Village Farms International, Inc.

Management's Discussion and Analysis

Three Months Ended March 31, 2014

May 14, 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 interim consolidated financial statements and accompanying notes of Village Farms International, Inc. ("VFF" and, together with its subsidiaries, the "Company"), for the three months ended March 31, 2014. The information provided in this MD&A is current to May 14, 2014 unless otherwise noted.

VFF is a corporation existing under the *Canada Business Corporations Act* (the "CBCA"). The Company's principal operating subsidiaries at March 31, 2014 are Village Farms Canada Limited Partnership ("VFCLP"), Village Farms, L.P. ("VFLP") and Village Farms DR, SRL ("VFDR").

Basis of Presentation

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

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

Segment Reporting

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

Functional and Presentation Currency

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

Business Overview

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

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

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

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

The Company's assets include seven greenhouses providing 950,085 square metres (approximately 240 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. The Company also has exclusive marketing agreements with growers in the United States, Canada and Mexico that currently operate approximately 345,000 square metres (approximately 86 acres) of growing area.

The following table outlines the Company's greenhouse facilities:

	Growing Area		
Greenhouse Facility	**Square Metres**	**Acres**	**Products Grown**
Marfa, TX (2 greenhouses)	234,795	60	Tomatoes on-the-vine, beefsteak tomatoes, specialty tomatoes
Fort Davis, TX (1 greenhouse)	156,530	40	Specialty tomatoes
Monahans, TX (1 greenhouse) (Permian Basin facility)	118,200	30	Tomatoes on-the-vine, long English cucumbers,
Delta, BC (3 greenhouses)	440,560	110	Tomatoes on-the-vine, beefsteak tomatoes, specialty tomatoes
Total	950,085	240	

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 was in full production in 2013. The Company has recently finished repairs on a 20 acre block of the remaining damaged 40 acre facility and expects to start harvesting this block in late June 2014. At this time, it is uncertain when the one remaining block (approximately 20 acres) will be rebuilt, but management would like to initiate construction in 2015.

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 three months ended March 31, 2014, 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 March 31,	
	2014	**2013**
Net Sales	$24,004	$25,385
Cost of sales	21,717	23,025
Insurance proceeds, net	-	5,264
Selling, general and administrative expenses	3,127	3,119
Change in biological asset (1)	1,113	298
Income from operations	273	4,803
Interest expense, net	688	1,216
Other (expense) income	(47)	139
(Recovery of) provision for income taxes	(138)	1,118
Net (loss) income	(324)	2,608
EBITDA (2)	1,031	6,411
(Loss)/earnings per share/ basic and diluted	($0.01)	$0.07

(1) Biological assets consist of the Company's produce on the vines at the period end. Details of the changes are described in note 7 of the Company's current financial statements.
(2) EBITDA is not a recognized earnings measure and does not have a standardized meaning prescribed by IFRS. Therefore, EBITDA may not be comparable to similar measures presented by other issuers. See "Non-IFRS Measures". Management believes that EBITDA is a useful supplemental measure in evaluating the performance of the Company.

Results of Operations for the Three Months Ended March 31, 2014 Compared to the Three Months Ended March 31, 2013

Net Sales

Net sales for the three month period ended March 31, 2014 decreased by $1,381 or 5% to $24,004 from $25,385 for the three month period ended March 31, 2013. The decrease in net sales is primarily due to a 12% decrease in the Company's production volume of all commodities offset by a 35% increase in supply partner volume. The changes in supply partner volume increased due to additional grower agreements for the 2013- 2014 winter season over the 2012-2013 winter season.

The average selling price for the three months ended March 31, 2014 versus the three months ended March 31, 2013; for tomatoes was a decrease of 3%, for peppers was an increase of 17% and for cucumbers was a decrease of 8%. The tomato price decrease in the first quarter of 2014 was as a result a decrease in the tomato-on-the-vine price offset by an increased mix of specialty tomatoes grown by the Company. For the three months ended March 31, 2014, total tomato pounds sold were similar to the comparable period in 2013 (tomatoes grown by the Company decreased 13% and supply partner volume increased 49%); pepper pounds sold for the three months ended March 31, 2014 decreased by 16% over the comparable period in 2013 and cucumber pieces sold for the three months ended March 31, 2014 increased by 21% over the comparable period in 2013. The increase in cucumber production volume is due to an increase in the growing area. The increased cucumber growing area was from an area that grew mini cucumber in the prior year, but has discontinued production in the fall of 2013.

Cost of Sales

Cost of sales for the three months ended March 31, 2014 decreased by $1,308 or 6% to $21,717 from $23,025 for the three months ended March 31, 2013. The decrease is due to lower volumes from the Company's greenhouse facilities as well as an 11% decrease in the cost of sales per pound from the Company's facilities and lower transportation costs, offset by increased purchases of supply partner product. The decrease in the cost of sales per pound at the Company's facilities is primarily due to a lower cost at the Permian Basin facility as it is into its third year of production with a more experienced labor force and enhancements in the technology, which resulted in better yields from the facility.

Insurance Proceeds, net

The insurance proceeds, net of $5,264 for the three months ended March 31, 2013 consist of $5,483 of business income losses proceeds offset by fees of $219. The insurance claim was settled in September 2013, and no insurance proceeds will be received in 2014.

Selling, General and Administrative Expenses

Selling, general and administrative expenses for the three month period ended March 31, 2014 remained flat at $3,127 from $3,119 for the three month period ended March 31, 2013.

Change in Biological Asset

The net change in fair value of biological asset for the three months ended March 31, 2014 increased by $815 to $1,113 from $298 for the three months ended March 31, 2013. The increase is due to a lower value of the asset at the beginning of the period, $3,732, at January 1, 2014 versus $4,757 at January 1, 2013. The fair value of the biological asset at March 31, 2014 is $7,481 and was $7,648 at March 31, 2013. The slight decrease is due to lower production volumes as a result of the increase in specialty tomatoes and lower pricing in April 2014 versus April 2013 on tomatoes on the vine.

Income from Operations

Income from operations for the three months ended March 31, 2014, decreased by $4,530 to $273 from $4,803 for the three months ended March 31, 2013. The decrease was the result of a reduction of insurance proceeds of $5,264, offset by an increase in the change in biological asset value of $815.

Interest Expense, net

Interest expense, net, for the three month period ended March 31, 2014 decreased by $528 to $688 from $1,216 for the three month period ended March 31, 2013. The decrease is due to a decrease in the Company's borrowing rates and a lower principal balance.

Other (Expense) Income

Other (expense) income for the three months ended March 31, 2014, decreased by $186 to an expense of ($47) from income of $139 for the three months ended March 31, 2013. The decrease was primarily due a decrease of $106 in the gain of derivatives for the period in 2013 and a foreign exchange loss of $38 in three months ended March 31, 2014 compared to a gain of $7 for the same period 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/(recovery) for the three month period ended March 31, 2014 was ($138) compared to $1,118 for the three month period ended March 31, 2013. The income tax expense in 2013 was related to the business interruption proceeds; these were taxable in the year they are received.

Net Income (Loss)

Net income (loss) for the three months ended March 31, 2014 decreased by $2,932 to a loss of ($324) from net income of $2,608 for the three months ended March 31, 2013. The decrease was the result of a decrease in insurance proceeds of $5,264 offset by decreases in interest expense of $528 and income taxes of $1,256.

EBITDA

EBITDA for the three month period ended March 31, 2014 decreased by $5,380 to $1,031 from $6,411 for the three month period ended March 31, 2013, as a result of insurance proceeds received in 2013. See the EBITDA calculation in "Non-IFRS Measures - Reconciliation of Net Income to EBITDA."

Adjusted EBITDA

Adjusted EBITDA for the three months ended March 31, 2014 decreased by ($116) to $1,031 from $1,147 for the three months ended March 31, 2013. The decrease was due to a 3% decrease in the average selling price of tomatoes, as compared to the same period in 2013. See the Adjusted EBITDA calculation in "Non-IFRS Measures - Calculation of Adjusted Income from Operations and Adjusted EBITDA."

Selected Statement of Financial Position Data

	As at March 31, 2014	As at December, 2013
Total assets	$138,258	$139,905
Total liabilities	($77,428)	($78,805)
Shareholders' equity	($60,830)	($61,100)

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 March 31,**	
	2014	**2013**
Net income	($324)	$2,608
Add:		
Amortization	1,826	1,838
Foreign currency exchange (gain) loss	38	(7)
Interest expense, net	688	1,216
Income taxes	(138)	1,118
Stock compensation	54	48
Derivatives	-	(106)
Change in biological asset	(1,113)	(298)
(Gain) loss on disposal of assets	-	(6)
EBITDA	$1,031	$6,411

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 (loss) from operations:

(in thousands of U.S. dollars)	**For the three months ended March 31,**	
	2014	**2013**
Income (loss) from operations	$272	$4,803
Less: insurance proceeds	-	(5,264)
Adjusted income (loss) from operations	$272	($461)

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

(in thousands of U.S. dollars)	**For the three months ended March 31,**	
	2014	**2013**
Net income	($324)	2,608
Amortization	1,826	1,838
Interest expense, net	688	1,216
Income taxes	(138)	1,118
Change in biological asset	(1,113)	(298)
Other non-cash items	92	(71)
EBITDA	1,031	6,411
Less: insurance proceeds	-	(5,264)
Adjusted EBITDA	$1,031	$1,147

Liquidity

Cash flows

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

For the three months ended March 31, 2014, cash flows from operating activities before changes in non-cash working capital and changes in biological asset totalled $1,018 (2013 – $6,706).

Capital expenditures totalled ($4,704) for the three months ended March 31, 2014 (2013 – ($428)).

The cash (used by) received by financing activities for the three months ended March 31, 2014 ($746) (2013- $1,497). These primarily consisted of debt payments of $1,042 and interest payments of $698 partially offset by operating loan borrowings of $1,000 in the three months ended March 31, 2014 (2013 – borrowing $3,028; payments on principal and interest ($1,527)).

Capital Resources

(in thousands of US dollars unless otherwise noted)	**Maximum**	**Outstanding March 31, 2014**
Operating Loan	CA$10,000	$1,000
Term Loan	$54,527	$54,527

On March 28, 2013, the Company entered into an agreement for new Term Loan financing with an existing Canadian creditor. As part of the agreement, all prior term debt was repaid upon issuance of the new term loan financing. The non-revolving variable rate term loan has a maturity date of April 1, 2018 ("FCC Loan") and a balance of $54,527 as at March 31, 2014. 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 March 31, 2014, borrowings under the FCC Loan agreement are subject to an interest rate of 5.2356% (December 31, 2013 – 5.2378%). The Company's interest rate on the FCC Loan will be determined based on the Company's Debt to EBITDA ratio and the applicable LIBOR rate. As of May 1, 2014 borrowings under the FCC Loan agreement are subject to an interest rate of 3.73%.

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. As at March 31, 2014, $1,000 was drawn on this facility (December 31, 2013 – $nil), which is available to a maximum of CA$10,000, less an outstanding letter of credit totaling $845.

The borrowings are subject to certain positive and negative covenants. As at March 31, 2014 and December 31, 2013, the Company was in compliance with all covenants on all of its credit facilities.

Accrued interest payable on the credit facilities and loans as at March 31, 2014 was $219 (December 31, 2013 – $229) 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 March 31, 2014 was $138,258 (December 31, 2013 – $139,905).

Transaction costs incurred in connection with these financing activities are deferred and amortized over the terms of the related financing agreement. Total deferred financing costs, net of accumulated amortization, are netted against long term debt on the statement of financial position, and total $660 as at March 31, 2014 (December 31, 2013 – $709).

Contractual Obligations and Commitments

Information regarding the Company's contractual obligations at March 31, 2014 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	$54,527	$4,168	$8,336	$42,023	$-
Operating loan	$1,000	$1,000	-	-	-
Operating leases	7,877	1,542	2,552	2,285	1,498
Capital leases	87	29	58	-	-
Total	$63,491	$6,739	$10,946	$44,308	$1,498

Capital Expenditures

During the three months ended March 31, 2014, the Company purchased approximately $4,704 of capital assets (2013 - $428), $4,156 of the 2014 capital expenditures were related to the Company's 20-acre greenhouse rebuild 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 ended March 31, 2014, the Company incurred $512 in costs to maintain its capital assets. Management estimates approximately $1,500 of annual costs to maintain the Company's capital assets.

Summary of Quarterly Results

For the three months ended:

(in thousands, except per share amounts)	Mar 31, 2014	Dec 31, 2013	Sept 30, 2013	Jun 30, 2013	Mar 31, 2013	Dec 31, 2012	Sep 30, 2012	Jun 30, 2012
Net sales	$24,004	$31,738	$39,645	$40,866	$25,385	$30,557	$35,711	$39,483
Net (loss) income	($324)	($1,325)	$7,757	$1,448	$2,608	($9,237)	$10,088	$7,743
Basic (loss) earnings per share	($0.01)	($0.03)	$0.20	$0.04	$0.07	($0.24)	$0.26	$0.20
Diluted (loss) earnings per share	($0.01)	($0.03)	$0.20	$0.04	$0.07	($0.24)	$0.26	$0.20

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 prices during the October through March period, due to the reduced supply of greenhouse produce in North America generally results in higher produce prices. The complementary nature of the growing seasons of the Company's Canadian and U.S. operations allows the Company to maintain its core retail accounts year round.

Financial Instruments and Risk Management

Risk Management

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

Market Risk

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

Credit Risk

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

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

The Company's trade receivables had two customers that represents more than 10% of the balance of trade receivables, representing 16.1% and 10.8% of the balance of trade receivables as at March 31, 2014 (2013 – two customers, 12.4% and 12.3%). 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 annually represents 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 March 31, 2014, the allowance for doubtful accounts balance was $50 (December 31, 2013 - $50). In addition, the Company recorded a bad debt expense of $nil during the three months ended March 31, 2014 (2013 – $nil).

At March 31, 2014, 97.2% (December 31, 2013 – 89.9%) of trade receivables were outstanding less than 30 days, 2.1% (December 31, 2013 – 9.3%) were outstanding for between 30 and 90 days and the remaining 0.7% (December 31, 2013 – 0.8%) were outstanding for more than 90 days. Trade receivables are considered past due based on the contract terms agreed to with a customer. As noted above, aged receivables that are past due are not considered impaired unless customer specific information indicates otherwise.

Interest Rate Risk

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

The Company uses derivative instruments to reduce market exposure to 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 March 31, 2014:

(in thousands of U.S. dollars) Financial liabilities	Contractual cash flows	0 to 12 months	12 to 24 months	After 24 months
Accounts payable and accrued liabilities	$9,961	$9,961	$-	$-
Operating loan	1,000	1,000	-	-
Bank debt	54,527	4,168	4,168	46,191
	$65,488	$15,129	$4,168	$46,191

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 March 31, 2014, $1,000 was outstanding and $845 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), 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. Recently there have been reports of infractions under the Tomato Suspension Agreement.

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 fourth tomato crop is now in production and is in a much better state than the prior crops, planted in 2011, 2012 and 2013. 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 continued year over year improved financial results as 2014 progresses.

The Company has completed repairs on one of two remaining 20 acre blocks at the still damaged 40 acre Marfa, Texas facility. The repairs are complete as of April 2014 with full production expected in late June 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 complete, the plants have been laid out in greenhouse and first harvest is expected late June 2014. The project was completed on time and under 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 or spring 2015. 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 has been 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.

Internal Control over Financial Reporting

Disclosure Controls and Procedures

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

Internal Control over Financial Reporting

Internal control over financial reporting is a process designed to provide reasonable assurance that all assets are safeguarded, transactions are appropriately authorized and to facilitate the preparation of relevant, reliable and timely information. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objective of the control system is met. Management has assessed the effectiveness of the Company's internal control over financial reporting as defined by National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings. Management has concluded that their internal control over financial reporting was effective as of March 31, 2014. There were no material changes in the Company's internal control over financial reporting that occurred during the three months ended March 31, 2014 that had materially affected, or is reasonably likely to affect the Company's internal controls 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 three months ended March 31, 2014.

Property, Plant and Equipment – Useful Lives

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

Intangible Assets

The intangible assets of the Company were recorded at their estimated fair values at October 18, 2006. Intangible assets are subject to impairment tests under IFRS when events or circumstances indicate a potential impairment. If the carrying value of such assets exceeds the fair values, the assets are written down to fair value. No write down was required as at March 31, 2014.

Changes in Accounting Policies

The Company has adopted the following new and revised standards, along with any consequential amendments. These changes were made in accordance with the applicable transitional provisions.

- The Company assessed its consolidation conclusion and determined that the adoption of IFRS 10, Consolidated Financial Statements, did not result in any changes in the consolidation status of any of its subsidiaries.

- The Company adopted IFRS 13, Fair Value Measurement, on January 1, 2013 on a prospective basis. 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.
- The Company adopted the amendments to IAS 1, Presentation of Financial Statements. These amendments required the Company to group other comprehensive income items by those that may be recycled through net income and those that will not be recycled through net income. These changes did not result in adjustments to other comprehensive income.
- The Company adopted IFRS 11, Joint Arrangements, which redefined joint operations and joint ventures with a focus on the rights and obligations of an arrangement, rather than its legal form. The adoption of IFRS 11 did not have an impact on the Company's consolidated financial statements.
- The Company adopted the amended IAS 19R, Employee Benefits, which changed the recognition and measurement of defined benefit pension expense and termination benefits and enhanced the disclosure of all employee benefits. The adoption of IAS 19R did not result in any changes in the accounting of employee benefits.

Accounting Standards Issued and Not Applied

In May 2011, the International Accounting Standards Board ("IASB") issued IFRS 9, Financial Instruments, which addresses classification and measurement of financial assets and financial liabilities, and replaces the multiple category and measurement models in IAS 39, Financial Instruments – Recognition and Measurement. The required adoption date for IFRS 9 has been deferred and is not expected until January 1, 2017, with early adoption permitted. IFRS 9 is not expected to have a material impact on amounts recorded in the Company's consolidated financial statements.

Further details of new accounting Standards and potential impact on the Company can be found in the Company's Consolidated Financial Statements for the year ended December 31, 2013.

Related Party Transactions

As at March 31, 2014, included in other assets is a $322 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.

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.