

# **Village Farms International, Inc.**

**Management's Discussion and Analysis**

**Year Ended December 31, 2009**

**March 26, 2010**

## Management's Discussion and Analysis

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

### Introduction

This management's discussion and analysis ("MD&A") should be read in conjunction with the audited consolidated financial statements and accompanying notes of Village Farms International, Inc. ("VFF" and, together with its subsidiaries, the "Company"), for the year ended December 31, 2009. The information provided in this MD&A is current to March 26, 2010 unless otherwise noted.

VFF is a corporation existing under the *Canada Business Corporation Act* (the "CBCA"). The Company's principal operating subsidiaries at December 31, 2009 are Village Farms Canada Limited Partnership ("VFCLP") and Village Farms, L.P. ("VFLP").

### Conversion

On December 15, 2009, Village Farms Income Fund (the "Fund") obtained a final order from the Ontario Superior Court of Justice with respect to its Plan of Arrangement under the CBCA. Effective December 31, 2009, all of the outstanding ordinary trust units of the Fund were exchanged for common shares of VFF on a one-for-one basis. In addition, the Class A Unit of the Fund was exchanged for 25,267,000 special shares of VFF. As a result, there are 13,440,345 common shares and 25,267,000 special shares of VFF issued and outstanding following the completion of the conversion transaction.

### Business Overview

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

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, rock wool and wood chips, 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 seven greenhouses providing 916,158 square metres (232 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. In November 2006, VFLP opened a 5,400 square metre research facility in order to conduct testing of new growing technologies and methods. The Company sells the crop that is grown at the research facility. The Company also has exclusive marketing agreements with growers in Canada and Mexico that currently operate approximately 638,000 square metres of growing area.

In February 2009, the Company sold its Ringgold, Pennsylvania greenhouse facility and entered into a marketing agreement with the buyer. The Company recorded a gain on sale of approximately \$153.

The following table outlines the Company's greenhouse facilities:

<b>Greenhouse Facility</b>	<b>Growing Area</b>		<b>Products Grown</b>
	<b>Square Metres</b>	<b>Acres</b>	
Marfa, TX (3 greenhouses)	318,460	82	Tomatoes on-the-vine, beefsteak tomatoes, specialty tomatoes
Fort Davis, TX	156,530	40	Tomatoes on-the-vine
Delta, BC (3 greenhouses)	441,168	110	Tomatoes on-the-vine, beefsteak tomatoes, specialty tomatoes
<b>Total</b>	<b>916,158</b>	<b>232</b>	

### **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 early 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.

#### **Southern Facilities**

The Texas facilities begin their growing cycles in May of one year and extend through 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 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 second crop is planted alongside the original crop in January. In March, the second crop begins to harvest fruit and the original crop is removed.

#### **International Consulting**

The Company is currently discussing feasibility studies of the closed greenhouse system for companies outside of North America. The Company's role would be to provide consulting services for the building and operation of these greenhouses.

### **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 and cherry tomatoes at its facilities in Canada and the United States. The Company, from its supply partners, also purchases and distributes premium tomatoes, bell peppers and cucumbers in the United States and Canada produced by other greenhouse growers located in the United States, Canada and Mexico. 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 competitors in the North American greenhouse vegetable industry. With owned or leased distribution centres in New York, Texas, Pennsylvania, Washington and British Columbia, the Company provides its customers with flexibility in purchasing. For the year ended December 31, 2009, the Company had an on-time delivery record of 99.6%, 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 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 third-party produce) is sold directly to supermarket chains, including Albertson's Inc., Associated Grocers, Associated Wholesale Grocers, Costco Wholesale, Fred Meyer, The Golub Corporation, HEB Grocery Company, The Kroger Co., Loblaw Companies Limited, Market Basket, Meijer, Inc., Military Produce, Overwaitea Food Group, Publix Super Markets, Inc., Richfoods, Inc., Safeway Inc., Safeway Canada, Unified Western Grocers, Wakefern Food Corp., Wal-Mart Stores, Inc., Wegmans Food Markets Inc., Weis Markets, 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	
	December 31,	
	2009	2008
Revenue	\$33,597	\$30,422
Gross profit	7,406	6,860
Selling, general and administrative	3,604	3,749
Interest expense, net	740	845
Other (income) cost	(657)	2,109
(Recovery of) provision for income taxes	(5,460)	1,247
Net earnings	9,179	(1,090)
EBITDA <sup>(1)</sup>	5,723	6,077
Earnings per Unit basic and diluted	\$0.24	(\$0.03)

(1) EBITDA is not a recognized earnings measure and does not have standardized meanings prescribed by GAAP. Therefore, EBITDA may not be comparable to similar measures presented by other issuers. See "Non-GAAP Measures". Management believes that EBITDA is a useful supplemental measure in evaluating the performance of the Company.

## Results of Operations for the Three Months Ended December 31, 2009 Compared to the Three Months Ended December 31, 2008

### Revenue

Revenue for the three month period ended December 31, 2009 increased \$3,175 or 10% to \$33,597 from \$30,422 for the three month period ended December 31, 2008. The increase in revenue is primarily due to an increase in revenues related to product sold on behalf of the Company's supply partners and higher selling prices for tomatoes, which were an increase of 21%, partially offset by a decrease in the Company's own production of 4% versus the same period in 2008.

The average selling price, for the three months ended December 31, 2009 versus the three months ended December 31, 2008; for tomatoes was an increase of 21%, for peppers was a decrease of 5% and for cucumbers was an increase of 5%. The tomato price increase in the fourth quarter of 2009 was a result of above the three year average pricing from a below the three year average price in the fourth quarter of 2008. For the three months ended December 31, 2009, tomato pounds sold decreased 4% over the comparable period in 2008; pepper pounds sold for the three months ended December 31, 2009 increased 55% over the comparable period in 2008 and cucumber pieces sold for three months ended December 31, 2009 decreased 23% over the comparable period in 2008.

### Gross Profit

Gross profit for the three month period ended December 31, 2009 increased \$546 or 8% to \$7,406 from \$6,860 for the three month period ended December 31, 2008. Gross profit margins decreased 0.5% to 22% for the three months ended December 31, 2009 from 22.5% for the three months ended December 31, 2008, primarily due to due to an increased percentage of supply partner sales that have a lower gross profit margin due to a fixed percent commission on these sales, partially offset by an increase in the average selling price.

### Selling, General and Administrative Expenses

Selling, general and administrative expenses for the three month period ended December 31, 2009 decreased \$145 or 4% to \$3,604 from \$3,749 for the three month period ended December 31, 2008. The decrease is primarily due to lower personnel costs in the fourth quarter of 2009 as compared to the same period in 2008, which were offset

by costs of the Company's conversion from an income trust to a corporation during the fourth quarter of 2009 of approximately \$500.

### Interest Expense, Net

Interest, net, for the three month period ended December 31, 2009 decreased \$105 or 12% to \$740 from \$845 for the three month period ended December 31, 2008. The decrease is due to lower debt balances.

### Other (income) Cost

Other (income) cost for the three month period ended December 31, 2009 increased \$2,766 to (\$657) of income from a cost of \$2,109 for the three month period ended December 31, 2008. The increase was due to a gain on derivatives of \$274 as compared to a loss on derivatives of (\$3,228) for the fourth quarter of 2008, which was partially offset by realizing a smaller gain on sale of assets in 2009 of \$65 versus other income of \$1,428 mostly related to a vendor settlement in the fourth quarter of 2008.

### Net (loss) income

Net (loss) income for the three month period ended December 31, 2009 increased \$10,269 to \$9,179 from a loss of (\$1,090) for the three month period ended December 31, 2008. The increase was due to higher operating income of \$691, higher other income of \$2,767 and the recording of the Canadian tax asset in the fourth quarter due to the completion of the Company's conversion from an income trust to a corporation.

### Income taxes

Income tax recovery for the three month period ended December 31, 2009 was a recovery of \$5,460, from an expense of (\$1,247) for the three month period ended December 31, 2008. The recovery in 2009 is from the recognition of a Canadian future tax asset in the fourth quarter as a result of the completion of the Company's conversion from an income trust to a corporate structure.

### EBITDA

EBITDA for the three month period ended December 31, 2009 decreased \$354 to \$5,723 from \$6,077 for the three month period ended December 31, 2008, primarily due to a decrease in other income. See the EBITDA calculation in "Non-GAAP Measures - Reconciliation of Net Earnings to EBITDA."

## Annual Results of Operations

### Annual Consolidated Financial Performance

(in thousands, except per Share amounts)

	For the year ended December 31,		
	2009	2008	2007
Revenue	\$130,524	\$133,099	\$113,755
Gross profit	14,765	26,760	18,226
Selling, general and administrative	12,093	14,334	11,079
Interest Expense, net	3,159	3,617	5,614
Other cost (income)	(876)	1,875	(1,667)
(Recovery of) provision for income taxes	(6,280)	2,393	793
Net earnings	6,669	4,541	2,407
EBITDA <sup>(1)</sup>	\$9,122	\$21,247	\$14,402
Earnings per share - basic	\$0.17	\$0.12	\$0.07
Earnings per share - diluted	\$0.17	\$0.12	\$0.06

(1) EBITDA is not a recognized earnings measure and does not have standardized meanings prescribed by GAAP. Therefore, EBITDA may not be comparable to similar measures presented by other issuers. See "Non-GAAP Measures". Management believes that EBITDA is a useful supplemental measure in evaluating the performance of the Company.

**Selected balance sheet data**

	<u>December 31, 2009</u>	<u>December 31, 2008</u>	<u>December 31, 2007</u>
Total assets	\$99,083	\$99,169	\$100,992
Total liabilities	(\$70,522)	(\$76,045)	(\$79,370)
Non-controlling interest	-	-	(\$3,610)
Shareholders' equity	(\$28,561)	(\$23,124)	(\$18,012)

**Results of Operations for the Year Ended December 31, 2009 Compared to the Year Ended December 31, 2008****Revenue**

Revenue for the year ended December 31, 2009 decreased \$2,575 or 1.9% to \$130,524 from \$133,099 for the year ended December 31, 2008. The decrease in revenue is primarily due to lower selling prices for tomatoes as a result of unfavourable market conditions in the first quarter of 2009, a decrease in the Company's production yields partially offset by revenues related to additional product sold on behalf of the Company's supply partners.

The 2009 average selling price for tomatoes decreased by 8% over 2008, for peppers decreased by 21% over 2008 and for cucumbers increased by 10% over 2008. Total tomato pounds sold for 2009 increased 3% over 2008; pepper pounds sold for 2009 increased 52% over 2008 and cucumber pieces sold in 2009 decreased 10% over 2008. The tomato pound increase was due to an increase in tomatoes from supply partners, tomato production for the Company's own facilities was down 4%, all related to first quarter production issues.

**Gross Profit**

Gross profit for the year ended December 31, 2009 decreased \$11,995 or 45% to \$14,765 from \$26,760 for the year ended December 31, 2008, due to the reasons outlined above. Gross profit margins decreased 9 percentage points to 11% for the year ended December 31, 2009 from 20% for the year ended December 31, 2008.

**Selling, General and Administrative Expenses**

Selling, general and administrative expenses for the year ended December 31, 2009 decreased \$2,241 or 16% to \$12,093 from \$14,334 for the year ended December 31, 2008. The decrease is primarily due to personnel costs which include a one-time stock compensation bonus of \$1,050 in 2008 and decreased accruals for performance-based bonuses in 2009 versus 2008 levels.

**Interest Expense, Net**

Interest, net, for the year ended December 31, 2009 decreased \$458 or 13% to \$3,159 from \$3,617 for the year ended December 31, 2008. The decrease is due to lower average debt balances in 2009.

**Other (Income) cost**

Other (income) cost for the year ended December 31, 2009 increased \$2,751 to a gain of (\$876) from a cost of \$1,875 for the year ended December 31, 2008. The increase was due to a gain on derivatives of (\$709) in 2009 versus a loss on derivatives of \$2,801 in 2008 plus lower 2009 amortization of intangible assets of \$1,070 due to the expiry of certain energy contracts in the fourth quarter of 2008, which were offset by insurance settlement gain income in 2009 of (\$2,189).

**Net Income**

Net income for the year ended December 31, 2009 increased \$2,128 to \$6,669 from \$4,541 for the year ended December 31, 2008. The increase was due to the recognition of a Canadian tax asset that previously could not be realized under the Company's prior income trust structure. In 2009, the Company recognized a net tax recovery of \$6,280 versus an income tax expense of (\$2,393) for the full year ended 2008. The Company's net income

before taxes decreased by (\$6,545) in 2009 to \$389 from \$6,934 in 2008, primarily due to lower pricing in 2009 versus 2008.

### **Income taxes**

Income tax recovery (expense) for the year ended December 31, 2009 was a recovery of \$6,280, from an expense of (\$2,393) for the year ended December 31, 2008. The recovery in 2009 is from the recognition of a Canadian future tax asset in the fourth quarter related to tax losses previously not realizable as an income trust.

### **EBITDA**

EBITDA for the year ended December 31, 2009 decreased \$12,125 or 57% to \$9,122 from \$21,247 for the year ended December 31, 2008, primarily due to a decrease in gross profit, partially offset by a decrease in selling, general and administrative expenses. See the EBITDA calculation in “Non-GAAP Measures - Reconciliation of Net Earnings to EBITDA.”

## **Results of Operations for the Year Ended December 31, 2008 Compared to the Year Ended December 31, 2007**

### **Revenue**

Revenue for the year ended December 31, 2008 increased \$19,344 or 17% to \$133,099 from \$113,755 for the year ended December 31, 2007. The increase in revenue is primarily due to strong selling prices for tomatoes as a result of favourable market conditions in the first and second quarters of 2008, an improved customer mix, an increase in Village Farms’ production yields and an increase in revenues related to product sold on behalf of our exclusive partners.

The average selling price, for tomatoes for 2008 increased by 10% over 2007, for peppers for 2008 increased by 5% over 2007 and for cucumbers for 2008 decreased by 17% over 2007. Total tomato pounds sold for 2008 increased 4% over 2007; pepper pounds sold for 2008 increased 35% over 2007 and cucumber pieces sold in 2008 increased 39% over 2007.

### **Gross Profit**

Gross profit for the year ended December 31, 2008 increased \$8,534 or 47% to \$26,760 from \$18,226 for the year ended December 31, 2007, due to the reasons outlined above. Gross profit margins rose 4% to 20% for the year ended December 31, 2008 from 16% for the year ended December 31, 2007.

### **Selling, General and Administrative Expenses**

Selling, general and administrative expenses for the year ended December 31, 2008 increased \$3,255 or 29% to \$14,334 from \$11,079 for the year ended December 31, 2007. The increase is primarily due to planned increases in personnel costs which include a one-time stock compensation bonus of \$1,050, increased accruals for performance-based bonuses over 2007 levels and additional personnel.

### **Interest Expense, Net**

Interest, net for the year ended December 31, 2008 decreased \$1,997 or 36% to \$3,617 from \$5,614 for the year ended December 31, 2007. The decrease is due to lower average debt balances, in 2008 the average debt balance was \$60 million and in 2007 it was \$67 million as well as lower borrowing costs.

### **Other Cost (Income)**

Other cost for the year ended December 31, 2008 increased \$3,542 to a cost \$1,875 from income of (\$1,667) for the year ended December 31, 2007. The increase was primarily due to a \$3,228 non-cash loss on derivatives,

partially offset by an increase in other income from a vendor settlement.

## Net Income

Net income for the year ended December 31, 2008 increased \$2,134 to \$4,541 from \$2,407 for the year ended December 31, 2007. The increase was primarily due to an increase in gross profit, a decrease in interest, net and an increase in other income, offset by an increase in selling, general and administrative expenses.

## EBITDA

EBITDA for the year ended December 31, 2008 increased \$6,845 or 48% to \$21,247 from \$14,402 for the year ended December 31, 2007, primarily due to the increase in gross profit, partially offset by an increase in selling, general and administrative expenses. See the EBITDA calculation in “Non-GAAP Measures - Reconciliation of Net Earnings to EBITDA.”

## Non-GAAP 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, and unrealized gains on the changes in the value of derivative instruments and non-controlling interest. EBITDA is a cash flow measure that is not recognized by generally accepted accounting principles in Canada (“GAAP”) and does not have standardized meanings prescribed by GAAP. 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 GAAP 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. As the Company distributes substantially all of its cash on an ongoing basis (after providing for certain amounts described elsewhere in this MD&A), management believes that EBITDA is a useful measure in evaluating the performance of the Company and in determining whether to invest in shares of the Company.

## Reconciliation of Net Earnings to EBITDA

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

<i>(in thousands, unaudited)</i>	<b>For the three months ended</b>		<b>For the year ended December 31,</b>		
	<b>December 31,</b>		<b>2009</b>	<b>2008</b>	<b>2007</b>
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
Net earnings	\$9,179	(\$1,090)	\$6,669	\$4,541	\$2,407
Add:					
Amortization	1,435	1,429	5,770	6,456	6,575
Foreign currency exchange (loss) gain	(348)	182	62	388	(987)
Interest expense	740	845	3,159	3,617	5,614
Income taxes	(5,460)	1,247	(6,280)	2,393	793
Stock compensation (a)	-	236	-	1,051	-
Cost related to conversion (b)	451	-	451	-	-
Derivatives	(274)	3,228	(709)	2,801	-
EBITDA	\$5,723	\$6,077	\$9,122	\$21,247	\$14,402

(a) Reflecting a stock gift by the Company’s majority owners to employees of the Company’s operating subsidiaries during 2008. The Company has taken a non-cash charge equal to the fair market value of the stock gift plus taxes thereon by the Company’s majority owners.

(b) The Company incurred a one-time cost to convert from an income trust to a corporate structure.

## Liquidity

### Cash flows

The Company expects to provide for 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, as needed, from additional borrowings under its existing credit facilities or other long-term facilities, including capital leases.

For the year ended December 31, 2009, cash flows from operating activities before changes in non-cash operating working capital total \$5,200 (2008 - \$17,891).

Capital expenditures totalled \$1,890 for the year ended December 31, 2009 (2008 - \$3,994).

The cash used in financing activities for the year ended December 31, 2009 totalled \$4,987 (2008 - \$11,431), and primarily consisted of debt payments of \$3,381 (2008 - \$6,892); and cash dividend payments to the Fund's unitholders and to holders of Participating Preferred Shares of VF U.S. Holdings Inc. of \$1,550 (2008 - \$4,137).

### Capital resources

(in thousands of dollars - unaudited)

	<u>Maximum</u>	<u>Outstanding December 31, 2009</u>
CAD Operating Loan (i)	CAD\$12,000	\$-
CAD Capital Loan (ii)	42,382	42,382
CAD FX Facility (iii)	-	-
US Operating Loan (iv)	5,000	-
US Capital Loan (v)	12,350	12,350

### Canadian Credit Facilities

*The Canadian credit facilities include:*

- (i) Revolving variable rate operating loan of up to CAD\$12,000 with a term of 364 days (the "CAN Operating Loan");
- (ii) Non-revolving variable rate capital loan with a balance of \$42,382 with a maturity date of October 31, 2011 (the "CAN Capital Loan"); and
- (iii) Foreign exchange contracts facility for the purchase and/or sale of U.S. funds (the "CAN FX Facility").

Interest payable on funds borrowed under the Canadian credit facilities are calculated by way of one or more of Canadian Prime Rate borrowings, Credit Instrument borrowings, U.S. Base Rate borrowings, LIBOR borrowings, Bankers' Acceptances borrowings, Cost of Funds Borrowing, or any combination thereof.

The CAN Operating Loan is subject to annual renewal by the bank. No amount was drawn on the CAN Operating Loan as at December 31, 2009 and 2008. The outstanding balance of the CAN Capital Loan is repayable by way of 48 monthly installments of principal and interest based on an amortization of the CAN Capital Loan in full over a period 20 years, with the balance and any accrued interest to be paid in full on October 31, 2011.

Accrued interest payable on the Canadian credit facilities and loans as at December 31, 2009 was \$13 (December 31, 2008 - \$14) and these amounts are included in Accounts payable and accrued liabilities. At December 31, 2009, the interest rate is 2.24% (December 31, 2008 - 2.48%). The Company has entered into a fixed for floating rate interest rate swap as described in note 9. The interest expense for the year ended December 31, 2009 was \$2,601 (December 31, 2008 - \$2,776).

As security for the borrowings, VFCLP has provided, among other things, promissory notes, a first mortgage on certain of the greenhouse properties, and general security agreements over its assets. The borrowings are subject to certain positive and negative covenants. During the years ended and at December 31, 2009 and 2008, VFCLP was in compliance with all covenants on the Canadian credit facilities.

VFCLP and certain of its direct and indirect subsidiaries have provided full recourse guarantees of the Canadian credit facilities and have granted security therein. The Canadian credit facilities, in all cases, are senior in priority to the securities of VFCLP held by the Company, which have been pledged as collateral. The carrying value of these assets and securities pledged as collateral as at December 31, 2009 was \$66,599 (December 31, 2008 - \$70,489).

### United States Credit Facilities

*The U.S. credit facilities include:*

- (i) Revolving variable rate operating loan of up to \$5,000 with a term of 364 days (the “US Operating Loan”); and
- (ii) Non-revolving variable rate capital loan maturing on June 20, 2016 (the “US Capital Loan”).

The US Capital Loan is amortized on a 10-year schedule, with quarterly principal payments of \$475. The term may be renewed beyond June 20, 2016 only upon amendment of the facility. As at December 31, 2009, borrowings under the term loan facility are subject to LIBOR plus 3.25% (3.49% as at December 31, 2009). Interest on the US Capital Loan will be, at the Company’s option, seven-day LIBOR plus the applicable margin, or the one, two, three or six month LIBOR plus the applicable margin or a quoted fixed rate. The applicable margin will be based on the Company’s ratio of long term debt to adjusted equity. As at December 31, 2009, the Company used the seven day LIBOR plus the applicable margin.

Accrued interest payable on the US credit facilities as at December 31, 2009 was \$37 (December 31, 2008 - \$71) and these amounts are included in Accounts payable and accrued liabilities. At December 31, 2009, the interest rate was 3.49% (December 31, 2008 - 2.95%). The interest expense for the year ended December 31, 2009 was \$535 (December 31, 2008 - \$908). At December 31, 2009, VFCLP was in compliance with all covenants. The interest rate on the US Operating Loan is LIBOR plus 3.00%. There were no borrowings outstanding under the US Operating Loan as at December 31, 2009 and December 31, 2008.

All of the Company’s subsidiaries have guaranteed the obligations under the U.S. credit facilities agreement, and the borrowings are secured by a first lien and security interest in all of the assets of such subsidiaries; accordingly, such obligations rank senior to the securities of VFCLP held by the Company. The carrying amount of these assets and securities pledged as collateral as at December 31, 2008 was \$66,599 (December 31, 2008 – \$70,498). The loan agreement requires VFCLP to satisfy certain affirmative and negative covenants including a minimum debt service coverage and current ratio.

### Contractual Obligations and Commitments

Information regarding the Company’s contractual obligations at December 31, 2009 is set forth in the table below:

<i>(in thousands of dollars - unaudited)</i>	<b>Total</b>	<b>Less than 1 year</b>	<b>1-3 years</b>	<b>4-5 years</b>	<b>More than 5 years</b>
Long-term debt	\$54,732	\$3,260	\$44,822	\$3,800	\$2,850
Capital leases	545	283	262	-	-
Operating leases	3,691	917	1,725	959	90
<b>Total</b>	<b>\$58,968</b>	<b>\$4,460</b>	<b>\$46,809</b>	<b>\$4,759</b>	<b>\$2,940</b>

### Capital Expenditures

During the three month period and year ended December 31, 2009, the Company purchased approximately \$467 and \$1,890, respectively, of capital assets. These purchases were financed from cash from operations. Management, as part of its strategic initiatives to reduce future operating costs and support growth, has budgeted for the financing of capital expenditures from cash flows from operations.

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

During the three month period and year ended December 31, 2009, the Company incurred \$712 and \$1,848, respectively, in costs to maintain its capital assets. Management estimates that approximately \$1,650 of annual costs to maintain the capital assets.

## Summary of Quarterly Results

For the three months ended:

<i>(in thousands, except per share amounts, unaudited)</i>	Dec 31, 2009	Sep 30, 2009	Jun 30, 2009	Mar 31, 2009	Dec 31, 2008	Sep 30, 2008	Jun 30, 2008	Mar 31, 2008
Revenue	\$33,597	\$32,711	\$42,773	\$21,443	\$30,422	\$30,105	\$44,053	\$28,519
Net earnings (loss)	9,179	(2,777)	(374)	640	(1,090)	(1,704)	4,062	3,276
Basic earnings (loss) per Share	\$0.24	(\$0.07)	(\$0.01)	\$0.02	(\$0.03)	(\$0.05)	\$0.11	\$0.09
Diluted earnings (loss) per Share	\$0.24	(\$0.07)	(\$0.01)	\$0.02	(\$0.03)	(\$0.04)	\$0.10	\$0.08

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 year round 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 is expected by management of the Company to contribute to more predictable and stable cash flows for the Company throughout the year.

## Financial Instruments and Risk Management

### Risk Management

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

### Market Risk

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

### Credit Risk

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

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

The Company's accounts receivable and other receivables do not have a customer who represents more than 10% of the balance of such receivables as at December 31, 2009. The Company believes that its accounts receivable 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 represents approximately 75% 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 accounts receivable). 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, accounts receivable for each customer at year end were evaluated for collectability and an allowance for doubtful accounts has been estimated. A general provision is also taken based on the Company's historic exposure to bad debts based on revenue. At December 31, 2009, the allowance for doubtful accounts balance was \$267 (December 31, 2008 - \$537). In addition, the Company recorded a bad debt expense of (\$270) during the year ended December 31, 2009 (December 31, 2008 - \$735). The Company wrote off \$nil in accounts receivable during fiscal 2009 for amounts previously provided for (December 31, 2008 - \$371) based on a review of the collectability of these amounts.

At December 31, 2009, 0.2% (2008 - 11.4%) of trade receivables were outstanding for more than 90 days, 8.2% (2008 - 10.0%) were outstanding for between 30 and 90 days and the remaining 91.6% (2008 - 78.5%) were outstanding less than 30 days. Trade receivables are considered past due based on the contract terms agreed to with a customer. As noted above, aged receivables that are past due are not considered impaired unless customer specific information indicates otherwise.

#### **Interest rate risk**

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

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

The Company is exposed to interest rate risk on its bank debt, for which the interest rates charged fluctuate based on the LIBOR rate. Interest is compounded daily at LIBOR plus 2.0% for the Canadian credit facilities and LIBOR plus 3.0% for the U.S. credit facilities. The Company has limited its interest rate risk by entering into interest rate swap agreements for the CAN Capital Loan.

The Company is exposed to interest rate risk on its bank debt for which interest rates charged fluctuate and the value of the related interest rate swap agreement. If interest rates had been 50 basis points higher (lower), the net income during the 2009 fiscal year would have been higher (lower) by \$139, this represents a \$210 in gain on derivatives partially offset by \$71 in additional interest expense (2008 - \$144, \$217 in gain on derivatives offset by \$73 in additional interest expense).

## Foreign exchange risk

At December 31, 2009, the Canadian/US foreign exchange rate was CAD \$1.00 = \$0.9515 (2008 - 0.8210). Assuming that all other variables remain constant, an increase of \$0.10 in the Canadian dollar would have the following impact on the ending balances of certain balance sheet items at December 31, 2009 and 2008, with the net foreign exchange gain or loss directly impacting net loss for fiscal 2009 and 2008.

	<u>December 31, 2009</u>	<u>December 31, 2008</u>
<b>Financial assets</b>		
Cash and Cash equivalents	\$9	\$82
Trade accounts receivables	177	227
<b>Financial liabilities</b>		
Accounts payable and accrued liabilities	(177)	(263)
Obligations under capital lease	<u>(57)</u>	<u>(85)</u>
<b>Net foreign exchange loss</b>	<u>(48)</u>	<u>(39)</u>

## Environmental, Health and Safety Risk

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

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

## Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they fall due. The following are the contractual maturities of financial liabilities as at December 31, 2009:

<i>(in thousands of dollars – unaudited)</i>	Contractual	0 to 12	12 to 24	After 24
<u>Financial liabilities</u>	<u>cash flows</u>	<u>months</u>	<u>months</u>	<u>months</u>
Accounts payable and accrued liabilities	\$9,564	\$9,564	\$-	\$-
Bank debt	54,732	3,260	44,822	6,650
Obligation under capital lease	588	315	273	-
	<u>\$64,884</u>	<u>\$13,139</u>	<u>\$45,095</u>	<u>\$6,650</u>

It is the Company's intention to meet these obligations through the collection of current accounts receivable and cash. The Company has available lines of credit of US\$5,000 and CAD\$12,000 (as at December 31, 2009, \$nil is outstanding on the Canadian line of credit, \$nil on the U.S. line of credit and letters of credit, of \$945 and \$518 on the US Operating Loan and the CAD Line of Credit, respectively). 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.

## **Outlook**

### **Overview**

Management is committed to employing its strategies with the goal of continuously delivering value to its shareholders. Management's objective is continuous improvement, which equates to continuous revenue growth coupled with effective cost management. The Company will continue to look for ways to expand its operations and increase its market share. The Company's strengths include the following: organic growth, growth through strategic acquisition, growth through exclusive marketing agreements with other greenhouse operations, 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 produce to increase over the prior year. Gross margin on these products is expected to increase due to an increased market price primarily from increased consumer demand. Management is focused on a stronger emphasis on retailer contracts and improvements in the Company's channel mix to improve gross margin.

Management does not believe current credit markets will have a material adverse effect on the Company's current operations. The Company is currently seeking financing for additional greenhouse facilities in the United States; the current credit market may, however, prevent or limit the Company's ability to raise the necessary financing. Management's assessment is based on current conditions and may be subject to change if the credit environment deteriorates further.

### **Growth expenditures**

The Company is currently seeking financing for greenhouse facilities in the United States. The greenhouses will employ the closed greenhouse system that the Company has been testing for the last three years in its research greenhouse.

Growth expenditures represent capital and greenhouse asset additions required to meet the demands of growth or expenditures that specifically benefit a future period or periods. For 2010, management expects to incur growth expenditures that will benefit a future period or periods and to grow the Company's greenhouse operations.

### **Other**

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**

### **Disclosure Controls and Procedures**

National Instrument 52-109 - *Certification of Disclosure in Issuers' Annual and Interim Filings*, issued by the Canadian Securities Administrators (the "CSA") requires Chief Executive Officers ("CEO") and Chief Financial Officers ("CFO") to certify, among other things, that they are responsible for establishing and maintaining

disclosure controls and procedures for the issuer, that disclosure controls and procedures have been designed to provide reasonable assurance that material information relating to the issuer is made known to them, that they have evaluated the effectiveness of the issuer's disclosure controls and procedures, and that their conclusions about the effectiveness of those disclosure controls and procedures at the end of the period covered by the relevant annual filings have been disclosed by the issuer.

As of December 31, 2009, the Company's management evaluated the effectiveness of the Company's disclosure controls and procedures, as defined under rules adopted by the CSA. This evaluation was performed under the supervision of, and with the participation of, the Company's CEO and CFO.

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

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

### **Internal Control over Financial Reporting**

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

As of December 31, 2009, the Company's management evaluated the effectiveness of the Company's internal control over financial reporting, as defined under rules adopted by the CSA. This evaluation was performed under the supervision of, and with participation of, the Company's CEO and CFO.

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

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

Based on this evaluation, the Company's CEO and CFO have concluded that, subject to the inherent limitations noted above, the Company's internal control over financial reporting is effective in providing reasonable not absolute assurances regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

There were no changes in the Company's internal control over financial reporting during the year ended December 31, 2009 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](http://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.

#### **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. 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

## **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 Long-Lived Assets**

Long-lived assets are tested for impairment 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.

Fair value under GAAP is defined as "the amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act". Assessing the fair value of intangible assets requires significant management estimates on discount rates to be applied in the analysis and future cash flows to be generated by the assets, including the estimated useful life of the assets. Discount rates are determined with reference to estimated risk adjusted market rates of return for similar cash flows and were increased in 2009 reflecting a higher risk premium. The Company performs sensitivity analysis on the discount rates applied. The discount rates used are subject to measurement uncertainty.

The Company performed the asset recoverability tests using undiscounted 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 long-lived assets in fiscal 2009. However, given the current state of the economy, the Company expects to continue to perform asset recoverability tests in future periods.

## **Property and Equipment**

Property and equipment is originally recorded at cost. Property under capital leases and the related obligation for future lease payments are initially recorded at an amount equal to the lesser of fair value of the property or equipment and the present value of those lease payments.

Property and equipment are depreciated to estimated residual values based on the straight-line method over their estimated service lives. Property and equipment under capital leases within variable interest entities are depreciated to estimated residual values over the life of the lease.

## **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 GAAP on an annual basis or when events or circumstances indicate a potential impairment. If the carrying value of such assets exceeds the fair values, the assets are written down to fair value. No write down was required as at December 31, 2009.

## **Changes in Accounting Policies**

The Company utilizes Canadian generally accepted accounting principles in the preparation of its consolidated financial statements.

### *Goodwill and intangible assets*

The Canadian Institute of Chartered Accountants (“CICA”) issued Section 3064 “Goodwill and Intangible Assets” which establishes standards for the recognition, measurement, presentation and disclosure of Goodwill subsequent to its initial recognition and of intangible assets by profit orientated enterprises. The adoption of this new section did not have any material impact on the Company’s financial statements.

### *Credit Risk and Fair Value of Financial Assets and Liabilities*

In January 2009, the CICA issued Emerging Issues Committee Abstracts (“EIC”) 173, “Credit Risk and the Fair Value of Financial Assets and Financial Liabilities”. This EIC provides guidance on how to take into account credit risk of an entity and counterparty when determining the fair value of financial assets and financial liabilities, including derivative instruments. Adoption of this EIC did not have any effect on the Company’s financial statements.

### *Financial Instruments – Disclosures*

The CICA amended Section 3862, “Financial Instruments – Disclosures,” in 2009 to include additional disclosure requirements about fair value measurements of financial instruments and to enhance liquidity risk disclosures. Adoption of this standard did not have any effect on the Company’s financial statements.

### *EIC-170 – Conversion of an Unincorporated Entity to an Incorporated Entity*

The EIC clarified certain accounting issues related to conversions when there is no change in control. In particular, it specifies that such a transaction should be treated as a change in business form and should be accounted for as a continuity of interests; and transaction costs should be treated as an expense in the period in which they are incurred and changes in tax balances would be included in tax expense (comparative information should be that of the pre-conversion entity, as previously reported). The Company applied this EIC to account for its conversion from an income fund to a corporation on December, 31 2009 and as the basis of presentation for these consolidated financial statements.

## **Future Accounting Changes**

### *International Financial Reporting Standards (IFRS)*

On February 13, 2008, the AcSB confirmed January 1, 2011 as the official changeover date for publicly listed Canadian companies to begin using IFRS in place of Canadian GAAP as the basis for preparation of financial statements. The Company will adopt IFRS commencing with financial statements for periods ending after January 1, 2011, with comparatives for the same periods in the prior year.

The Company has begun the process to transition from Canadian GAAP to IFRS. The initial analysis of IFRS in comparison with Canadian GAAP has identified a number of differences. Management believes that most of the differences will not have a material impact on the Company's reported results and financial position, although there may be significant changes in certain areas following the adoption of IFRS. The Company expects that most adjustments required upon transition to IFRS will be made retrospectively against opening retained earnings, and shown on the first comparative consolidated balance sheet.

IFRS 1, "First Time Adoption Of International Financial Reporting Standards" provides entities which are adopting IFRS for the first time with a number of optional exemptions and mandatory exceptions to certain of the IFRS requirements for retrospective application of IFRS. The Company is analyzing the various options and will implement those which are determined to be most appropriate to the Company's particular circumstances. Once these decisions are made, and their expected impact on the Company's reported results and financial position are able to be quantified, those impacts will be described in a future MD&A.

Below are the key areas where accounting policy changes that are implemented as a result of the transition to IFRS are most likely to impact the Company's reported results.

Since management's analysis of the changes is still in progress, and IFRS 1 decisions have not yet been made, the final impacts may ultimately differ from those below, and the expected impact has not yet been quantified. There are additional IFRS changes that will have an effect on the amount and types of disclosure made by the Company; these are not included since they will have no impact on the Company's reported results.

**IFRS 2 - Share Based Payments:**

IFRS 2 prescribes different methods for valuing options which vest at different time periods. As well, IFRS 2 specifies when the use of the Black-Scholes option valuation model might not be appropriate. These changes may have an effect on the amount of stock-based compensation expense the Company records for future option grants.

**IAS 12 – Income Tax:**

The Company is continuing to evaluate the impact of IAS 12 on its reported results.

**IAS 41 – Agriculture:**

There is a difference between IFRS and GAAP relating to the measurement of a biological asset, including the rules surrounding the determination of "fair value". The Company currently is determining a means to calculate the fair value of its tomato crop. The Company believes that based on IAS 41 and the nature of its crop cycle, material adjustments in the fair value of inventory will likely occur that did not occur under Canadian GAAP. It is expected that these adjustments will affect income in the interim periods, and management is in the process of assessing the impact it would have on the Company's annual results.

As part of the IFRS transition from GAAP, the Company will be reviewing the effects of IFRS adoption on the Company and implement all necessary changes prior to the changeover date. The Company has not finalized the impact of IFRS on its consolidated financial statements but anticipates that any changes in accounting policies could result in additional controls and procedures being required to address reporting of first time adoption as well as ongoing IFRS reporting requirements. The Company does not anticipate that the adoption of IFRS will significantly impact other elements or systems within the Company.

*Summary of IFRS Transition Plan:*

The Company has implemented a transition plan which addresses the impact of IFRS. Following is a summary of the key elements of the transition plan:

	Key Activities	Status
Accounting Policies	Identification of differences between GAAP and IFRS.	Completed.

	Quantification of impact of the differences identified.	Underway. Will be completed by end of Q2 2010.
	Completion of Company's IFRS 1 decisions and quantification of the impacts of those decisions.	To begin in Q1 2010. Will be completed by end of Q2 2010.
	Development of financial statement format and related disclosure.	To begin in Q2 2010. Will be completed by end of Q3 2010.
Internal Control	For all changes made to Company's accounting policies, review the design and effectiveness implications on ICFR.	To begin in Q2 2010. Will be completed by end of Q3 2010.
Disclosure, Controls and Procedures	For all changes made to Company's accounting policies, review the design and effectiveness implications on disclosure, controls and procedures.	Review to begin at start of Q3 2010 and will be completed before end of Q4 2010. Not anticipated to be significant.
Business Activities	Review potential impacts of IFRS on financial covenants.	Initial review completed and no significant impacts expected. Final review to be completed by end of Q2 2010.
Financial Reporting Expertise	Development of internal IFRS expertise.	The Company will use outside training resources to develop the necessary expertise within the finance department and audit committee as needed. Training will continue throughout 2010 leading up to full IFRS implementation in 2011.
IT Infrastructure	Development of new systems or changes to existing systems required for the transition and post implementation timeframes.	A preliminary review of systems has determined that the impacts on the current IT infrastructure is not likely to be significant. A final review will take place once all accounting policy decisions have been made and necessary changes will then be made, if any.

*Business Combination, Consolidated Financial Statements and Non-Controlling Interest*

For interim and annual financial statements relating to its fiscal year commencing on or after January 1, 2011, the Company will be required to adopt new CICA Section 1582 "Business Combinations", Section 1601 "Consolidated Financial Statements" and Section 1602 "Non-Controlling Interests". Section 1582 replaces existing Section 1581 "Business Combinations", and Sections 1601 and 1602 together replace Section 1600 "Consolidated Financial Statements." The adoption of Sections 1582 and collectively, 1601 and 1602, provides the Canadian equivalent to IFRS 3 "Business Combinations" and IAS 27 "Consolidated and Separate Financial Statements" respectively. The impact of adopting these new standards is being assessed.

## **Related Party Transactions**

At December 31, 2009, included in other receivables is a \$426 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 “Shares”, “Special Shares” and “Preferred Shares”, respectively. An unlimited number of Shares, Special Shares and Preferred Shares are issuable pursuant to VFF’s constating documents.

As of the date hereof, VFF has outstanding: (i) 13,440,345 Shares carrying the right to one vote at a meeting of voting shareholders of VFF; (ii) 25,267,000 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 252,670 Participating Preferred Shares outstanding which, if exchanged for Shares of VFF pursuant to certain exchange rights, would be exchangeable for 25,267,000 Shares of the Company. The Special Shares vote as a single block on all shareholder matters, 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.

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 26, 2010 which is available electronically at [www.sedar.com](http://www.sedar.com).

## **Forward-looking Statements**

This MD&A contains certain “forward looking statements”. These statements 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 2010 performance. These forward looking statements reflect the Company’s current internal projections, expectations or beliefs and are based on information currently available to us. 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 our other disclosure documents, reports, statements or other information that it files with the Canadian securities regulatory authorities, through SEDAR at [www.sedar.com](http://www.sedar.com).