Village Farms International, Inc.

Management's Discussion and Analysis

Three and Six Months Ended June 30, 2012

August 14, 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 unaudited, consolidated condensed interim financial statements and accompanying notes of Village Farms International, Inc. ("VFF" and, together with its subsidiaries, the "Company"), for the three and six months ended June 30, 2012. The information provided in this MD&A is current to August 14, 2012 unless otherwise noted.

VFF is a corporation existing under the *Canada Business Corporations Act* (the "CBCA"). The Company's principal operating subsidiaries at June 30, 2012 are Village Farms Canada Limited Partnership ("VFCLP") and Village Farms, L.P. ("VFLP").

The interim financial data included in this MD&A is presented in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board, unless otherwise noted.

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 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 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. 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 800,000 square metres (approximately 200 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 (1 greenhouse)	118,200	30	Tomatoes on-the-vine
Delta, BC (3 greenhouses)	441,168	110	Tomatoes on-the-vine, beefsteak tomatoes, specialty tomatoes
Total	1,034,358	262	

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 forcing a shutdown of these facilities until repairs can be made. Currently the Company has part of one facility complete (5 hectares) and will complete the remaining sections of that facility (10 hectares) by August 31, 2012. The remaining 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 unknown if the remaining facilities (approximately 42 acres) will be repaired, replaced or retired.

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 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, some of the facilities plant a second crop (intercrop) 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 insure it has local Texas crop for some of its core accounts.

The Monahans facility, GATES®, started harvesting in mid-February 2012. The facility will change plants in smaller areas throughout the year to ensure consistent 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 existing tomato acreage. This was done to maintain its core big box retailer account base.

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 and British Columbia, the Company provides its customers with flexibility in purchasing. For the six months ended June 30, 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 partners produce) is sold directly to supermarket chains, including Associated Grocers, Associated Wholesale Grocers, BJ's Wholesale Club Inc., Costco Wholesale, Fred Meyer, HEB Grocery Company, The Kroger Co., Loblaw Companies Limited, Market Basket, Meijer, Inc., Military Produce, Publix Super Markets, Inc., Safeway Inc., Safeway Canada, Unified Western Grocers, Wakefern Food Corp., Wal-Mart Stores, Inc., Wegmans Food Markets Inc., Whole Foods Market and Winco Foods LLC.
- **Excellence in Customer Service and Logistics.** Logistics and distribution capability are key factors in ensuring fresh high quality product to meet consumer demands. Management of the Company believes it has a competitive advantage through its logistics and distribution networks, which includes strategically located distribution centres.

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

Results of Operations

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

	For the three months ended June 30,		For the six months ended June 30,	
	2012	**2011**	**2012**	**2011**
Revenue	$39,483	$53,649	$67,675	$85,990
Cost of sales	(45,742)	(45,730)	(69,426)	(71,331)
Insurance proceeds, net	18,720	-	18,720	-
Writeoff of assets damaged	(2,789)	-	(2,789)	-
Change in biological asset (1)	(965)	(3,079)	(2,179)	(101)
Selling, general and administrative expenses	3,781	3,516	7,366	7,024
Income (loss) from operations	4,926	1,324	4,635	7,534
Interest expense, net	1,125	739	2,083	1,455
Other income (expense)	254	140	568	655
(Recovery of) provision for income taxes	(3,688)	187	(3,931)	1,684
Net income	7,743	538	7,051	5,050
EBITDA (2)	7,998	5,968	10,971	10,820
Earnings per share/ basic and diluted	$0.20	$0.01	$0.18	$0.13

(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 June 30, 2012 Compared to the Three Months Ended June 30, 2011

Revenue

Revenue for the three month period ended June 30, 2012 decreased $14,166 or (26%) to $39,483 from $53,649 for the three month period ended June 30, 2011. The decrease in revenue is primarily due to a (24%) decrease in the average selling price of tomatoes as compared to 2011, a (5%) decrease in the Company's production and a supply partner production decrease of (12%). The second quarter decrease in the Company's production would have been (20%) if its new Monahans facility was excluded, which is attributable to a shortened crop cycle at the Marfa facilities due to the hail storm which caused an estimated loss of 5.5 million pounds as well as to an increase in the growing area of lower yielding specialty tomatoes. The area of specialty tomatoes is 31% of the Company's growing area in Texas for the three months ended June 30, 2012 from 19% in the same period in 2011.

The average selling price for the three months ended June 30, 2012 versus the three months ended June 30, 2011; for tomatoes was a decrease of (24%), for peppers was a decrease of (25%) and for cucumbers was a decrease of (34%). The tomato price decrease in the second quarter of 2012 was a direct result of a significant increase in supply from Mexican, U.S, and Canadian growers. For the three months ended June 30, 2012, total tomato pounds sold decreased (8%) over the comparable period in 2011; pepper pounds sold for the three months ended June 30, 2012 increased 6% over the comparable period in 2011 and cucumber pieces sold for three months ended June 30, 2012 decreased (8%) over the comparable period in 2011. The decrease in tomato volumes to due to a shortened crop cycle at the Marfa facilities due to the hail storm and an increase in the growing area of lower yielding specialty tomatoes in West Texas as well as a decrease in supply partner tomato volume. The increase in peppers was due to increases in supply partner volumes. The decrease in cucumbers is due to the Village Farms cucumber producing facilities being damaging in the hail storm and having no June production.

Cost of Sales

Cost of sales for the three months ended June 30, 2012 increased $12, to $45,742 from $45,730 for the three months ended June 30, 2012. The increase was a result of costs from our Monahans operation which was not in operation in 2011 offset by a (33%) decrease in supply partner costs due to the decreased selling prices and yields. Cost of sales also includes an inventory writedown of $3,923 for the damaged crops, growing materials and packaging costs at the Company's Marfa greenhouse facilities.

Insurance proceeds, net

For the three months ended June 30, 2012 the Company received $18,720 in insurance proceeds, net of recovery fees. Due to the hail storm, the Company took an inventory writedown of $3,923, as well as took an asset write off of $2,789 of book value assets lost as a result of the hail storm. The asset write off is relatively low due to the age of two of the greenhouse facilities, as a substantial portion of the assets have been written down for book and tax purposes.

Change in fair value of biological asset, net

The net change in fair value of biological asset for the three months ended June 30, 2012 increased $2,114 to ($965) from ($3,079) for the three months ended June 30, 2011. The increase for the three months ended June 30, 2012 is due to a lower biological asset value at the start of the period in 2012 - $6,677 versus the value at the start of the period in 2011 - $10,508 partially offset by a lower fair value over cost due to lower pricing for the early third quarter 2012 versus the same period in 2011.

Selling, General and Administrative Expenses

Selling, general and administrative expenses for the three month period ended June 30, 2012 increased $265 or 8% to $3,781 from $3,516 for the three month period ended June 30, 2012. Overhead costs rose due to an increase in personnel, bank fees, and marketing costs.

Income from Operations

Income from operations for the three months ended June 30, 2012 increased by $3,602, to $4,926 from an income of $1,324 for the three months ended June 30, 2011. The increase was the result of the insurance proceeds received and a reduction in the fair value of biological asset in 2012 versus 2011, offset by lower sales and write-off of assets damaged in the hail storm.

Interest Expense, net

Interest expense, net for the three month period ended June 30, 2012 increased $386 to $1,125 from $739 for the three month period ended June 30, 2011. The increase is due to an increase in the amount of the Company's loans in 2012 versus 2011 as a result of the addition of the Company's Monahans facility, as well as an increase in the Company's borrowing rate.

Other Income

Other income for the three months ended June 30, 2012 increased $114 to income of $254 compared to $140 for the three months ended June 30, 2011. The increase was due to a larger gain on derivatives which was greater than the equivalent period in 2011 by $181.

Net Income

Net income for the three months ended June 30, 2012 increased $7,205 to $7,743 from $538 for the three months ended June 30, 2011. The increase was primarily the result of the insurance proceeds received offset by the reduction in sales for the period and the write-off of damaged assets in Marfa, Texas.

Income Taxes

Income tax recovery for the three month period ended June 30, 2012 was $3,688 compared to an expense of $187 for the three month period ended June 30, 2011, due to a loss from operations, in the three months ended June 30, 2012, excluding the insurance proceeds, as insurance proceeds are not taxable, if they are used to repair or replace the damaged facilities.

EBITDA

EBITDA for the three month period ended June 30, 2012 increased $2,030 to $7,998 from $5,968 for the three month period ended June 30, 2011, primarily as a result of an increase to income from operations of $3,602. See the EBITDA calculation in “Non-IFRS Measures - Reconciliation of Net Earnings to EBITDA.”

Results of Operations for the Six Months Ended June 30, 2012 Compared to the Six Months Ended June 30, 2011

Revenue

Revenue for the six months ended June 30, 2012, decreased ($18,315), or (21%), to $67,675 compared to $85,990 for the six months ended June 30, 2011. The decrease in revenue is primarily due to a (21%) decrease in the average selling price of tomatoes, a (23%) decrease in the average selling pepper price and (27%) decrease in cucumber pricing as compared to the same period in 2011 and a 5% decrease in the Company’s production and a supply partner production decrease of 5%. The year on year decrease in the Company’s production would have been (17%) if its new Monahans facility was excluded. The year on year decrease, excluding the Monahans facility, is attributable to a shortened crop cycle at the Marfa facilities due to the hail storm resulting in an estimated loss of 5.5 million pounds as well as an increase in the growing area of lower yielding specialty tomatoes. The area of specialty tomatoes was 31% of the Company’s growing area in Texas for the six months ended June 30, 2012 compared to 19% in the same period in 2011.

The tomato price decrease for the six months ended June 30, 2012 was a direct result of a significant increase in supply from Mexican growers, additional U.S. and Canadian acreage and a strong Florida field crop in the early part of 2012 versus prior year. For the six months ended June 30, 2012, total tomato pounds sold decreased (8%) over the comparable period in 2011; pepper pounds sold for the six months ended June 30, 2012 increased 11% over the comparable period in 2011 and cucumber pieces sold for six months ended June 30, 2012 increased 6% over the comparable period in 2011. The decrease in tomato volume sold is mainly due to a shortened crop cycle at the Marfa facilities due to the hail storm resulting in an estimated loss of 5.5 million pounds and an increase in the growing area of lower yielding specialty tomatoes in west Texas and a decrease in supply partner produce.

Cost of Sales

Cost of sales for the six months ended June 30, 2012, decreased ($1,905), or (3%), to $69,426 from $71,331 for the six months ended June 30, 2011. The decrease was a result of a (25%) decrease in supply partner costs due to the decreased selling prices and yields, offset by costs from our Monahans operation which was not in operation in 2011. The Company had an inventory writeoff of $3,923 related to crop, growing and packaging material damaged in the hail storm.

Insurance proceeds, net

For the six months ended June 30, 2012 the Company received $18,720 in insurance proceeds net of recovery costs. Due to the hail storm, the Company took an inventory writedown of $3,923 for the damaged crops, growing materials and packaging costs as well as took an asset write off of $2,789 of book value assets lost as a result of the hail storm.

Change in fair value of biological asset, net

The net change in fair value of biological asset for the six months ended June 30, 2012, decreased ($2,078), to ($2,179) from ($101) for the six months ended June 30, 2011. The decrease is due to a combination of lower pricing, lost production in the damaged Marfa facilities and the balance of the biological asset was $349 higher at the start of the 2011 period.

Selling, General and Administrative Expenses

Selling, general and administrative expenses for the six month period ended June 30, 2012 increased $342 or 5% to $7,366 from $7,024 for the six month period ended June 30, 2011. Overhead costs rose due to an increase in personnel, marketing, travel and bank fees primarily as a result of activities involving the Company's new Monahans greenhouse facility.

Income from Operations

Income from operations for the six months ended June 30, 2012, decreased ($2,899), or (38%), to $4,635 from $7,534 for the six months ended June 30, 2011. This is primarily a result of the decrease in sales and write-off of damaged assets which were offset by the insurance proceeds received.

Interest Expense, net

Interest expense, net, for the six month period ended June 30, 2012 increased $628 to $2,083 from $1,455 for the six month period ended June 30, 2011. The increase is due to an increase in the amount of the Company's loans in 2012 versus 2011 as a result of the addition of the Company's Monahans facility, as well as an increase in the Company's borrowing rate.

Other Income

Other income for the six month period ended June 30, 2012, decreased ($87) to $568 from $655 for the six month period ended June 30, 2011. The decrease is primarily due to a small foreign exchange loss, in 2012, versus a small foreign exchange gain in 2011.

Net Income

Net income for the six month period ended June 30, 2012 increased $2,001 to $7,051 from $5,050 for the six month period ended June 30, 2011. The increase was primarily the result of the insurance proceeds received and the income tax recovery which were offset by the reduction in sales for the period, a negative change in biological asset value in 2012 versus 2011 and the write-off of damaged assets in Marfa, Texas.

Income Taxes

Income tax recovery for the six month period ended June 30, 2012 was $3,931 compared to an expense of $1,684 for the six month period ended June 30, 2011 due to a loss from operations, in 2012, excluding the insurance proceeds, as insurance proceeds are not taxable, if they are used to repair or replace the damaged facilities.

EBITDA

EBITDA for the six month period ended June 30, 2012 increased $151 to $10,971 from $10,820 for the six month period ended June 30, 2011, primarily as a result of the receipt of insurance proceeds, offset by the decrease in sales and higher 2012 depreciation charges. See the EBITDA calculation in "Non-IFRS Measures - Reconciliation of Net Earnings to EBITDA."

Selected Statement of Financial Position Data

	June 30, 2012	December 31, 2011
Total assets	$145,496	$131,018
Total liabilities	($96,049)	($88,745)
Shareholders' equity	($49,477)	($42,273)

Non-IFRS Measures

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

Reconciliation of Net Earnings to EBITDA

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

(in thousands of U.S. dollars, unaudited)	For the three months ended June 30,		For the six months ended June 30,	
	2012	2011	2012	2011
Net income	$7,743	$538	$7,051	$5,050
Add:				
Amortization	2,022	1,458	3,915	2,911
Foreign currency exchange (gain) loss	55	25	62	(37)
Interest expense, net	1,125	739	2,083	1,455
Income taxes	(3,688)	187	(3,931)	1,684
Stock compensation	64	49	123	59
Derivatives	(288)	(107)	(511)	(389)
Change in biological asset	965	3,079	2,179	101
(Gain) loss on disposal of assets	-	-	-	(14)
EBITDA	$7,998	$5,968	$10,971	$10,820

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 facilities or other capital sources such as an equity offering or subordinated convertible debt financing.

The Company expects to receive additional insurance proceeds for both the property damage and loss of business income caused by the hail storm on May 31, 2012. The Company has received net insurance proceeds of $18,720 as of the reporting date, which is being used to repair one greenhouse facility (approximately 40 acres) as well as pay down part of its term debt by $8,998, at least until additional proceeds are received to repair or replace the remaining damaged facilities. Without additional insurance proceeds, the Company will not be able to replace these facilities and may have to raise additional capital or debt to support its working capital needs until its repaired facility and Monahans facility start to generate positive cash flow.

For the three months ended June 30, 2012, cash flows from operating activities before changes in non-cash working capital and change in biological asset totalled $9,789 (2011 – ($2,873)) and for the six months ended June 30, 2012 was $11,561 (2010 - $10,663).

Capital expenditures totalled $3,006 for the three months ended June 30, 2012 (2011 – $7,226) and $9,114 for the six months ended June 30, 2012 (2011 – $7,614).

The cash provided by (used in) financing activities for the three months ended June 30, 2012 totalled $2,478 (2011 - ($1,606)), and for the six months ended June 30, 2012 totalled $8,716 (2011 – ($3,298)). These primarily consisted of additional term debt borrowing of $1,521 and line of credit borrowing of $3,160, offset by term debt principal payments of ($1,078) and interest payments of ($1,125) for the three months ended June 30, 2012 (2011 – debt payments of $815, interest payments ($749), capital lease payments ($52), interest received $10) and for the six months ended June 30, 2012 additional term debt borrowing of $9,917 and line of credit borrowing of $6,038, offset by principal payments of ($2,156) (2011 – term debt payments of $1,630).

Capital Resources

(in thousands of US dollars unless otherwise noted, unaudited)	**Maximum**	**Outstanding June 30, 2012**
Operating Loan	CA$15,000	$6,038
Term Loan 1	$49,500	$47,316
Term Loan 2	$28,000	$27,300
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 maturity date on September 30, 2014 (the "Operating Loan");
- Non-revolving variable rate term loan with a balance of $47,316 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 $27,300 at June 30, 2012 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 Line of Credit is subject to margin requirements stipulated by the bank; $6,038 was drawn on this facility at June 30, 2012 (December 31, 2011 – $nil). The Company has available lines of credit of CA$15,000. As at June 30, 2012, $6,038 was outstanding on the line of credit, and letters of credit totaling $1,145 were outstanding.

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 September 30, 2014. Monthly principal payments on Term Loan 1 are $243. As at June 30, 2012, borrowings under the Term Loan 1 agreement are subject to LIBOR plus 3.75% (effective rate of 3.99% as at June 30, 2012). Since the reporting date, insurance proceeds of $8,998 were used to make a prepayment on Term Loan 1, as sufficient funds have not yet been received to repair or replace the remaining Marfa facilities damaged in the hail storm.

Term Loan 2 was fully drawn as at June 30, 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. The balance and any accrued interest to be paid in full on September 30, 2014. Monthly principal payments on Term Loan 1 are $117. As at June 30, 2012, borrowings under the Term Loan 2 agreement are subject to LIBOR plus 3.75% (effective rate of 3.99% as at June 30, 2012).

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

The borrowings are subject to certain positive and negative covenants. As at June 30, 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 June 30, 2012 was $48 (December 31, 2011 - $42) and these amounts are included in accrued liabilities in the statement of financial position. The Company has entered into fixed for floating rate interest rate swaps (as described in note 13) effectively fixing its interest rate on some of its Term Loans at 7.45%

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 June 30, 2012 was $145,496 (December 31, 2011 - $131,018).

Contractual Obligations and Commitments

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

(in thousands of US dollars - unaudited)	**Total**	**Less than 1 year**	**2-3 years**	**4-5 years**	**More than 5 years**
Long-term debt	$74,616	$4,312	$70,304	$-	$-
Line of Credit	6,038	6,038	-	-	-
Trade payables	9,506	9,506	-	-	-
Accrued liabilities and income taxes payable	4,748	4,748	-	-	-
Operating leases	10,024	957	2,709	2,635	3,723
Total	$104,932	$25,561	$73,013	$2,635	$3,723

Capital Expenditures

During the sixth month period ended June 30, 2012, the Company purchased and constructed approximately $9,114 of capital assets. Most of the year to date capital expenditures are for the completion costs ($7,059) of the Company's new greenhouse in Monahans, Texas. These expenditures were financed through additional draws on the Company's term loan facilities as well as from cash from operations and the Company's line of credit facility.

Management's focus for the remaining half of the year will be to repair its damaged facilities and curtail other capital expenditures to only necessary capital expenditures to maintain current facilities and production. 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 just completed the sale of its retired Buffalo distribution center in July 2012 for $614. There can be no assurance, however, that sources of financing or that additional insurance proceeds will be available, or will be available on terms favourable to the Company. In light of the competitive pressures on pricing, the Company is evaluating every capital expenditure prior to making any additional investment.

During the three and sixth month period ended June 30, 2012, the Company incurred $484 and $907; respectively in costs to maintain its capital assets. Management estimates approximately $1,650 of annual costs are required to maintain the capital assets.

Summary of Quarterly Results

For the three months ended:

(in thousands, except per share amounts, unaudited)	Jun 30, 2012	Mar 31, 2012	Dec 31, 2011	Sept 30, 2011	Jun 30, 2011	Mar 31, 2011	Dec 31, 2010	Sep 30, 2010
Revenue	$39,483	$28,192	$34,743	$43,715	$53,649	$32,341	$31,703	$35,487
Net earnings (loss)	$7,743	($692)	$973	($218)	$538	$4,512	$1,006	$131
Basic earnings (loss) per Share	$0.20	($0.02)	$0.03	($0.01)	$0.01	$0.12	$0.03	$0.00
Diluted earnings (loss) per Share	$0.20	($0.02)	$0.03	($0.01)	$0.01	$0.12	$0.03	$0.00

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 have no customer that represents more than 10%, the balance of trade receivables as at June 30, 2012. The Company believes that its trade receivables risk is limited due to the high credit quality of its customers and the protection afforded to the Company by the *Perishable Agricultural Commodities Act* (the "PACA") for its sales in the United States, which represent approximately 80% of the Company's sales. The PACA protection gives a claim filed under the PACA, first lien on all PACA assets (which includes cash and trade receivables). The PACA fosters trading practices in the marketing of fresh and frozen fruits and vegetables in interstate and foreign commerce. It prohibits unfair and fraudulent practices and provides a means of enforcing contracts. Historical write-offs have represented less than 1% of sales. The maximum amount of credit risk exposure is limited to the carrying amount of the balances on the financial statements.

Given the current economic environment, trade receivables for each customer at quarter end were evaluated for collectability and an allowance for doubtful accounts has been estimated. A general provision is also taken based on the Company's historic exposure to bad debts based on revenue. At June 30, 2012, the allowance for doubtful accounts balance was $254 (December 31, 2011 - $254). In addition, the Company recorded a bad debt expense of $nil during the three months ended June 30, 2012 (June 30, 2011 – $nil).

At June 30, 2012, 90.0% (December 31, 2011 – 91.9%) of trade receivables were outstanding less than 30 days, 8.4% (December 31, 2011 – 6.9%) were outstanding for between 30 and 90 days and the remaining 1.6% (December 31, 2011 – 1.2%) were outstanding for more than 90 days. Trade receivables are considered past due based on the contract terms agreed to with a customer. As noted above, aged receivables that are past due are not considered impaired unless customer specific information indicates otherwise.

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 has used derivative instruments to reduce some of its market exposures from changes in interest rates. The Company uses derivative instruments only for risk management purposes and not for generating trading profits. The Company's prior year derivative instruments will result in incremental interest expense, in 2012, of approximately $1,287.

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 June 30, 2012:

(in thousands of US dollars – unaudited) Financial liabilities	Contractual cash flows	0 to 12 months	12 to 24 months	After 24 months
Accounts payable	$9,506	$9,506	$-	$-
Accrued liabilities	5,134	4,768	366	-
Bank debt – line of credit	6,038	6,038	-	-
Bank debt – term debt	74,616	4,312	4,312	65,992
	$95,294	$24,624	$4,678	$65,992

It is the Company's intention to meet these obligations through the collection of current accounts receivable and cash. The Company has available a line of credit of C$15,000 (as at June 30, 2012, $6,038 was outstanding on the line of credit and $1,145 of letters of credit were outstanding), although availability is subject to a percentage of the Company's outstanding accounts receivable balance. 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.

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. The Company has entered into an agreement with a Canadian chartered bank to reduce the credit risk. The Company has one fixed-for-floating interest rate swap agreement, effective from January 25, 2008 through January 28, 2013, in the notional amount of $38,500 in order to reduce the interest rate variability on some of its Term Loans. The Company has effectively fixed its interest expense on a portion of its Term Loans at 7.45%. The Company recognized a gain of $288 for the three months ended June 30, 2012 (June 30, 2011 – $107) and $511 for the six months ended June 30, 2012 (June 30, 2011 - $389)). This represents the adjustment in the fair value of the interest rate swap agreement from the prior period. The Company could not designate the swap agreement as a hedge for accounting purposes. The fair value of the interest rate swap agreement as at June 30, 2012 was a liability of $775 (December 31, 2011 – $1,286). The interest rate swap agreement remaining outstanding as at June 30, 2012 was as follows:

Term	Notional Amount	Interest Rate
January 25, 2008 - January 28, 2013	$38,500	7.45%

Outlook

Overview

Management is committed to employing its strategies with the goal of continuously delivering value to its shareholders. Management is actively working on short term and long term strategies to combat the continuing poor pricing environment which is impacting the Company's revenue, margin and profits. While the Company seeks to expand its operations and to increase its market share, it remains cognizant of market conditions. Management believes that pricing will return to more historical norms in the latter half of 2012 and 2013 and feel that is aligning itself with key customer accounts who are aligned with the Company's strategy of increasing the supply of U.S. sourced hydroponic produce.

The Company's strengths include the following: organic growth, 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 fresh produce to remain relatively flat to prior year. Due to a significant increase in fresh tomatoes imported from Mexico, an oversupply situation is driving down market prices to levels not seen before and are even lower than in 2009, which was negatively impacted due to lower demand due to the overall poor economy. Net income, in 2012, is expected to be lower than the Company's 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.

Management is aware that current market pricing for its products is making it increasingly challenging to meet its loan covenants. The Company is working with its lenders to insure that there are no breaches of loan covenants. In the interim period, until pricing returns to historical norms the Company is not seeking financing for any additional greenhouse facilities. In the interim, management is focused on maintaining the Company's operations, improving its cost structure and repairing its damaged facilities.

Growth expenditures

At this time, the Company is not investing in growth expenditures, which represent capital and greenhouse asset additions, until it sees an improvement in market conditions. For the remainder of 2012, management expects to limit any growth expenditures that will benefit a future period or periods and solely focus on improvements to its current operations and repairing or replacing its damaged Marfa facilities, if additional insurance proceeds are received.

Financing strategic growth

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

Internal Control over Financial Reporting

There were no changes in the Company's internal control over financial reporting during the three months ended June 30, 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 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
- Participating Preferred Shares
- Transfer Pricing

Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements other than letter of credit.

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

Inventory refers to deferred crop costs which are incurred to date on current production and are not defined as a biological asset. Inventories of Company-grown produce consist of raw materials, labour and overhead costs incurred less costs charged to cost of sales throughout the various crop cycles, which end at various times throughout the year. Growing crops are valued at the lower of cost or net realizable value which is determined as sales less estimated cost of completion and cost to sell. Cost of sales is based upon incurred and estimated costs to be incurred of each crop allocated to both actual and estimated future yields over each crop cycle. The cost of produce inventory purchased from third parties is valued at the lower of cost or net realizable value which approximates replacement cost.

Biological Assets

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

Income Taxes

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

Future income tax assets are recognized to the extent that realization is considered more likely than not. The Company considers past results, current trends and outlooks for future years in assessing realization of income tax assets. Management estimates, at this time, that the casualty proceeds received are not taxable, but if certain conditions are not met a portion could be taxable in the future.

Impairment of Financial and Non-Financial Assets

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

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

Due to the above-noted considerations, which are based on the Company's best available information, the Company has not recorded any impairment charge on its non-financial assets in six months ended June 30, 2012. However, given the current state of the economy, the Company expects to continue to perform asset recoverability tests in future periods.

Property, Plant and Equipment – Useful Lives

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

Intangible Assets

The intangible assets of the Company were recorded at their estimated fair values at October 18, 2006. Intangible assets are subject to impairment tests under IFRS at each reporting period or when events or circumstances indicate a potential impairment. If the carrying value of such assets exceeds the fair values, the assets are written down to fair value. No write down was required as at June 30, 2012.

Changes in Accounting Policies

Accounting standards issued and not applied

In 2011 and 2012, the International Accounting Standards Board ("IASB") issued a number of new and revised accounting standards which are effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. These new and revised accounting standards have not yet been adopted and the Company does not plan to early adopt any of the standards.

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

- IFRS 10 - Consolidated Financial Statements;
- IFRS 12 - Disclosure of Interests in Other Entities;
- IAS 27 - Separate Financial Statements;
- IFRS 13 - Fair Value Measurement;
- IFRS 11 - Joint Arrangements;
- Amended IAS 19 - Employee Benefits; and
- Amended IAS 28 - Investments in Associates and Joint Ventures; and
- Amended IAS 32 – Financial Instruments.

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

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

Related Party Transactions

At June 30, 2012, included in other assets is a $364 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 Canadian 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.