original crop in January. In March, the second crop begins to harvest fruit and the original crop is removed. The Company also staggers its fall planting cycle to manage its production volumes to ensure it has local Texas crop for some of its core customers.

The Monahans facility, GATES®, started harvesting in mid-February 2012. The facility will change plants in smaller areas throughout the year to ensure product volumes year-round. Due to the southern latitude, the light levels are sufficient to grow through the winter months and due to the enclosed growing climate and the technology of the GATES greenhouse, the extreme heat of the Texas summers will not impact the produce as much as it does in the Company's other Texas facilities which are vented to the outside environment. As such, the facility can produce year-round. Due to the hail storm (see Hail Storm section), the Company replanted its cucumber crop in Monahans in June 2012, by removing some of its existing tomato acreage in Monahans. This was done to retain some key big box retailer customers.

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, roma, Mini San Marzano (a tomato variety for which the Company currently has an exclusive agreement with the seed provider to be the sole grower in North America) 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 leased distribution centres in Delaware, Texas, Washington and British Columbia, the Company provides its customers with flexibility in purchasing. For the year ended December 31, 2012, the Company had an on-time delivery record of 99.5%, 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 partner 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, Sam's Club, 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 meets 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,	
	2012	**2011**
Net Sales	$30,557	$34,743
Cost of sales	26,320	32,041
Insurance proceeds, net	480	-
Selling, general and administrative expenses	3,834	3,586
Change in biological asset (1)	(54)	2,540
Income from operations	829	1,656
Interest expense, net	1,150	814
Other income	177	359
Provision for income taxes	9,093	228
Net (loss) income	(9,237)	973
EBITDA (2)	2,810	804
Earnings/(loss) per share/ basic and diluted	($0.24)	$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 7 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, 2012 Compared to the Three Months Ended December 31, 2011

Net Sales

Net sales for the three month period ended December 31, 2012 decreased by $4,186 or 12% to $30,557 from $34,743 for the three month period ended December 31, 2011. The decrease in net sales is primarily due to a 17% decrease in the Company's production of all commodities as well as, a 34% decrease in supply partner revenue which were partially offset by an increase of 30% in the average selling price of tomatoes as compared to the same period in 2011.

The average selling price for the three months ended December 31, 2012 versus the three months ended December 31, 2011; for tomatoes was an increase of 30%, for peppers was an increase of 4% and for cucumbers was a decrease of 8%. The tomato price increase in the fourth quarter of 2012 was as a result of an increased mix of specialty tomatoes grown by the Company, and the pending U.S. government's case for anti-dumping against Mexico, which management believed curtailed summer and fall tomato planting in Mexico resulting in lower supply. For the three months ended December 31, 2012, total tomato pounds sold decreased by 28% over the comparable period in 2011; pepper pounds sold for the three months ended December 31, 2012 decreased by 17% over the comparable period in 2011 and cucumber pieces sold for three months ended December 31, 2012 increased by 4% over the comparable period in 2011. The decrease in tomato pounds sold was due to a 17% decrease in Village Farms grown tomatoes as a result of loss of greenhouse facilities caused by the hail storm and a 66% decrease in supply partner production. The decrease in peppers is due to less supply partner production and the increase in cucumbers is due to an increase in the growing area of cucumbers at the in the Company's Monahans facility.

Cost of Sales

Cost of sales for the three months ended December 31, 2012 decreased by $5,721 or 18% to $26,320 from $32,041 for the three months ended December 31, 2011. The decrease is due to lower costs related to the purchase of supply partner product and lower transportation costs related to less produce pounds shipped and a decrease in greenhouse production costs due to fewer acres in production and less pounds produced.

Insurance Proceeds, net

The insurance proceeds, net of $480 for the three months ended December 31, 2012 consist of $500 of business income losses proceeds offset by fees of $20.

Selling, General and Administrative Expenses

Selling, general and administrative expenses for the three month period ended December 31, 2012 increased by $248 to $3,834 from $3,586 for the three month period ended December 31, 2011. The increase is due to higher bank and professional fees, partially offset by lower personnel cost.

Change in Biological Asset

The net change in fair value of biological asset for the three months ended December 31, 2012 decreased by $2,594 to ($54) from $2,540 for the three months ended December 31, 2011. The decrease in the three months ended December 31, 2012 is due to a higher opening fair value of inventory costs in September 2012 of $2,908 versus September 2011 of $856, as well as lower pounds expected sold in the early part of the first quarter of 2013 versus the first quarter of 2012 as a result of the reduced acreage from the hail storm damage.

Income from Operations

Income from operations for the three months ended December 31, 2012, decreased by $827 to $829 from $1,656 for the three months ended December 31, 2011. The decrease was the result of a decrease in the change in biological asset value of $2,594 in the three months ended December 31, 2012 versus the same period in 2011, an increase in selling, general and administrative expenses partially offset by an increase of $1,535 in gross profit plus insurance proceeds of $480.

Interest Expense, net

Interest expense, net, for the three month period ended December 31, 2012 increased by $336 to $1,150 from $814 for the three month period ended December 31, 2011. The increase is due to an increase in the Company's borrowing balance on its new term loans and higher borrowing rates.

Other Income

Other income for the three months ended December 31, 2012, decreased by $182 to $177 from $359 for the three months ended December 31, 2011. The decrease was primarily due to a foreign exchange loss for the three months ended December 31, 2012 of ($169) from a gain of $13 for the same period in 2011. The accounts in other income are: amortization of intangible assets, gains or loss on foreign exchange, gain on derivatives, gains on sales of assets and other income.

Income Taxes

Income tax expense for the three month period ended December 31, 2012 was $9,093 compared to $228 for the three month period ended December 31, 2011. The large income tax expense in the fourth quarter is due to the Company not recognizing the book tax on insurance proceeds in prior 2012 quarters. Although insurance property proceeds used to repair and rebuild damaged facilities are not taxable, they do create a difference in the depreciable asset basis between book and tax, which the Company did not take into account when determining its second and third quarter book tax expense.

Due to the Company's net operating loss carryforward from 2011, if the Company does not spend the entire amount of property proceeds on the repair and rebuild of its damaged facilities in the required 24 month period, there will be no cash taxes due.

Business interruption proceeds are taxable in the year they are received.

Net Income (Loss)

Net income for the three months ended December 31, 2012 decreased by $10,210 to ($9,237) from net income of $973 for the three months ended December 31, 2011. The decrease was the result of a combination of the decrease in the change in biological asset value of $2,594 and the increase in income tax expenses offset by an increase in gross profit of $1,535 for the three months ended December 31, 2012.

EBITDA

EBITDA for the three month period ended December 31, 2012 increased by $2,006 to $2,810 from $804 for the three month period ended December 31, 2011, as a result of higher gross profits due to increased selling price for tomatoes. 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,		
	2012	**2011**	**2010**
Net Sales	$133,942	$164,448	$144,768
Cost of Sales	125,965	140,627	123,632
Insurance proceeds, net	31,231	-	-
Provision for property and equipment damaged(1)	4,352	-	-
Provision for inventory damaged in hail storm(1)	4,649	-	-
Selling, general and administrative(1)	14,537	14,594	13,199
Change in biological asset (2)	(540)	269	(2,018)
Income from operations	15,130	9,496	5,919
Interest expense, net	4,329	3,016	2,775
Other income, net	(1,412)	(1,265)	(686)
Provision for (recovery of) income taxes	4,311	1,926	(421)
Net earnings	7,902	5,805	4,251
EBITDA (3)	$23,837	$15,657	$15,134
Earnings per share – basic and diluted	$0.20	$0.15	$0.11

(1) These items are all related to damage from the hail storm, see "Hail Storm Damage to our Facilities and Crops".
(2) Biological assets consist of the Company's produce on the vines at the period end. Details of the changes are described in note 7 of the Company's current financial statements.
(3) 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.

Selected Statement of Financial Position Data

	As at December 31,		
	2012	**2011**	**2010**
Total assets	$130,134	$131,018	$104,660
Total liabilities	($79,683)	($88,745)	($68,429)
Shareholders' equity	($50,451)	($42,273)	($36,231)

Results of Operations for the Year Ended December 31, 2012 Compared to the Year Ended December 31, 2011

Net Sales

Net sales for the year ended December 31, 2012, decreased $30,506, or 19%, to $133,942 compared to $164,448 for the year ended December 31, 2011. The decrease in net sales is primarily due to a 9% decrease in the net selling price of tomatoes, a decrease in the Company's production by 7.1%, and a 28% decrease in supply partner revenue due to a 21% decrease in pounds sold as well as a decrease in the average selling prices. The decrease in average selling price was caused by Mexican growers dumping tomatoes in the U.S. market (see "Outlook – Tomato Suspension Agreement - Mexico").

The average selling prices for the year ended December 31, 2012 versus the year ended December 31, 2011; for tomatoes was a decrease of 9%, for peppers was a decrease of 14% and for cucumbers was a decrease of 18%. For the year ended December 31, 2012, total tomato pounds sold decreased 13% over the comparable period in 2011; pepper pounds sold for the year ended December 31, 2012 decreased 1% over the comparable period in 2011 and cucumber pieces sold for year ended December 31, 2012 increased 6% over the comparable period in 2011. The decrease in tomato pounds is due to a 38% decrease in supply partner pounds from less contract supplies in 2012 versus 2011 and a 7% decrease in Village Farms owned facility pounds, due to the hailstorm that suspended production at the three Marfa, Texas facilities; see "Hail Storm Damage to our Facilities and Crops". The decrease in peppers is due to a decrease in supply partner pounds. The increase in cucumber pounds was due to a 5% increase in volume from Village Farms owned facilities and a 6% increase in supply partner pounds.

Cost of Sales

Cost of sales for the year ended December 31, 2012 decreased by $14,662 or 10% to $125,965 from $140,627 for the year ended December 31, 2011. The decrease is due to lower costs related to the purchase of supply partner product, lower transportation costs related to reduced produce pounds shipped, offset by higher costs at Village Farms owned greenhouses from increased input costs relating to the increased production acreage of specialty tomatoes and cucumbers, and the new Monahans facility.

Insurance Proceeds, net

The insurance proceeds, net of $31,231 for the year ended December 31, 2012 is $32,532 of receipts which consist of property insurance losses of $31,532 and business income losses of $1,000 offset by $1,301 of fees associated with this recovery.

Provision for property and equipment damaged

The provision for property and equipment damaged for the year ended December 31, 2012, consist of writedowns of $4,352 for property and equipment destroyed or damaged. The writedown was based on management's and consultant's judgments of the damaged incurred to the facilities.

Provision for inventory damaged in hail storm

The provision for inventory damaged in hail storm, is a writedown to inventories of $4,649 is for the damaged crops, growing materials and packaging supplies. This amount represents the value of the crops destroyed in the hail storm and the carrying value of any raw materials damaged.

Selling, General and Administrative Expenses

Selling, general and administrative expenses for the year ended December 31, 2012 decreased by $57 to $14,537 from $14,594 for the year ended December 31, 2011, the decrease is due to a decrease in personnel cost over $300 offset by an increase in bank and professional fees of nearly $250.

Change in Biological Asset

The net change in fair value of biological asset for the year ended December 31, 2012 decreased $809 to ($540) from $269 for the year ended December 31, 2011. The fair value of the biological asset at December 31, 2012 is $4,757 which is lower than $5,572 at December 31, 2011 due to the decreased of production of tomatoes on the vine in early first quarter 2013 compared to early first quarter 2012, due to the reduced acreage in 2013 versus 2012.

Income from Operations

Income from operations for the year ended December 31, 2012 increased $5,636, or 59%, to $15,130, from $9,496 for the year ended December 31, 2011. The increase was the result of insurance proceeds, net of write-offs offset by a lower gross profit and the decrease in change in biological asset value.

Interest Expense, net

Interest expense, net for the year ended December 31, 2012 increased $1,313 to $4,329, from $3,016 for the year ended December 31, 2011. The increase is due to an increase of the Company's borrowing rate on its term loans versus the year ended December 31, 2011 as well as a larger average outstanding borrowing balance in 2012 due to the addition of the Monahans facility.

Other Income

Other income for the year ended December 31, 2012, increased $161 to $1,412 from $1,251 for the year ended December 31, 2011. The increase was due to a foreign exchange loss of ($103) in 2012 versus a gain of $1 in 2011 offset by a gain on sale of assets. Other income include; gains or loss on foreign exchange, gain on derivatives, gains on sale of assets and other income.

Income Taxes

Income tax expense for the year ended December 31, 2012 was $4,311, compared to $1,926 for the year ended December 31, 2011, due to higher income from operations in 2012 and a higher percentage of income in the U.S. were the tax rate is 35% versus 25% in Canada.

Net Income

Net income for the year ended December 31, 2012 increased by $2,097 to $7,902, from $5,805 for the year ended December 31, 2011. The increase was due to an increase in income from operations offset by increases in the interest expense and income tax expense.

EBITDA

EBITDA for the year ended December 31, 2012 increased by $8,180 to $23,837, from $15,657 for the year ended December 31, 2011, as a result of insurance proceeds offset by lower gross profit. See the EBITDA calculation in "Non-IFRS Measures - Reconciliation of Net Income to EBITDA".

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

Net Sales

Net sales for the year ended December 31, 2011 increased by $19,680, or 14%, to $164,448, from $144,768 for the year ended December 31, 2010. The increase in net sales 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 increased 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 costs related to the additional produce pounds shipped and higher cost at Village Farms owned greenhouses from increased input costs 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 by $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 was partially offset by a 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 $540 to $1,265 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). Other income include; gains or loss on foreign exchange, gain on derivatives, gains on sale of assets and other income.

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 a 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 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, and gains and losses on asset sales. EBITDA is a cash flow measure that is not recognized under 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,**		
	2012	**2011**	**2012**	**2011**	**2010**
Net (loss) income	($9,237)	$973	$7,902	$5,805	$4,251
Add:					
Amortization	1,829	1,647	7,552	6,011	5,793
Foreign currency exchange (gain) loss	169	(13)	103	(1)	57
Interest expense, net	1,150	814	4,328	3,016	2,775
Income taxes	9,093	228	4,311	1,926	(421)
Stock compensation	73	89	276	237	75
Derivatives	(328)	(394)	(1,180)	(1,054)	247
Change in biological asset	54	(2,540)	540	(269)	2,018
(Gain) loss on disposal of assets	7	-	4	(14)	339
EBITDA	$2,810	$804	$23,837	$15,657	$15,134

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.

For the three months ended December 31, 2012, cash flows from operating activities before changes in non-cash working capital and changes in biological asset totalled $3,152 (2011 – $3,103) and for the year ended December 31, 2012, totalled $27,957 (2011 – $15,592).

Capital expenditures totalled ($882) for the three months ended December 31, 2012 (2011 – ($16,880)) and ($13,438) and for the year ended December 31, 2012 (2011 – $40,560). The significant decrease is almost entirely due to the new greenhouse the Company built in 2011 in Monahans, Texas.

The cash (used in) received by financing activities for the three months ended December 31, 2012 ($12,760) (2011-10,625) and for the year ended December 31, 2012 totalled ($15,906) (2011 – $15,093). These primarily consisted of debt payments of $18,462 in the year ended December 31, 2012, partially offset by additional borrowings of $6,917 in the year ended December 31, 2012 (2011 – borrowing $69,855; payments ($51,468)).

Capital Resources

(in thousands of US dollars unless otherwise noted)	**Maximum**	**Outstanding March 28, 2013**
Operating Loan	CA$8,000	$3,571
Term Loan	$58,000	$58,000

On March 28, 2013, the Company entered into a new term facility among VF Canada LP (the "Borrower"), and certain affiliates of the Borrower, as guarantors and Farm Credit Canada (the "Term Loan"). The following summary describes the provisions of the Term Loan. The Term Loan consists of a capital loan for $58,000,000 which matures on April 1, 2018. Subject to acceleration upon an event of default, the outstanding balance of the Term Loan will be payable by way of monthly instalments of principal and interest based on an amortization period of 14 years, with the balance of the term loans and all unpaid accrued interest to be paid in full at maturity. The Term Loan is subject to annual financial covenants as well as other positive and negative covenants typical for this type of loan. The Term Loan is a LIBOR borrowing plus a margin based on the prevailing coverage ratio at each reporting date. The interest rate at the time of this report is 5.28%.

As security for the Loan, VF Canada LP and other Company entities have provided, among other things, promissory notes, a first mortgage on all of the Company's greenhouse properties, and general security agreements over its assets. The Company and certain of its direct and indirect subsidiaries, including APDI, have provided full recourse guarantees of the Term Loan and have granted security therefore.

In addition to the Term Loan described above, the Company has an operating credit facility ("Operating Loan") in place among VF Canada LP and HSBC Bank Canada ("HSBC"). The following summary describes the provisions of the Operating Loan. The Operating Loan is similar to the prior Credit Facilities as discussed below that were in place for the entirety of the calendar year 2012 and up to March 27, 2013 with some modifications. The Operating Loan will be reviewed on June 30, 2013 by HSBC, at which time it may or may not elect to continue the Operating Loan. The Company is currently working at completing a replacement operating facility that better suits its seasonal needs for working capital, which are primarily needed in the February to early May period in order to provide the necessary working capital to get its Canadian operations cash flowing. Typically the Company needs an operating loan only during this three month period. The Operating Loan is subject to a monthly financial covenant, which is it currently compliant with and expects to be compliant through June 30, 2013.

The borrowing base is based on 75% of current accounts receivable less priority claims.

The Operating Loan is based on an interest rate of either: 1) the Prime Rate Borrowing plus 4.25% or 2) the U.S. Base Rate Borrowing plus 4.25%. At the date of this report the interest rate is 8.00% and this rate will remain in effect until June 30, 2103. As of the date of this filing, the outstanding balance on its Operating Loan is approximately $3.4 million.

Credit Facilities:

- Revolving variable rate operating loan of up to CA$8,000 with a term to June 30, 2013 (the "Operating Loan"); and
- Non-revolving variable rate term loan with a balance of $58,000 as at March 28, 2013 with a maturity date on April 1, 2018 ("Term Loan");

The Operating Loan is subject to margin requirements stipulated by the bank and letters of credit totaling $1,145 are outstanding.

The Term Loan is fully drawn; the outstanding balance is repayable by way of monthly installments of principal and interest based on an amortization period of 14 years, with the balance and any accrued interest is to be paid in full on April 1, 2018. Monthly principal payments on the Term Loan are $345. As at March 28, 2013, borrowings under the Term Loan agreement are subject to LIBOR plus 5.00%. The LIBOR adder is based on a debt to EBTIDA ratio and can range between 3.0% and 5.0%.

As at December 31, 2012, the Company Credit facilities were as follows:

- Revolving variable rate Operating Loan of up to CA$8,000 with a maturity date on January 1, 2014 (the "Operating Loan");
- Non-revolving variable rate term loan with a balance of $31,710 with a maturity date on January 1, 2014 ("Term Loan 1");
- Non-revolving variable rate term loan with a balance of $26,600 with a maturity date on January 1, 2014 ("Term Loan 2");
- On November 26, 2012, an increase in the interest rate on the Credit Facilities of 2.00%;
- Modification and clarification of the financial covenants until March 31, 2013; and
- On January 25, 2013, the term loans are subject to the U.S. Base Rate plus 4.25%;

The Operating Loan ("line of credit") is subject to margin requirements stipulated by the bank; no amount was drawn on this facility at December 31, 2012 (December 31, 2011 – $nil) and is available to a maximum of CA$8,000, less a letter of credit totaling $1,145 outstanding.

Term Loan 1 was fully drawn as at December 31, 2012. The outstanding balance of Term Loan 1 is repayable by way of monthly installments of principal and interest based on an amortization period of 17 years, with the balance and any accrued interest to be paid in full on January 1, 2014. Monthly principal payments on Term Loan 1 are $168. As at December 31, 2012, borrowings under the Term Loan 1 agreement are subject to LIBOR plus 5.75% (effective rate of 5.96% as at December 31, 2012).

Term Loan 2 was fully drawn as at December 31, 2012. The outstanding balance of Term Loan 2 is repayable by way of monthly installments of principal and interest based on an amortization period of 20 years, with the balance and any accrued interest to be paid in full on January 1, 2014. Monthly principal payments on Term Loan 2 are $117. As at December 31, 2012, borrowings under the Term Loan 2 agreement are subject to LIBOR plus 5.75% (effective rate of 5.96% as at December 31, 2012).

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

Accrued interest payable on the credit facilities and loans as at December 31, 2012 was $40 (December 31, 2011 - $42) and these amounts are included in the accrued liabilities in the statement of financial position. The Company has entered into fixed for floating rate interest rate swaps.

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, 2012 was $130,134 (December 31, 2011 - $131,080).

Contractual Obligations and Commitments

Information regarding the Company's contractual obligations at December 31, 2012 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	$58,310	$3,413	$54,897	$-	$-
Operating leases	10,195	1,607	3,082	2,476	3,030
Capital leases	123	29	58	36	-
Total	$68,628	$5,049	$58,037	$2,512	$3,030

Capital Expenditures

During the three months and year ended December 31, 2012, the Company purchased approximately $882 and $13,438 of capital assets (2011 - $16,880 and $40,560); respectively. These capital expenditures were primarily related to the Company's U.S. greenhouse expansion in Monahans, Texas, and repair of the Presidio greenhouse from the hail storm.

Management continues to review new capital expenditures to support its strategic plan of achieving cost efficiencies through increased productivity. 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. Management believes that its recurring capital expenditures will be funded and supported from its ongoing operations.

Management is considering plans to repair 20 acres of one of its damaged Marfa facilities, but will not undertake any capital expenditures on this project until it settles its insurance claim.

During the three month period and year ended December 30, 2012, the Company incurred $498 and $1,592, respectively, in costs to maintain its capital assets. Management estimates approximately $1,500 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, 2012	Sept 30, 2012	Jun 30, 2012	Mar 31, 2012	Dec 31, 2011	Sept 30, 2011	Jun 30, 2011	Mar 31, 2011
Net sales	$30,557	$35,711	$39,483	$28,192	$34,743	$43,715	$53,649	$32,341
Net (loss) income	($9,237)	$10,088	$7,743	($692)	$973	($218)	$538	$4,512
Basic (loss) earnings per share	($0.24)	$0.26	$0.20	($0.02)	$0.03	($0.01)	$0.01	$0.12
Diluted (loss) earnings per share	($0.24)	$0.26	$0.20	($0.02)	$0.03	($0.01)	$0.01	$0.12

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

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 had one customer that represented more than 10% of the balance of trade receivables as at December 31, 2012 (represented 11.6%). The Company believes that its trade receivables risk is limited due to the high credit quality of its customers and the protection afforded to the Company by the *Perishable Agricultural Commodities Act* (the "PACA") for its sales in the United States, which represent approximately 80% of the Company's sales. The PACA protection gives a claim filed under the PACA first lien on all PACA assets (which include cash and trade receivables). The PACA fosters trading practices in the marketing of fresh and frozen fruits and vegetables in interstate and foreign commerce. It prohibits unfair and fraudulent practices and provides a means of enforcing contracts. Historical write-offs have represented less than 1% of sales. The maximum amount of credit risk exposure is limited to the carrying amount of the balances on the financial statements.

Given the current economic environment, trade receivables for each customer 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, 2012, the allowance for doubtful accounts balance was $254 (2011 - $254). In addition, the Company recorded a bad debt expense of $nil during the year ended December 31, 2012 (2011 – $nil).

At December 31, 2012, 82.4% (2011 – 91.9%) of trade receivables were outstanding less than 30 days, 16.2% (2011 – 6.9%) were outstanding for between 30 and 90 days and the remaining 1.4% (2011 – 1.2%) were outstanding for more than 90 days. Trade receivables are considered past due based on the contract terms agreed to with a customer. As noted above, aged receivables that are past due are not considered impaired unless customer specific information indicates otherwise.

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, 2012:

(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	$12,627	$12,627	$-	$-
Bank debt	58,310	3,413	54,897	-
	$70,937	$16,040	$54,897	$-

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$8,000 (as at December 31, 2012, $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 a fixed for floating interest rate swap agreement, effective through January 25, 2013, in the notional amount of $38,500 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 9.45%. The Company recognized a gain of $1,180 for the year ended December 31, 2012 (December 31, 2011 – $1,054), 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, 2012 was a liability of $106 (December 31, 2011 – $1,286). The interest rate swap agreements remaining at December 31, 2012 are as follows:

Term	Amount	Interest Rate
January 25, 2008 - January 28, 2013	$38,500	9.45%

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 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. The Company expects pricing in 2013 to be in-line with historical average and above 2012 prices. The Company believes that the pricing pressure in 2012 was due to an increased supply from Mexico and some of this product was being dumped below cost and this should not continue because of the new Suspension Agreement reached with Mexican growers;

(see "Tomato Suspension Agreement – Mexico"). Management is focused on a stronger emphasis on retailer contracts and improvements in the Company's channel and product mix to improve gross margin.

Growth expenditures

The Company expects to make a decision on, how much, and how to repair the damaged facilities in Marfa, Texas only when it has reached a settlement with the insurance company. At this time, it is considering alternatives to repair 20 acres of the previous 40 acres, as 20 acres is too badly damaged to repair. The Company is not planning any additional new facilities for the remainder of 2013. Timing is important, as sufficient time is necessary to schedule the necessary special foreign labor and materials to repair the facility.

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.

Tomato Suspension Agreement – Mexico

On June 22, 2012, a group of U.S. tomato growers including VFLP petitioned the U.S. Department of Commerce to withdraw their petition and requested termination of the 1996 Tomato Suspension Agreement ("**1996 Agreement**") with Mexico. The basis of the petition was that Mexican tomato growers were 'dumping' tomatoes into the U.S. market which is a violation of U.S. regulations. Dumping is defined as an importer who is selling product in the U.S. market for less than their costs. Mexican producers claimed they were not dumping and were adhering to the 1996 Agreement, but U.S. tomato producers who represented more than 85% of all U.S. tomato production (the threshold for U.S. Department of Commerce intervention) stipulated that the 1996 Agreement was outdated, it should be terminated and an investigation into Mexican tomato dumping should ensue. Due to the high volume of Mexican imports of produce, in particular tomatoes (field, shade and greenhouse), the issue was raised at the highest levels of both countries' governments.

Negotiations for a revised agreement began and resulted in a new agreement (the "Suspension Agreement") which became effective on March 4, 2013. All signatories have agreed that they will not sell product at prices below the established reference prices in the new Suspension Agreement. The Suspension Agreement has two reference price periods: October 23 – June 30 ("winter") and July 1 – October 22 ("summer"), as well as distinguishes between "Open Field/Adapted Environment" and "Controlled Environment", although "specialty" tomatoes is a separate category from the growing environments. Each environment and category have different reference prices depending on the period and the packaging.

While the Company and other U.S. growers would have preferred that there was a definitive definition of "greenhouse", the definition of "Controlled Environment" uses the Certified Greenhouse Growers Association (CCGA) definition which essentially is a modern glass greenhouse.

All signatories must ensure that they and/or their initial U.S. selling agent must adhere to the new Suspension Agreement and must hold a valid and effective PACA license. It is a violation of the new Suspension Agreement to sell at a new price below the minimum reference price and doing so could result in financial fines or worse loss of the sellers or importers PACA license, which is required to buy or sell produce in the United States. Additionally, the Mexican government is requiring Mexican growers to formally register with the Mexican authorities in order to export to the U.S. and failing to do so will result in the denial of exportation rights.

The net result of the new Suspension Agreement is a positive outcome for the Company as it should curtail the ongoing issue of mislabeling Mexican field tomatoes as greenhouse tomatoes and sets a minimum floor price for selling to U.S. importers or retailers, if they buy directly. In the long run, the Company believes that the new Suspension Agreement should slow down the rapid growth of tomato production in Mexico as real economics – selling for a profit – is brought to bear on Mexican growers. If the market price for U.S. tomatoes drops below the reference price, Mexican growers would be unable to export to the United States.

Refinancing

The Company recently completed a refinancing of its credit facilities which was an important development. The Company's new Term Loan is with a lender that understands and appreciates the cyclical nature of agriculture and in particular the hydroponic greenhouse industry. While the Company's new Term Loan lender has been a senior lender in prior Company financing, it had not been the lead lender and one of the Company's prior lenders was not as supportive, in challenging times, as the Company would expect. Providing a five year term commitment places the Company on firm ground to focus its management efforts on operational excellence, customer satisfaction and growth initiatives, rather than trying to manage meeting a lending institutions expectations and demands.

While a longer term solution for a better operating loan has not been completed, the current Operating Loan will get the Company through its annual spring working capital needs for its Canadian operations. The Company hopes to put in place a term operating line that better suits its annual spring working capital needs but also provides flexibility to fund future growth initiatives.

Insurance Proceeds

In early March 2013, the Company received an additional $700 business interruption advance from its insurance carrier pertaining to its May 2012 hail storm claim. On March 25, 2013 the Company received an additional $1.5 million business interruption advance. Additionally, the carrier has acknowledged the Company's settlement offer and has requested additional supporting information from the Company before it responds to the Company's settlement offer.

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, these 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, 2012, 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 IFRS, 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, 2012, 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 the 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 IFRS.

There were no changes in the Company's internal control over financial reporting during the year ended December 31, 2012 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 28, 2013 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 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 exclude biological assets (see below). Cost of sales is based upon incurred and estimated costs to be incurred from 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.

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. The Company estimates the recoverable amounts on a 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.

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 income.

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 income.

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, 2012.

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 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, 2012.

Changes in Accounting Policies

Future Accounting

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 consolidated 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, *Separate Financial Statements,* and IAS 28, *Investments in Associates and Joint Ventures.* IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 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 did not have an impact on amounts recorded in the Company's 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 upon the 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.

Related Party Transactions

As at December 31, 2012, included in other assets is a $352 promissory note from an employee of the Company in connection with a relocation agreement. The note is secured by real property. The Company has no other commitments as a result of related party transactions during the year.

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 28, 2013 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 2013 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.