Village Farms International, Inc.

Management's Discussion and Analysis

Year Ended December 31, 2013

March 13, 2014

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 audit annual consolidated financial statements and accompanying notes the "Consolidated Financial Statements" of Village Farms International, Inc. ("VFF" and, together with its subsidiaries, the "Company"), for the year ended December 31, 2013. The information provided in this MD&A is current to March 13, 2014 unless otherwise noted.

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

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

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

Segment Reporting

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

Functional and Presentation Currency

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

Business Overview

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

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

- utilizing integrated pest management techniques that use "beneficial bugs" to control unwanted pests. The use of natural biological control technology keeps plants and their products virtually free of chemical agents. The process includes regular monitoring techniques for threat identification, development of appropriate, tailored response strategies and the execution of these strategies;
- capturing rainwater from various greenhouse roofs for irrigation purposes;
- recycling water and nutrients during the production process;

- growing plants in a natural medium, including coconut fibre and rock wool, as opposed to growing in the soil and depleting nutrients; and
- using dedicated environmental control computer systems which monitor and control virtually all aspects of the growing environment, thereby maximizing the efficient use of energy.

The Company's assets include six producing greenhouses providing 871,820 square metres (approximately 220 acres) of growing space in Canada and the United States. Additionally, the Company has one 20 acre greenhouse under construction in Marfa, TX, that is expected to be in production in June 2014. 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 275,000 square metres (approximately 68 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
Permian Basin, 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 of the Company's three greenhouses (approximately 82 acres) located in Marfa, Texas forcing a shutdown of these facilities. The Company completed repairs on one of the Marfa facilities (40 acres), in 2012 which has been in full production in 2013. The Company has recently started repairs on a 20 acre block of the remaining damaged 40 acre facility expects to start harvesting this block in the summer of 2014. At this time, it is uncertain when the one remaining block (approximately 20 acres) will be rebuilt. The third greenhouse was the Company's initial GATES® technology greenhouse (approximately 2 acres) which was used to test the technology before commissioning the Permian Basin greenhouse and has been retired subsequent to the hail storm.

In September 2013, the Company settled its insurance claim and received $11,250 as a final payment. The Company's cumulative total insurance proceeds received in 2013 and 2012 were $49,264 and incurred total recovery fees of $2,085, resulting in total net proceeds of $47,179.

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

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 Marfa 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 late August into early 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 Permian Basin facility, using GATES® technology, 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 have less of a negative impact on the produce than it does on the Company's other Texas facilities, which are vented to the outside environment. As such, the facility can produce year-round.

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 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, 2013, the Company had an on-time delivery record of 99.0%, 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.
- **Exclusive Varieties. The Company expands its product profile, to** create and drive exclusive varietal relationships in North America that enable the Company to present consumers with an enhanced eating experience to the Village Farms brand.
- **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, The Fresh Market, Inc., 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, Trader Joe's, 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 December 31,	
	2013	**2012**
Net Sales	$31,738	$30,557
Cost of sales	(27,867)	(26,320)
Insurance proceeds, net	5	480
Selling, general and administrative expenses	3,065	3,834
Change in biological asset (1)	(886)	(54)
(Loss) income from operations	(75)	829
Interest expense, net	824	1,150
Other income (expense)	(11)	177
Provision for (recovery of) income taxes	415	9,093
Net loss	(1,325)	(9,237)
EBITDA (2)	2,691	2,810
Earnings (loss) per share / basic and diluted	($0.03)	($0.24)

(1) Biological assets consist of the Company's produce on the vines at the period end. Details of the changes are described in note 6 of the Consolidated Financial Statements.
(2) EBITDA is not a recognized earnings measure and does not have a standardized meaning prescribed by IFRS. Therefore, EBITDA may not be comparable to similar measures presented by other issuers. See "Non-IFRS Measures". Management believes that EBITDA is a useful supplemental measure in evaluating the performance of the Company.

Results of Operations for the Three Months Ended December 31, 2013 Compared to the Three Months Ended December 31, 2012

Net Sales

Net sales for the three months ended December 31, 2013 increased by $1,181 or 4% to $31,738 from $30,557 for the three months ended December 31, 2012. The increase in net sales is primarily due to a 6% increase in the average selling price of tomatoes as compared to the same period in 2012 and a 3% increase in the Company's production

volume, offset by a 19% decrease in supply partner revenue, the decrease in supply partner revenue is due to the lost of a Canadian and Mexican grower.

The average selling price for the three months ended December 31, 2013 versus the three months ended December 31, 2012; for tomatoes was an increase of 6%, for peppers was an increase of 9% and for cucumbers was a decrease of (6%). The tomato price increase in the fourth quarter of 2013 was as a result of an increased mix of specialty tomatoes grown by the Company.

For the three months ended December 31, 2013, total tomato pounds sold increased 4% over the comparable period in 2012; pepper pounds sold for the three months ended December 31, 2013 decreased by 31% over the comparable period in 2012 and cucumber pieces sold for the three months ended December 31, 2013 decreased by 41% over the comparable period in 2012. The tomato pounds sold was made up of a 3% increase in Village Farms grown tomatoes and a 5% increase in supply partner volume. The decrease in peppers is due to the loss of supply partner contracts in both Canada and Mexico. The decrease in cucumbers is due to a loss of a Canadian supply partner contract offset by an increase in the Village Farms growing area.

Cost of Sales

Cost of sales for the three months ended December 31, 2013 increased by $1,547 or 6% to $27,867 from $26,320 for the three months ended December 31, 2012. The increase is due to higher costs from Village Farms greenhouses due to higher production and increased volumes in specialty tomatoes that cost more to produce.

Insurance Proceeds, net

The insurance proceeds, net for the three months ended December 31, 2013 was $5 compared to $480 for the three months ended December 31, 2012. The $5 was a refund of a legal retainer.

Selling, General and Administrative Expenses

Selling, general and administrative expenses for the three months ended December 31, 2013 decreased by $769 to $3,065 from $3,834 for the three months ended December 31, 2012. The decrease is due to a decrease in personnel and professional fees.

Change in Biological Asset

The net change in fair value of biological asset for the three months ended December 31, 2013 decreased by ($832) to ($886) from ($54) for the three months ended December 31, 2012. The decrease is due to a higher opening fair value at September 2013 of $6,616 versus the September 2012 balance of $5,916 and a decrease in produced pounds in the first six weeks of 2014 compared to 2013. The decrease in pounds is due to a change to lower yielding specialty tomatoes and a change in planting dates at the Company’s Marfa and Permian Basin facilities. The fair value of the biological asset at December 31, 2013 was $3,732 and was $4,757 at December 31, 2012. The lower value is due to lower year on year production volumes due to the differing planting cycles and additional lower yielding specialty tomatoes.

(Loss) income from Operations

Income from operations for the three months ended December 31, 2013, decreased by $904 to a loss of $75 from income of $829 for the three months ended December 31, 2012. The decrease was the result of an increase in cost of sales of $1,547, a decrease in insurance proceeds of $475, and a decrease in change in the change in biological asset of ($832), offset by a reduction in selling, general and administrative expenses of $769 and an increase in revenues of $1,181.

Adjusted Income (loss) from Operations

Adjusted income (loss) from operations for the three months ended December 31, 2013, decreased by $429 to a loss of $75 from income of $349 for the three month period ended December 31, 2012. The decrease was due to an $832

decrease in change in biological asset and a decrease of $366 in gross profit as compared to the same period in 2012, partially offset by a decrease of $769 in selling, general and administrative expenses. See the adjusted income from operations calculation in "Non-IFRS Measures - Calculation of Adjusted Income from Operations and Adjusted EBITDA"

Interest Expense, net

Interest expense, net, for the three months ended December 31, 2013 decreased by ($326) to $824 from $1,150 for the three months ended December 31, 2012. The decrease is due to a decrease in the Company's outstanding borrowings and lower borrowing rates in the three months ended December 31, 2013 compared to the same period in 2012.

Other Income (Expense)

Other income (expense) for the three months ended December 31, 2013, decreased by $188 to ($11) from $177 for the three months ended December 31, 2012. The decrease was primarily due to a decrease of $328, in 2013, in the gain of derivatives for the same period in 2012 and a reduction in foreign exchange loss of $145 in 2013. The accounts in other income are: amortization of intangible assets, gains or loss on foreign exchange, gain on derivatives, gains on sales of assets and other income.

Income Taxes

Income tax expense for the three months ended December 31, 2013 was $415 compared to a $9,093 for the three months ended December 31, 2012. The large income tax expense in the fourth quarter of 2012 was due to the Company not recognizing the book tax on insurance proceeds in prior 2012 quarters. Although property insurance proceeds used to repair and rebuild damaged facilities are not taxable, they do create a difference in the depreciable asset basis between book and tax, which the Company did not take into account when determining its second and third quarter book tax expense.

Net loss

Net loss for the three months ended December 31, 2013 decreased by $7,912 to $1,325 from $9,237 for the three months ended December 31, 2012. The decrease is due to a decrease in income tax expense for the three months ended December 31, 2012 of ($8,678) partially offset by a decrease in income from operations.

EBITDA

EBITDA for the three months ended December 31, 2013 decreased by $117 to $2,693 from $2,810 for the three months ended December 31, 2012, due to the receipt of net insurance proceeds of $480 in the fourth quarter of 2012, and no corresponding insurance proceeds in the fourth quarter of 2013 due the settlement of the Marfa insurance claim in September 2013. See the EBITDA calculation in "Non-IFRS Measures - Reconciliation of Net Income to EBITDA."

Adjusted EBITDA

Adjusted EBITDA for the three months ended December 31, 2013 increased by $358 to $2,688 from $2,330 for the year ended December 31, 2012. The increase was due to a 6% increase average selling price of tomatoes as compared to the same period in 2012. See the Adjusted EBITDA calculation in "Non-IFRS Measures - Calculation of Adjusted Income from Operations and Adjusted EBITDA."

Annual Consolidated Financial Performance

(in thousands, except per Share amounts)	**For the year ended December 31,**		
	2013	**2012**	**2011**
Net Sales	$137,635	$133,942	$164,448
Cost of Sales	119,363	125,965	140,627
Insurance proceeds, net	15,948	31,231	-
Provision for property and equipment damaged(1)	601	4,352	-
Provision for inventory damaged in hail storm(1)	-	4,649	-
Selling, general and administrative(1)	12,873	14,537	14,594
Change in biological asset (2)	(1,222)	(540)	269
Income from operations	19,524	15,130	9,496
Interest expense, net	3,672	4,329	3,016
Other income, net	(113)	(1,412)	(1,251)
Provision for (recovery of) income taxes	5,477	4,311	1,926
Net earnings	10,488	7,902	5,805
EBITDA (3)	$28,211	23,837	$15,657
Earnings per share – basic and diluted	$0.27	$0.20	$0.15

(1) These items are all related to damage from the hail storm, see "Hail Storm Damage to our Facilities and Crops".

(2) Biological assets consist of the Company's produce on the vines at the period end. Details of the changes are described in note 6 of the Consolidated Financial Statements.

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

Selected Statement of Financial Position Data

	As at December 31,		
	2013	**2012**	**2011**
Total assets	$139,905	$130,134	$131,018
Total liabilities	$78,805	$79,683	$88,745
Shareholders' equity	$61,100	$50,451	$42,273

Results of Operations for the Year Ended December 31, 2013 Compared to the Year Ended December 31, 2012.

Revenue

Revenue for the year ended December 31, 2013, increased $3,693, or 3%, to $137,635 compared to $133,942 for the year ended December 31, 2012. The increase in revenue is primarily due to a 25% increase in the average selling price of tomatoes, a 10% increase in the average selling pepper price and a 10% increase in cucumber pricing as compared to the same period in 2012, offset by a 34% decrease in supply partner revenues and a 1% decrease in the Company's production volumes. The decrease in the Company's production volumes were due to 42 acres not being in production in 2013, as they were closed due to damage from the May 2012 hail storm and have yet to be repaired, partially offset by increased production at the new Permian Basin facility that was not in full production until the third quarter of 2012.

For the year ended December 31, 2013, total tomato pounds sold decreased 8% over the comparable period in 2012; pepper pounds sold for the year ended December 31, 2013 decreased 55% over the comparable period in 2012 and cucumber pieces sold for year the ended December 31, 2013 decreased (5%) over the comparable period in 2012.

Cost of Sales

Cost of sales for the year ended December 31, 2013, decreased $6,602, or 5%, to $119,363 from $125,965 for the year ended December 31, 2012. The decrease is due to lower purchases of supply partner product and 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 Permian Basin facility having a higher cost of production than the Marfa facility was in production until the hail storm of May 2012.

Insurance proceeds, net

For the year ended December 31, 2013 the Company received $15,948 in insurance proceeds net of recovery costs and for the year ended December 31, 2012 the Company received $31,231. Due to the hail storm, the Company in the year ended December 31, 2013 took an asset write-down of $601, and in year ended December 31, 2012, took an inventory write-down of $4,649 for the damaged crops, growing materials and packaging costs as well as took an asset write off of $4,352 of book value assets lost as a result of the hail storm. The additional $601 writedown was determined when rebuilding plans were finalized, as certain greenhouse systems the Company originally believed would be reusable would not be fully functional with the rebuilt facility.

Change in fair value of biological asset, net

The net change in fair value of biological asset for the year ended December 31, 2013, decreased $682, to $1,222 from ($540) for the year ended December 31, 2012. The decrease is due to less production from the Texas facilities in 2013 versus the same period in 2012, this decrease was due to an increase in the growing area of lower yielding specialty crops and that one facility is changing crops in the first quarter of 2014 and did not do so in the first quarter of 2013, this process causes less yield during the winter.

Selling, General and Administrative Expenses

Selling, general and administrative expenses for the year ended December 31, 2013 decreased $1,664 or 11% to $12,873 from $14,537 for the year ended December 31, 2012. The decrease is due to decreases in personnel, marketing, and travel expenditures.

Income from Operations

Income from operations for the year ended December 31, 2013, increased $4,394 or 29%, to $19,524 from $15,130 for the year ended December 31, 2012. This is primarily a result of increases in the selling prices for produce and a decrease in the cost of goods, which was offset by the impact of lower year on year insurance proceeds, net of hail storm related write offs.

Adjusted Income (loss) from Operations

Adjusted income (loss) from operations for the year ended December 31, 2013, increased by $11,277 to $4,177 from a loss of ($7,100) for the year ended December 31, 2012. The increase was due to a 25% increase in the average selling price of tomatoes as compared to the same period in 2012, a cost of sales decrease of (5%) and a (11%) decrease in selling, general and administrative expenses. See the Adjusted income from operation calculation in "Non-IFRS Measures - Calculation of Adjusted Income from Operations and Adjusted EBITDA"

Interest Expense, net

Interest expense, net, for the year ended December 31, 2013 decreased $657 to $3,672 from $4,329 for the year ended December 31, 2012. The decrease is due to a decrease in the Company's outstanding borrowings and lower borrowing rates in the year ended December 31, 2013 from the same period in 2012.

Other Income

Other income for the year ended December 31, 2013, decreased $1,299 to $113 from $1,412 for the year ended December 31, 2012. The decrease was primarily due to a decrease of $1,074 in the gain of derivatives in 2013 versus the same period in 2012 and a gain on the sale of assets of $178 in 2012. The accounts in other income are: amortization of intangible assets, gain or loss on foreign exchange, gain on derivatives, gain on sales of assets and other income.

Income Taxes

Income tax expense for the year ended December 31, 2013 increased $1,166 to $5,477 compared to $4,311 for the year ended December 31, 2012. The change in the provision for income tax between the periods is due to higher income from operations in 2013, including insurance proceeds versus a loss from operations in 2012 before insurance proceeds.

Net Income

Net income for the year ended December 31, 2013 increased $2,586 to $10,488 from $7,902 for the year ended December 31, 2012. The increase was primarily the result $4,394 of higher income from operations in 2013, partially offset by higher provision for income taxes of $2,586 in 2013.

EBITDA

EBITDA for the year ended December 31, 2013 increased $4,375 to $28,212 from $23,837 for the year ended December 31, 2012, primarily as a result of the increase in operational results partially offset by a decrease in net insurance proceeds after asset and inventory write-offs. See the EBITDA calculation in "Non-IFRS Measures - Reconciliation of Net Earnings to EBITDA."

Adjusted EBITDA

Adjusted EBITDA for the year ended December 31, 2013 increased by $11,222 to $12,829 from $1,607 for the year ended December 31, 2012. The increase was primarily due to a 25% increase in average selling price of tomatoes as compared to the same period in 2012. See the Adjusted EBITDA calculation in "Non-IFRS Measures - Calculation of Adjusted Income from Operations and Adjusted EBITDA."

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

Net Sales

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

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

in peppers is due to a decrease in supply partner pounds. The increase in cucumber pounds was due to a 5% increase in volume from Village Farms owned facilities and a 6% increase in supply partner pounds.

Cost of Sales

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

Insurance Proceeds, net

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

Provision for property and equipment damaged

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

Provision for inventory damaged in hail storm

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

Selling, General and Administrative Expenses

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

Change in Biological Asset

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

Income from Operations

Income from operations for the year ended December 31, 2012 increased $5,634, or 59%, to $15,130, from $9,496 for the year ended December 31, 2011. The increase was the result of insurance proceeds, net of write-offs offset by a lower gross profit and the decrease in change in biological asset value.

Interest Expense, net

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

Other Income

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

Income Taxes

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

Net Income

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

EBITDA

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

Non-IFRS Measures

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

Reconciliation of Net Income to EBITDA

The following table is the reconciliation of net income to EBITDA, as presented by the Company:

(in thousands of U.S. dollars)	**For the three months ended December 31,**		**For the year ended December 31,**		
	2013	**2012**	**2013**	**2012**	**2011**
Net income	($1,325)	($9,237)	$10,488	$7,902	$5,805
Add:					
Amortization	1,827	1,829	7,314	7,552	6,011
Foreign currency exchange (gain) loss	24	169	(16)	103	(1)
Interest expense, net	824	1,150	3,672	4,329	3,016
Income taxes	415	9,093	5,477	4,311	1,926
Stock compensation	42	73	161	276	237
Derivatives	-	(328)	(106)	(1,180)	(1,054)
Change in biological asset	886	54	1,222	540	(269)
(Gain) loss on disposal of assets		7	-	4	(14)
EBITDA	$2,693	$2,810	$28,212	$23,837	$15,657

Calculation of Adjusted Income from Operations and Adjusted EBITDA

Adjusted income from operations and adjusted EBITDA are non-GAAP measures. Management uses adjusted income from operations and adjusted EBITDA to assist in the evaluation of year over year and quarter over quarter performance, and believes that it will be helpful to investors as a measure of underlying operational results. These non-GAAP measures are not intended to replace the presentation of our financial results in accordance with GAAP. The Company's use of the terms adjusted income from operations and adjusted EBITDA may differ from similar measures reported by other companies.

The Company is showing adjusted income from operation and adjusted EDITDA to compare operating results excluding the insurance proceeds and asset writeoffs related to the hail storm in May 2012.

The following table is the calculation of adjusted income from operations:

(in thousands of U.S. dollars)	**For the three months ended December 31,**		**For the year ended December 31,**		
	2013	**2012**	**2013**	**2012**	**2011**
Income from operations	($75)	$829	$19,524	$15,130	$9,496
Less: insurance proceeds	(5)	(480)	(15,948)	(31,231)	-
Add: asset write-off	-	-	601	4,352	-
Add: inventory write-off	-	-	-	4,649	-
Adjusted income from operations	($80)	$349	$4,177	($7,100)	$9,496

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

(in thousands of U.S. dollars)	**For the three months ended December 31, 2013,**		**For the year ended December 31,**		
	2013	**2012**	**2013**	**2012**	**2011**
Net income	($1,325)	(9,237)	$10,488	$7,902	$5,805
Amortization	1,827	1,829	7,314	7,552	6,011
Interest expense, net	824	1,150	3,671	4,328	3,016
Income taxes	415	9,093	5,477	4,311	1,926
Change in biological asset	886	54	1,222	540	(269)
Other non-cash items	66	(79)	39	(796)	(832)
EBITDA	2,693	2,810	28,212	23,837	15,657
Less: insurance proceeds	(5)	(480)	(15,984)	(31,231)	-
Add: asset write-off	-	-	601	4,352	-
Add: inventory write-off	-	-	-	4,649	-
Adjusted EBITDA	$2,688	$2,330	$12,829	$1,607	$15,657

Liquidity

Cash flows

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

For the three months ended December 31, 2013, cash flows from operating activities before changes in non-cash working capital and changes in biological asset totalled $298 (2012 – $3,154) and for the year ended December 31, 2013, totalled $25,097 (2012 – $27,958).

Capital expenditures totalled ($3,211) for the three months ended December 31, 2013 (2012 – ($882)) and ($4,615) and for the year ended December 31, 2013 (2012 – $13,438). The increase in the three months ended December 31, 2013 over the same period in 2012 is related to the repair one of the Marfa facilities. The repair to the other Marfa

facility occurred in the third quarter of 2012. The significant decrease in 2013 versus 2012 is almost entirely due to the new greenhouse the Company finished in 2012 in Monahans, Texas.

The cash used in provided by financing activities for the three months ended December 31, 2013 was $1,839 (2012-12,760) and for the year ended December 31, 2013 totalled $6,247 (2012 – $15,906). For the three months ended December 31, 2013 cash used consisted of debt payments ($1,042) and interest payment ($792) (2012 – debt payments ($11,576), interest payments ($1,154)) and for the year ended December 31, 2013, consisted of net, debt payments ($2,741) and interest payment ($3,486) (2012 – net, debt payments ($11,545), interest payments ($4,333).

Capital Resources

(in thousands of US dollars unless otherwise noted)	**Maximum**	**Outstanding December 31, 2013**
Operating Loan	CA$10,000	$nil
Term Loan	$55,569	$55,569

On March 28, 2013, the Company entered into an agreement for new term loan financing for $58,000 with an existing Canadian creditor (the "FCC Loan"). All prior term debt was repaid upon issuance of the new term loan financing. The details of the Company's credit facilities are as follows:

The outstanding balance under the Term Loan was $55,569 as at December 31, 2013. The outstanding balance is repayable by way of monthly installments of principal and interest based on an amortization period of 14 years, with the balance and any accrued interest to be paid in full on April 1, 2018. Monthly principal payments are $347. As at December 31, 2013, borrowings under the FCC Loan are subject to an interest rate of 5.2378%.

The Company's interest rate on the Term Loan will be determined annually based on the Debt to EBITDA ratio and an applicable Interest Rate Spread above LIBOR, as specified in the loan agreement.

The Operating Loan is subject to margin requirements stipulated by the bank; no amount was drawn on this facility as at December 31, 2013 (December 31, 2012 – $nil) which is available to a maximum of CA$10,000, less an outstanding letter of credit totaling $1,645. The borrowing base is based on 85% of current accounts receivable less priority claims and other ineligibles. Interest on amounts borrowed is calculated by way of Prime Rate, US Prime Rate, Base Rate or LIBOR plus a margin. All unused funds are charged a fee of 0.375%.

The Credit Facilities are subject to certain positive and negative covenants. As at December 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 December 31, 2013 was $229 (December 31, 2012 - $40) and these amounts are included in accrued liabilities in the statement of financial position.

As security for the FCC Loan, the Company has provided promissory notes, a first mortgage on the greenhouse properties, and general security agreements over its assets. In addition, the Company has provided full recourse guarantees and has granted security therein. The carrying value of the assets and securities pledged as collateral as at December 31, 2013 was $139,905 (December 31, 2012 - $130,134).

Contractual Obligations and Commitments

Information regarding the Company's contractual obligations at December 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	$55,569	$4,168	$8,336	$43,065	$-
Operating leases	8,432	1,607	2,695	2,325	1,805
Capital leases	94	29	58	7	-
Total	$64,095	$5,804	$11,089	$43,397	$1,805

Capital Expenditures

During the year ended December 31, 2013, the Company purchased approximately $4,615 of capital assets (2012 - $13,438). In 2013, the amount purchased to repair 20 acres of the damaged Marfa facility was $2,598; an additional $6,400 is estimated to be purchased to complete repairs. The 2012 capital expenditures were primarily related to the Company's U.S. greenhouse expansion in Permian Basin, Texas and the repair costs to the initial 40 acre facility repaired in Marfa, 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.

During the three month period and year ended December 31, 2013, the Company incurred $1,623 and $1,888; respectively in costs to maintain its capital assets. Management estimates approximately $1,700 of annual costs to maintain the Company's capital assets.

Summary of Quarterly Results

For the three months ended:

(in thousands, except per share amounts)	Dec 31, 2013	Sept 30, 2013	Jun 30, 2013	Mar 31, 2013	Dec 31, 2012	Sep 30, 2012	Jun 30, 2012	Mar 31, 2012
Net sales	$31,738	$39,645	$40,866	$25,385	$30,557	$35,711	$39,483	$28,192
Net (loss) income	($1,325)	$7,757	$1,448	$2,608	($9,237)	$10,088	$7,743	($692)
Basic earnings (loss) per share	($0.03)	$0.20	$0.04	$0.07	($0.24)	$0.26	$0.20	($0.02)
Diluted earnings (loss) per share	($0.03)	$0.20	$0.04	$0.07	($0.24)	$0.26	$0.20	($0.02)

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

Financial Instruments and Risk Management

Risk Management

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

Market Risk

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

Credit Risk

Credit risk is the risk that the Company will incur a loss due to the failure by its customers or other parties to meet

their contractual obligations. Financial instruments that potentially subject the Company to significant concentrations of credit risk consist primarily of cash and cash equivalents and trade receivables.

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

The Company's trade receivables had one customer that represents more than 10% of the balance of trade receivables as at December 31, 2013 (representing 12.8%)(2012 – 11.6%). The Company believes that its trade receivables risk is limited due to the high credit quality of its customers and the protection afforded to the Company by the Perishable Agricultural Commodities Act (the "PACA") for its sales in the United States, which represent approximately 80% of the Company's sales. The PACA protection gives a claim filed under the PACA first lien on all PACA assets (which include cash and trade receivables). The PACA fosters trading practices in the marketing of fresh and frozen fruits and vegetables in interstate and foreign commerce. It prohibits unfair and fraudulent practices and provides a means of enforcing contracts. Historical write-offs have represented less than one half of one percent of sales. The maximum amount of credit risk exposure is limited to the carrying amount of the balances on the financial statements.

Trade receivables for each customer were evaluated for collectability and an allowance for doubtful accounts has been estimated. At December 31, 2013, the allowance for doubtful accounts balance was $50 (December 31, 2012 - $254). In addition, the Company recorded a bad debt recovery (income) of $204 during the year ended December 31, 2013 (2012 – $nil).

At December 31, 2013, 89.9% (December 31, 2012 – 82.4%) of trade receivables were outstanding less than 30 days, 9.3% (December 31, 2012 – 16.2%) were outstanding for between 30 and 90 days and the remaining 0.8% (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.

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

Environmental, Health and Safety Risk

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

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

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they fall due. The following are the contractual maturities of financial liabilities as at December 31, 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	$10,288	$10,288	$-	$-
Bank debt	55,569	4,168	4,168	47,233
	$65,857	$14,456	$4,168	$47,233

It is the Company's intention to meet these obligations through the collection of current accounts receivable and cash. The Company has available lines of credit of CA$10,000 (as at December 31, 2013, $1,645 was utilized in the form of an outstanding letter of credit). 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 improvements to income from operations. 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 agreements with seed companies, 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 as 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 the incremental demand, in 2014. Management believes that this strategy will decrease the Company's exposure to tomato market pricing risk. The impact of the revised Tomato Suspension Agreement, in 2013 (discussed further below), has improved market pricing as it has set a minimum price for imported Mexican tomatoes and reduced the mislabeling of Mexican field tomatoes as greenhouse grown. The impact of these two initiatives bolstered pricing for the Company's products in 2013 and management expects it to continue into 2014 and beyond.

Management is also very focused on increasing the production volume and improving its cost efficiencies at its Permian Basin facility. The third tomato crop is in final production and is in a much better state than the prior crops, planted in 2011 and 2012. Stabilization of the facility's labor force is the primary reason for this improvement, improving the facility's efficiency and quality. Management expects this facility to have improved financial results as 2014 progresses.

Management has commenced repairs on one of two remaining 20 acre blocks at the still damaged 40 acre Marfa, Texas facility. The repairs should be complete by April 2014 with full production in the summer of 2014. Management is focused on managing its growth conservatively to ensure it has sufficient working capital as well as sufficient retailer demand for any new production.

Growth expenditures

At this time, repairs on 20 acres of the damaged 40 acres of the Marfa facility are nearing completion. The project will be completed on time and within budget. The remaining 20 acre block was too badly damaged to repair, so will require an entire rebuild. The Company is working on plans for this 20-acre rebuild and will not make a decision on when to commence the rebuild until the fall of 2014. Timing is important, as sufficient time is necessary to schedule the necessary special foreign labor and materials to repair the facility, as well as when to start a new crop

cycle. 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 September 22, 2012, a group of U.S. tomato growers including VFLP petitioned the U.S. Department of Commerce to request 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 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"), and 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 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 United States 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 has curtailed the ongoing issue of mislabeling Mexican field tomatoes as greenhouse tomatoes and set 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 both of its credit facilities in 2013, 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. The Company's prior lead lender was not as supportive, in challenging times, as the Company would have expected. Execution of a new five year term commitment in March 2013 places the Company on firm ground to focus its management efforts on operational excellence, customer satisfaction and growth initiatives.

In addition, the Company entered into a new line of credit agreement with a new creditor on August 30, 2013. The revolving operating loan of up to CA$10,000 is at variable interest rates with a maturity date on August 30, 2016 (the "Operating Loan"). The Operating Loan is subject to margin requirements stipulated by the bank.

Insurance Proceeds

The Company settled its claim against its insurance carrier and received an additional $15,943 in net insurance proceeds in 2013 pertaining to its May 2012 hail storm claim. The total insurance proceeds received since the inception of the claim was $47,179.

Internal Control over Financial Reporting

Disclosure Controls and Procedures

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

For the year ended December 31, 2013, the Company's management evaluated the effectiveness of the Company's disclosure controls and procedures, as defined under rules adopted by the CSA. This evaluation was performed under the supervision of, and with the participation of, the Company's CEO and CFO.

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

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

Internal Control over Financial Reporting

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

For the year ended December 31, 2013, the Company's management evaluated the effectiveness of the Company's internal control over financial reporting, as defined under rules adopted by the CSA. This evaluation was performed under the supervision of, and with the participation of, the Company's CEO and CFO.

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

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

Based on this evaluation, the Company's CEO and CFO have concluded that, subject to the inherent limitations noted above, the Company's internal control over financial reporting is effective in providing reasonable assurance

regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

There were no changes in the Company's internal control over financial reporting during the year ended December 31, 2013 that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Risks and Uncertainties

The Company is subject to various risks and uncertainties which are summarized below. Additional details are contained in the Company's current Annual Information Form dated March 13, 2014 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
- Substantial Common Shares held by 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 of the cash-generating unit ("CGU") to which the asset belongs.

Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGU's, or otherwise they are allocated to the smallest group of CGU's for which a reasonable and consistent allocation basis can be identified. Identifiable cash flows are largely independent of the cash flows of other assets and liabilities. This was determined to be the Canadian and U.S. operations.

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

Where an impairment loss subsequently reverses for assets with a finite useful life, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount

does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or CGU in prior periods. A reversal of an impairment loss is recognized immediately in the statement of income.

Due to the above-noted considerations, which are based on the Company's best available information, the Company has not recorded any impairment charge on its non-financial assets in the year ended December 31, 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 December 31, 2013.

Changes in Accounting Policies

Accounting Standards Issued and Not Applied

The IASB periodically issues new standards and amendments or interpretations to existing standards. The new pronouncements listed below are those policy changes that management considers relevant to the Company now or in the future. This is not intended to be a complete list of new pronouncements made during the year. Management has completed an initial review of the potential impact of these new standards on the Company, and is currently considering whether or not to adopt any of these in advance of the mandatory date.

Consolidation and interests in other entities

IFRS 10, *Consolidated Financial Statements,* introduces a new single control model and single consolidation model built on a revised definition of control and criteria for assessment of consolidation. The new Standard requires an entity to consolidate an investee when it has power over the investee, is exposed, or has rights, to variable returns from its involvements with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12, *Consolidation – Special Purpose Entities,* and parts of IAS 27, *Consolidated and Separate Financial Statements*. IFRS 10 is effective for annual periods beginning on or after January 1, 2013 with earlier application permitted. The adoption of IFRS 10 did not result in any changes in the consolidation status of any of the Company's subsidiaries.

IFRS 11, *Joint Arrangements,* redefines joint operations and joint ventures with a focus on the rights and obligations of an arrangement, rather than its legal form. The new Standard requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting, whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interest in joint ventures. IFRS 11 supersedes IAS 31, *Interests in Joint Ventures,* and SIC-13, *Jointly Controlled Entities – Non-monetary Contributions by Venturers*. IFRS 11 is effective for annual periods beginning on or after January 1, 2013 with earlier application permitted. The adoption of IFRS 11 did not have an impact on the Company's consolidated financial statements.

IFRS 12, *Disclosure of Interests in Other Entities,* establishes disclosure requirements for interests in other entities, such as subsidiaries, joint arrangements, associates, and unconsolidated structured entities. The Standard carries forward existing disclosures and also introduces significant additional disclosures that address the nature of, and risks associated with, an entity's interests in other entities. IFRS 12 is effective for annual periods beginning on or after January 1, 2013 with earlier application permitted. The adoption of IFRS 12 did not have an impact on the Company's consolidated financial statements nor require additional disclosures.

There have been amendments to existing standards, including IAS 27, *Separate Financial Statements,* and IAS 28, *Investments in Associates and Joint Ventures.* IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 sets out the equity accounting for joint ventures, as well as associates, once the assessment of the arrangement has been made under IFRS 11. The amendments to IAS 27 and IAS 28 did not have an impact on amounts recorded in the Company's consolidated financial statements.

Employee benefits

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

In addition, under the amended standard, the impact of plan amendments related to past service will no longer be recognized over a vesting period but instead will be recognized immediately in the period of a plan amendment. A number of other amendments have been made to recognition, measurement and classification including redefining short-term and other long-term benefits, guidance on the treatment of taxes related to benefit plans, guidance on risk/cost sharing features, and expanded disclosures. This amendment, effective for annual periods beginning on or after January 1, 2013, has not resulted in any changes in the accounting of employee benefits on amounts recorded in the Company's consolidated financial statements and related disclosures.

Other standards and amendments

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

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

IFRS 13, *Fair Value Measurement,* is a comprehensive standard for fair value measurement and disclosure for use across all IFRS standards and is effective for annual periods beginning on or after January 1, 2013 with earlier application permitted. The new standard clarifies that fair value is the price that would be received on the sale of an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards

requiring fair value measurements and does not always reflect a clear measurement basis or consistent disclosures. The adoption of IFRS 13 did not require any adjustments to the valuation techniques used by the Company to measure fair value and did not result in any measurement adjustments as at January 1, 2013.

IAS 1, *Presentation of Financial Statements,* has been amended to require entities to separate items presented in other comprehensive income ("OCI") into two groups, based on whether or not items may be recycled to net income in the future. Entities that choose to present OCI items before tax will be required to show the amount of tax related to the two groups separately. The amendment is effective for annual periods beginning on or after July 1, 2012. The adoption of IAS 1 did not result in adjustments to other comprehensive income in the Company's consolidated financial statements.

Related Party Transactions

As at December 31, 2013, included in other assets is a $325 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) 38,707,345 Common Shares carrying the right to one vote at a meeting of voting shareholders of VFF; (ii) nil (0) Special Shares; and (iii) nil (0) Preferred Shares.

In August 2013, Michael DeGiglio one of the holders of the Special Shares converted his Special Shares to 9,886,949 Common Shares.

In October 2013 the last holder of Special Shares, Albert Vanzyest, converted his Special Shares to 9,387,002 Common Shares.

No Special Shares are outstanding as at December 31, 2013 and March 13, 2014.

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 13, 2014 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 the 2014 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.