Village Farms International, Inc.

Management's Discussion and Analysis

Three Months Ended March 31, 2013

May 13, 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 interim consolidated financial statements and accompanying notes of Village Farms International, Inc. ("VFF" and, together with its subsidiaries, the "Company"), for the three months ended March 31, 2013. The information provided in this MD&A is current to May13, 2013 unless otherwise noted.

VFF is a corporation existing under the *Canada Business Corporations Act* (the "CBCA"). The Company's principal operating subsidiaries at March 31, 2013 are Village Farms Canada Limited Partnership ("VFCLP"), Village Farms, L.P. ("VFLP") and Village Farms DR, SRL ("VFDR").

Basis of Presentation

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.

The preparation of interim 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 interim 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 interim 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 220 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	871,820	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 one of the remaining facilities (approximately 40 acres) will be repaired or replaced. The third greenhouse was the Company's initial GATES® greenhouse (approximately 2 acres) used to trial the technology before commissioning a full scale greenhouse, which has been completed at the Monhans facility, has been retired.

In March 2013, the Company received additional business interruption advances of $2,216 and incurred fees associated with its recovery of $89. In May, 2013 the Company received an additional advance totaling $3,267 less fees of $130 associated with the recovery. The Company has also made a settlement offer to the insurance carrier which is under consideration.

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 Fort Davis and Presidio 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 U.S. dollars, except per Share amounts)

	For the three months ended March 31,	
	2013	**2012**
Net Sales	$25,385	$28,192
Cost of sales	23,025	23,684
Insurance proceeds, net	5,264	-
Selling, general and administrative expenses	3,119	3,585
Change in biological asset (1)	298	(1,214)
Income from operations	4,803	(291)
Interest expense, net	1,216	958
Other income	139	314
Provision for income taxes	1,118	(243)
Net (loss) income	2,608	(692)
EBITDA (2)	6,411	2,973
Earnings/(loss) per share/ basic and diluted	$0.07	($0.02)

(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 March 31, 2013 Compared to the Three Months Ended March 31, 2012

Net Sales

Net sales for the three month period ended March 31, 2013 decreased by $2,807 or 10% to $25,385 from $28,192 for the three month period ended March 31, 2012. The decrease in net sales is primarily due to a 17% decrease in the Company's production of all commodities as well as, a 25% decrease in supply partner revenue which were partially offset by an increase of 25% in the average selling price of tomatoes as compared to the same period in 2012.

The average selling price for the three months ended March 31, 2013 versus the three months ended March 31, 2012; for tomatoes was an increase of 25%, for peppers was an decrease of 7% and for cucumbers was an increase of 33%. The tomato price increase in the first quarter of 2013 was as a result of an increased mix of specialty tomatoes grown by the Company, and the agreement with the Mexico growers, which management believed curtailed summer and fall tomato planting in Mexico resulting in lower winter supply. For the three months ended March 31, 2013, total tomato pounds sold decreased by 33% over the comparable period in 2012; pepper pounds sold for the three months ended March 31, 2013 decreased by 36% over the comparable period in 2012 and cucumber pieces sold for three months ended March 31, 2013 decreased by 20% over the comparable period in 2012. 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 41% decrease in supply partner volume due to the loss of a supply partner contracts. The decrease in peppers is due to less supply partner production from Mexico and the decrease in cucumbers is due to loss of a supply partner contract.

Cost of Sales

Cost of sales for the three months ended March 31, 2013 decreased by $659 or 3% to $23,025 from $23,684 for the three months ended March 31, 2012. The decrease is due to lower volumes both from the Company's greenhouse facilities as well as lower purchases 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 Monahans facility having a higher cost of production than the Marfa facility that no longer was in production in 2013, but was in production in the first quarter of 2012.

Insurance Proceeds, net

The insurance proceeds, net of $5,264 for the three months ended March 31, 2013 consist of $5,483 of business income losses proceeds offset by fees of $219.

Selling, General and Administrative Expenses

Selling, general and administrative expenses for the three month period ended March 31, 2013 decreased by $466 to $3,119 from $3,585 for the three month period ended March 31, 2012. The decrease is due to a decrease in personnel costs and other related expenses such as travel and office costs, partially offset by higher banking fees of $157 due to increased fees charged by one of the Company's financial institutions.

Change in Biological Asset

The net change in fair value of biological asset for the three months ended March 31, 2013 increased by $1,512 to $298 from ($1,214) for the three months ended March 31, 2012. The increase is due to higher pricing in April 2013 versus April 2012 partially offset by lower production volume due to 42 less growing acres than 2012 and higher cost of production due to the increase in specialty tomatoes. The fair value of the biological asset at March 31, 2013 is $7,648 and was $6,677 at March 31, 2012.

Income from Operations

Income from operations for the three months ended March 31, 2013, increased by $5,094 to $4,803 from ($291) for the three months ended March 31, 2012. The increase was the result of insurance proceeds of $5,264, an increase in the change in biological asset value of $1,512, a reduction in cost of sales of $659 and a reduction in selling, general and administrative expenses partially offset by a decrease of $2,807 in net sales.

Interest Expense, net

Interest expense, net, for the three month period ended March 31, 2013 increased by $258 to $1,216 from $958 for the three month period ended March 31, 2012. The increase is due to an increase in the Company's borrowing rates as a result of amendments to the 2011 loan agreement.

Other Income

Other income for the three months ended March 31, 2013, decreased by $175 to $139 from $314 for the three months ended March 31, 2012. The decrease was primarily due a decrease of $117 in the gain of derivatives for the same period in 2012. 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/(recovery) for the three month period ended March 31, 2013 was $1,118 compared to ($243) for the three month period ended March 31, 2012. The increase income tax expense in the first quarter is due to higher income before taxes.

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

Net Income (Loss)

Net income for the three months ended March 31, 2013 increased by $3,300 to $2,608 from net loss of ($692) for the three months ended March 31, 2012. The increase was the result of an increase in gross profit of $4,803 and a reduction in selling, general and administrative expenses of $466 partially offset by increases in interest of $257 and income taxes of $1,118.

EBITDA

EBITDA for the three month period ended March 31, 2013 increased by $3,438 to $6,411 from $2,973 for the three month period ended March 31, 2012, as a result of the receipt of insurance proceeds, offset by lower gross profit. See the EBITDA calculation in “Non-IFRS Measures - Reconciliation of Net Income to EBITDA.”

Selected Statement of Financial Position Data

	As at March 31, 2013	**As at December, 2012**
Total assets	$137,872	$130,134
Total liabilities	($84,765)	($79,683)
Shareholders’ equity	($53,107)	($50,451)

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 March 31,**	
	2013	**2012**
Net (loss) income	$2,608	($692)
Add:		
Amortization	1,838	1,893
Foreign currency exchange (gain) loss	(7)	7
Interest expense, net	1,216	958
Income taxes	1,118	(243)
Stock compensation	48	59
Derivatives	(106)	(223)
Change in biological asset	(298)	1,214
(Gain) loss on disposal of assets	(6)	-
EBITDA	$6,411	$2,973

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, additional insurance proceeds 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 March 31, 2013, cash flows from operating activities before changes in non-cash working capital and changes in biological asset totalled $6,706 (2012 – $1,725).

Capital expenditures totalled ($428) for the three months ended March 31, 2013 (2012 – ($6,108)).

The cash received by financing activities for the three months ended March 31, 2013 $968 (2012- 6,238). These primarily consisted of long debt borrowing of $58,000 and operating loan borrowings of $3,028, partially offset by debt payments of $58,310 and interest payments of $1,217 in the three months ended March 31, 2013 (2012 – borrowing $8,274; payments on principal and interest ($2,038)).

Capital Resources

(in thousands of US dollars unless otherwise noted)	**Maximum**	**Outstanding March 31, 2013**
Operating Loan	CA$8,000	$3,028
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 5.279%.

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. The carrying value of the assets and securities pledged as collateral as at March 31, 2013 was $137,872 (December 31, 2012 - $130,134).

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 it is 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, 2013. As of the date of this filing, the outstanding balance on its Operating Loan is approximately $3.0 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 31, 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 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. 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%.

The borrowings are subject to certain positive and negative covenants. As at March 31, 2013 and December 31, 2012, the Company was in compliance with all covenants on all of its Credit Facilities.

Accrued interest payable on the credit facilities and loans as at March 31, 2013 was $42 (December 31, 2012 - $40) and these amounts are included in the accrued liabilities in the statement of financial position.

Contractual Obligations and Commitments

Information regarding the Company's contractual obligations at March 31, 2013 is set forth in the table below:

(in thousands of U.S. dollars)	**Total**	**Less than 1 year**	**2-3 years**	**4-5 years**	**More than 5 years**
Long-term debt	$58,000	$4,143	$8,286	$45,571	$-
Operating leases	9,736	1,624	2,973	2,432	2,707
Capital leases	115	29	58	28	-
Total	$67,851	$5,796	$11,317	$48,031	$2,707

Capital Expenditures

During the three months ended March 31, 2013, the Company purchased approximately $428 of capital assets (2012 - $6,108). The 2012 capital expenditures were primarily related to the Company's U.S. greenhouse expansion in Monahans, Texas.

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 the remaining damaged Marfa facilities (40 acres), but will not undertake any capital expenditures on this project until it settles its insurance claim.

During the three month period ended March 31, 2013, the Company incurred $380 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)	Mar 31, 2013	Dec 31, 2012	Sept 30, 2012	Jun 30, 2012	Mar 31, 2012	Dec 31, 2011	Sept 30, 2011	Jun 30, 2011
Net sales	$25,385	$30,557	$35,711	$39,483	$28,192	$34,743	$43,715	$53,649
Net (loss) income	$2,608	($9,237)	$10,088	$7,743	($692)	$973	($218)	$538
Basic (loss) earnings per share	$0.07	($0.24)	$0.26	$0.20	($0.02)	$0.03	($0.01)	$0.01
Diluted (loss) earnings per share	$0.07	($0.24)	$0.26	$0.20	($0.02)	$0.03	($0.01)	$0.01

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 two customers that represent more than 10% of the balance of trade receivables as at March 31, 2013 (represented 12.4% and 12.3%, respectively). 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 90% 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 March 31, 2013, the allowance for doubtful accounts balance was $254 (December 31, 2012 - $254). In addition, the Company recorded a bad debt expense of $nil during the three months ended March 31, 2013 (March 31, 2012 – $nil).

At March 31, 2013, 92.0% (December 31, 2012 – 82.4%) of trade receivables were outstanding less than 30 days, 7.0% (December 31, 2012 – 16.2%) were outstanding for between 30 and 90 days and the remaining 1.0% (December 31, 2012 – 1.4%) 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.

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 March 31, 2013:

(in thousands of US dollars) Financial liabilities	Contractual cash flows	0 to 12 months	12 to 24 months	After 24 months
Accounts payable and accrued liabilities	$13,933	$13,933	$-	$-
Bank debt	58,000	4,143	4,143	49,714
	$71,933	$18,076	$4,143	$49,714

It is the Company's intention to meet these obligations through the collection of current accounts receivable and cash as well as additional insurance proceeds. The Company has available lines of credit of CA$8,000 (as at March 31, 2013, $3,028 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".

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.

Management has been actively working on launching exclusive tomato varieties over the last two years in order to decrease the impact of market pricing on more common varieties grown by the Company, as well enhance its relationship with key retailers. Retailer demand for one of the Company's exclusive varieties is quite strong and the Company is expanding production acreage in its Texas facilities to accommodate some of the incremental demand, in 2013. This will decrease the Company's exposure to tomato market pricing risk. Additionally, the impact of the new Tomato Suspension Agreement has in the short term reduced the supply of Mexican tomatoes and hopefully will focus Mexican growers on the importance of supply and demand balance going forward. The impact of these two initiatives should bolster pricing for the Company's products for the remainder of 2013 and beyond.

Management is also very focused on increasing the production volume and improving its cost efficiencies at its Monahans facility. The third tomato crop has just been planted and is a much better state than the prior crops, planted in 2011 and 2012. The labor situation is the primary reason for this improvement, as the labor force has been stabilized which improves the facilities efficiency and quality. Management expects this facility to have improved financial results as the year progresses.

While management would like to repair 20 acres of the still damaged 40 acre Marfa, Texas facility, in order to facilitate expansion of some of its exclusive varieties, it will not commence repairs until it settles its insurance claim. Management is focused on managing its growth prudently in light of what turned out to be a very turbulent 2012.

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 has different reference prices depending on the period and the packaging.

While the Company 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 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 was not the lead lender and one of the Company's prior lenders was not as supportive, in challenging times, as the Company would have expected. 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.

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 is in the process of completing a new 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 $0.7 million 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. In May 2013 an additional $3.26 million of business interruption advance was received.

Internal Control over Financial Reporting

Disclosure Controls and Procedures

Disclosure controls and procedures have been designed to ensure that information to be disclosed by the Company is accumulated and communicated to management, as appropriate, to allow timely decisions regarding required disclosures. The Chief Executive Officer and Chief Financial Officer have concluded, as of the end of the period covered by the interim and year end filings, that the Company's disclosure controls and procedures are appropriately designed and operating effectively to provide reasonable assurance that material information relating to the issuer is made known to them by others within the Corporation.

Internal Control over Financial Reporting

Internal control over financial reporting is a process designed to provide reasonable assurance that all assets are safeguarded, transactions are appropriately authorized and to facilitate the preparation of relevant, reliable and timely information. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objective of the control system is met. Management has assessed the effectiveness of the Company's internal control over financial reporting as defined by National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings. Management has concluded that their internal control over financial reporting was effective as of March 31, 2013. There were no material changes to the internal controls over financial reporting during the three months ended March 31, 2013.

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 April 1, 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 are measured at amortized cost and due within contractual payment terms and are stated at amounts due from customers net of an allowance for doubtful accounts. Credit is extended based on an evaluation of a customer's financial condition. Accounts outstanding longer than the contractual payment terms are considered past due. The Company determines its allowance by considering a number of factors, including the length of time trade accounts receivable are past due, the Company's previous loss history and the customer's current ability to pay its obligation to the Company. The Company writes off accounts receivable when they become uncollectible, and payments subsequently received on such receivables are credited to the bad debt expense.

Inventories

Inventories of Company-grown produce consist of raw materials, labour and overhead costs incurred less costs charged to cost of sales throughout the various crop cycles, which end at various times throughout the year and 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 three months ended March 31, 2013.

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 March 31, 2013.

Changes in Accounting Policies

Accounting Standards Issued and Not Applied

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, 2014, with early adoption permitted. These new and revised accounting standards have not 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 9 *Financial Instruments* - effective for annual periods beginning on or after January 1, 2015, with early adoption permitted;
- Amended IAS 32 *Financial Instruments* - effective for annual periods beginning on or after January 1, 2014.

Further details of the new or revised accounting standards and potential impact on the Company can be found in the Company's Financial Consolidated Statements for the year ended December 31, 2012.

Related Party Transactions

As at March 31, 2013, included in other assets is a $345 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 April 1, 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.