Village Farms International, Inc.

Management's Discussion and Analysis

Nine Months Ended September 30, 2014

November 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 interim consolidated financial statements and accompanying notes of Village Farms International, Inc. ("VFF" and, together with its subsidiaries, the "Company"), for the nine months ended September 30, 2014. The information provided in this MD&A is current to November 13, 2014 unless otherwise noted.

VFF is a corporation existing under the *Canada Business Corporations Act*. The Company's principal operating subsidiaries at September 30, 2014 were Village Farms Canada Limited Partnership ("VFCLP"), Village Farms, L.P. ("VFLP") and VF Clean Energy, Inc. ("VFCE").

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 consolidated financial statements for the years ended December 31, 2013 and 2012.

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 two reporting segments.

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 approximately 950,085 square metres (or 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 marketing agreements with growers in the United States, Canada and Mexico that currently operate approximately 202,000 square metres (or approximately 50 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	

In July 2014, the Company acquired from Maxim Power (B.C.), Inc., a co-generation facility adjacent to the Company's greenhouse operations in Delta, B.C., which uses methane gas from the City of Vancouver's landfill to generate electricity for B.C. Hydro and thermal heat for the Company's greenhouse facilities. The name of the entity was changed to VF Clean Energy, Inc.

In June 2014, the Company decided to close its Dominican Republic packhouse operations effective on July 1, 2014. The operations in the Dominican Republic consisted of purchasing and packing peppers for shipment to the United States.

Hail Storm Damage to the Company's Facilities and Crops

On May 31, 2012 a hail storm severely damaged all of the Company's three greenhouses (then approximately 82 acres) located in Marfa, Texas forcing a shutdown of these facilities. The Company completed repairs on one of the Marfa facilities (approximately 40 acres) in 2012, which was in full production in 2013. The Company has recently completed repairs on an approximately 20 acre block of the remaining damaged 40 acre facility and started harvesting this block in late June 2014. At this time, it is uncertain when the one remaining block (approximately 20 acres) will be rebuilt.

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 changes 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 typically has less of an adverse 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 premium quality tomatoes and cucumbers 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 and Mexico. 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 Texas, Washington and British Columbia and a centre in Delaware to be closed later this year, the Company provides its customers with flexibility in purchasing. For the nine months ended September 30, 2014, the Company had an on-time delivery record of approximately 99%, 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 with 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., Sobeys Inc., Sam's Club, Trader Joe's, Unified Western Grocers, Wakefern Food Corp., Wal-Mart Stores, 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.

Results of Operations

Consolidated Financial Performance
(In thousands of U.S. dollars, except per Share amounts)

	For the three months ended September 30,		For the nine months ended September 30,	
	2014	**2013**	**2014**	**2013**
Net Sales	$36,578	$39,645	$101,849	$105,897
Cost of sales	(35,010)	(33,669)	(93,526)	(91,496)
Insurance proceeds, net	-	10,722	-	15,943
Provision for property and equipment damaged[(1)]	-	(601)	-	(601)
Selling, general and administrative expenses	3,580	3,142	10,035	9,808
Change in biological asset [(2)]	556	(1,059)	499	(336)
(Loss) income from operations	(1,456)	11,896	(1,213)	19,599
Interest expense, net	581	759	1,905	2,848
Other (expense) income	(324)	(56)	(349)	124
(Recovery of) provision for income taxes	(708)	3,324	(1,040)	5,062
Net (loss) income	(1,653)	7,757	(2,427)	11,813
EBITDA [(3)]	60	14,764	4,206	25,519
(Loss)/earnings per share/ basic	($0.04)	$0.20	($0.06)	$0.31
(Loss)/earnings per share/ diluted	($0.04)	$0.20	($0.06)	$0.30

(1) These items are all related to damage from the hail storm, see "Hail Storm Damage to the Company's 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 Company's interim financial statements for the three and nine months ended September 30, 2014.
(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.

Results of Operations for the Three Months Ended September 30, 2014 Compared to the Three Months Ended September 30, 2013

Net Sales

Net sales for the three month period ended September 30, 2014 decreased by $3,067, or 8% to $36,578 from $39,645 for the three month period ended September 30, 2013. The decrease in net sales is primarily due to a decreased average selling price for tomatoes of 18%, partially offset by an increase in the Company's production

volume of 4% and a 17% increase in supply partner volume. The increase in the Company's production is due to improvements at the Permian Basin facility as compared to 2013 and production starting at the rebuilt 20 acre Marfa facility. The increase in supply partner volume is due to additional grower agreements.
The average selling price for the three months ended September 30, 2014 versus the three months ended September 30, 2013; for tomatoes was a decrease of 18%, for peppers was an increase of 10% and for cucumbers was a decrease of 4%. The tomato price decrease for the three months ended September 30, 2014 was as a result of a decrease in the tomato-on-the-vine price of (28%) offset by an increased mix of specialty tomatoes grown by the Company, which did not experience a decrease in the average selling price for the quarter. For the three months ended September 30, 2014, total tomato pounds sold increased 5% from the comparable period in 2013 (tomatoes grown by the Company increased 4% and supply partner volume increased 12%); pepper pounds sold for the three months ended September 30, 2014 increased by 17% over the comparable period in 2013 and cucumber pieces sold increased 7% for the three months ended September 30, 2014 versus the comparable period in 2013.

Cost of Sales

Cost of sales for the three months ended September 30, 2014 increased by $1,341, or 4% to $35,010 from $33,669 for the three months ended September 30, 2013. The increase is due to higher volumes from the Company's greenhouse facilities of 4% as well as a 12% increase in purchases of supply partner product. The Company experienced a decrease in the cost of production per pound at the Company's facilities primarily due to a lower cost at the Permian Basin facility as it is in its third year of production with a more experienced labour force and enhancements in the technology, which resulted in higher yields from the facility.

Insurance Proceeds, net

Net insurance proceeds of $10,722 were received for the three months ended September 30, 2013. The insurance claim was settled in September 2013, and no insurance proceeds were received in 2014.

Selling, General and Administrative Expenses

Selling, general and administrative expenses for the three month period ended September 30, 2014 increased $438, to $3,580 from $3,142 for the three month period ended September 30, 2013. The increase is due to increased professional fees.

Change in Biological Asset

The net change in fair value of biological asset for the three months ended September 30, 2014 increased by $1,615, to $556 from ($1,059) for the three months ended September 30, 2013. The increase is due to a lower starting value at June 30, 2014 over the same period in 2013. The fair value of the biological asset at September 30, 2014 is $6,631 and was $6,616 at September 30, 2013.

Income from Operations

Income from operations for the three months ended September 30, 2014 decreased by ($13,352), to ($1,456) from $11,896 for the three months ended September 30, 2013. The decrease was primarily the result of a decrease in the change in insurance proceeds of $10,722 in 2013 with the balance of the decrease due to a decrease in the average selling price of tomatoes.

Adjusted Income (loss) from Operations

Adjusted income (loss) from operations for the three months ended September 30, 2014, decreased by ($3,231) to ($1,456) from $1,775 for the three month period ended September 30, 2013. The decrease was primarily due to the decrease in average selling price of tomatoes as compared to the same period in 2013. See the adjusted income from operation calculation in "Non-IFRS Measures - Calculation of Adjusted Income."

Interest Expense, net

Interest expense, net, for the three month period ended September 30, 2014 decreased by ($178), to $581 from $759 for the three month period ended September 30, 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 September 30, 2014 decreased by ($268) to an expense of ($324) from an expense of ($56) for the three months ended September 30, 2013. The decrease was primarily due a loss on sale of assets of ($227), an increase of loss on foreign currency exchange of ($55) and a decrease of ($14) of miscellaneous income in 2014. 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 September 30, 2014 was a recovery of ($708) compared to an expense of $3,324 for the three month period ended September 30, 2013. The income tax expense reduction in 2014 as compared to the same period in 2013 was related to the lower operating income in three months ended September 30, 2014 from the same period in 2013 due to the receipt of insurance proceeds of $10,722 in 2013 which were taxable.

Net (Loss) Income

Net (loss) income for the three months ended September 30, 2014 decreased by ($9,410) to a loss of ($1,653) from net income of $7,757 for the three months ended September 30, 2013. The decrease was the result of a decrease in average selling price of tomatoes during the period and insurance proceeds of $10,722 that were received in 2013, offset by lower interest expense of ($178) and income taxes of ($4,032).

EBITDA

EBITDA for the three month period ended September 30, 2014 decreased by ($14,704), to $60 from $14,764 for the three month period ended September 30, 2013, principally as a result of the insurance proceeds of $10,722 received in 2013 and a decrease in the selling price of tomatoes in 2014 as compared to the same period 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 September 30, 2014 decreased by ($4,583) to $60 from $4,643 for the three months ended September 30, 2013. The decrease was due to a 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."

Results of Operations for the Nine Months Ended September 30, 2014 Compared to the Nine Months Ended September 30, 2013

Revenue

Revenue for the nine months ended September 30, 2014, decreased ($4,048) or (4%), to $101,849 compared to $105,897 for the nine months ended September 30, 2013. The decrease in revenue is primarily due to a (12%) decrease in the average selling price of tomatoes, partially offset by a 23% increase in supply partner revenues and an 11% increase in the average selling price of peppers and a 6% increase in the average selling price of cucumbers. The decrease in tomato prices is mainly due to the weak pricing market of tomatoes-on-vine which are down (23%) over the same period in 2013. The increase in supply partner revenues is due to a 20% increase in volume.

For the nine months ended September 30, 2014, total tomato pounds sold increased 6% over the comparable period in 2013; pepper pounds sold for the nine months ended September 30, 2014 increased 4% over the comparable period in 2013 and cucumber pieces sold for nine months ended September 30, 2014 were flat over the comparable period in 2013.

Cost of Sales

Cost of sales for the nine months ended September 30, 2014 increased $2,030, or 2%, to $93,526 from $91,496 for the nine months ended September 30, 2013. The increase is due to higher volumes of supply partner product, offset by lower costs at Village Farms owned greenhouses. The lower costs mostly are relating to the Permian Basin facility that has seen an improvement in cost control and production.

Insurance proceeds, net

For the nine months ended September 30, 2013, the Company received $15,943 in business interruption insurance proceeds net of recovery costs. The insurance claim was settled in September 2013, and no insurance proceeds were or will be received in 2014.

Change in fair value of biological asset, net

The net change in fair value of biological asset for the nine months ended September 30, 2014, increased $835, to $499 from ($336) for the nine months ended September 30, 2013. The increase is due to a lower beginning value on January 1, 2014 versus the January 1, 2013 value.

Selling, General and Administrative Expenses

Selling, general and administrative expenses for the nine months ended September 30, 2014 increased $227, or 3% to $10,035 from $9,808 for the nine months ended September 30, 2013. Overhead costs increases are due to increases in professional fees.

Income from Operations

Income from operations for the nine months ended September 30, 2014 decreased ($20,812), to ($1,213) from $19,599 for the nine months ended September 30, 2013. The decrease is primarily a result of insurance proceeds of $15,943 received in the 2013 period and decreases in the average selling prices for most tomato types.

Adjusted Income (loss) from Operations

Adjusted income (loss) from operations for the nine months ended September 30, 2014, decreased by ($5,470) to ($1,213) from $4,257 for the nine month period ended September 30, 2013. The decrease was primarily due to a 12% decrease in the average selling price of tomatoes as compared to the same period in 2013. 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 nine month period ended September 30, 2014 decreased ($943) to $1,905 from $2,848 for the nine month period ended September 30, 2013. The decrease is due to a decrease in the Company's borrowing rates and a lower principal balance.

Other (expense) income

Other income for the nine months ended September 30, 2014 decreased ($473), to an expense of ($349) from $124 for the nine months ended September 30, 2013. The decrease was primarily due a loss on sale of assets of ($228), decrease of ($106) in the gain of derivatives, a decrease of gain on foreign currency exchange of ($107) and a

decrease in other income of ($29). 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 nine months ended September 30, 2014 was ($1,040) compared to an expense of $5,062 for the nine months ended September 30, 2013. The change in the provision for income tax between the periods is due to lower income from operations in 2014 versus income from operations in 2013 due to the receipt of insurance proceeds in 2013.

Net (Loss) Income

Net (loss) income for the nine months ended September 30, 2014 decreased ($14,240) to a loss of ($2,427) from $11,813 for the nine months ended September 30, 2013. The decrease is primarily a result of the receipt of insurance proceeds of $15,943 in 2013 and decreases in average selling prices for tomatoes partially offset by a decrease in provision for income taxes of $6,102.

EBITDA

EBITDA for the nine months ended September 30, 2014 decreased ($21,313) to $4,206 from $25,519 for the nine months ended September 30, 2013, primarily as a result of the decrease in insurance proceeds of $15,943 and a 12% decrease in the average selling price of tomatoes as compared to the same period in 2013. See the EBITDA calculation in "Non-IFRS Measures - Reconciliation of Net Income to EBITDA."

Adjusted EBITDA

Adjusted EBITDA for the nine months ended September 30, 2014 decreased by ($5,971) to $4,206 from $10,177 for the nine months ended September 30, 2013. The decrease was primarily due to a 12% 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 September 30, 2014	**As at December 31, 2013**
Total assets	$140,314	$139,905
Total liabilities	($81,589)	($78,805)
Shareholders' equity	($58,725)	($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 September 30,**		**For the nine months ended September 30,**	
	2014	**2013**	**2014**	**2013**
Net income	($1,653)	$7,757	($2,427)	$11,813
Add:				
Amortization	2,027	1,820	5,763	5,487
Foreign currency exchange loss	72	17	67	(40)
Interest expense	581	759	1,905	2,848
Income taxes	(708)	3,324	(1,040)	5,062
Stock compensation	70	28	209	119
Derivatives	-	-	-	(106)
Change in biological asset	(556)	1,059	(499)	336
Loss on disposal of assets	227	-	228	-
EBITDA	$60	$14,764	$4,206	$25,519

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 the Company's 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 EBITDA 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 September 30,**		**For the nine months ended September 30,**	
	2014	**2013**	**2014**	**2013**
Income (loss) from operations	($1,456)	$11,896	($1,213)	$19,599
Less: insurance proceeds	-	(10,722)	-	(15,943)
Add: asset write-off	-	601	-	601
Adjusted income (loss) from operations	($1,456)	$1,775	($1,213)	$4,257

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

(in thousands of U.S. dollars)	**For the three months ended September 30,**		**For the nine months ended September 30,**	
	2014	**2013**	**2014**	**2013**
Net income	($1,653)	$7,757	($2,427)	$11,813
Amortization	2,027	1,820	5,763	5,487
Interest expense	581	759	1,905	2,848
Income taxes	(708)	3,324	(1,040)	5,062
Change in biological asset	(556)	1,059	(499)	336
Other non-cash items	369	45	504	(27)
EBITDA	60	14,764	4,206	25,519
Less: insurance proceeds	-	(10,722)	-	(15,943)
Add: asset write-off	-	601	-	601
Adjusted EBITDA	$60	$4,643	$4,206	$10,177

Liquidity

Cash flows

For the three months ended September 30, 2014, cash flows from operating activities before changes in non-cash working capital and change in biological asset totalled $544 (2013 – $13,420) and for the nine months ended September 30, 2014 was $3,971 (2013 - $24,799).

Capital expenditures totalled $5,333 for the three months ended September 30, 2014 (2013 – $537) and $11,450 for the nine months ended September 30, 2014 (2013 – $965). The 2014 capital expenditures were primarily related to the Company's repair costs to one of the Marfa Texas greenhouses and the purchase of the VF Clean Energy, Inc.

The cash used in financing activities for the three months ended September 30, 2014 totalled $1,942 (2013 - $1,853), and for the nine months ended September 30, 2014 totalled $1,439 (2013 – $4,407). For the three months ended September 30, 2014, the cash used in financing activities primarily consisted of operating loan payments of ($3,000) partially offset by net term debt receipts, of $1,647 and interest payments of ($583) (2013 – debt payments of ($1,042) and interest paid ($807)). For the nine months ended September 30, 2014, the cash used in financing activities primarily consisted of term debt payments, net of ($437) and interest payments of ($1,984) partially offset operating loan proceeds of $1,000 (2013 – term debt payments of ($1,699) and interest payments of ($2,694)).

Capital Resources

(in thousands of US dollars unless otherwise noted)	**Maximum**	**Outstanding September 30, 2014**
Operating Loan	CA$10,000	$1,000
Term Loan	$52,443	$52,443
VF Clean Energy mortgage	CA$3,000	CA$3,000

On March 28, 2013, the Company entered into an agreement for new term loan financing with an existing Canadian creditor (the "FCC Loan"). As part of the agreement, all prior term debt was repaid upon issuance of the FCC Loan. The FCC Loan has a maturity date of April 1, 2018 and a balance of $52,443 as at September 30, 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 September 30, 2014, borrowings under the FCC Loan agreement are subject to an interest rate of 3.7463% (December 31, 2013 – 5.2378%). The Company's interest rate on the FCC Loan is determined based on the Company's Debt to EBITDA ratio and the applicable LIBOR rate.

The Company entered into a new line of credit agreement with a Canadian chartered bank 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" and together with the FCC Loan, the "Credit Facilities"). The Operating Loan is subject to margin requirements stipulated by the bank. As at September 30, 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.

On September 26, 2014, the Company's subsidiary VFCE entered into a new loan agreement with an existing Canadian creditor. The non-revolving fixed rate loan of CAD $3.0 million has a maturity date of June 30, 2023, fixed interest rate of 4.98%, and monthly payments of CAD $36 beginning January 2015. As at September 30, 2014, the outstanding balance was CA$3,000 (US$2,689).

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 September 30, 2014 was $140,314 (December 31, 2013 – $139,905).

As security for the Operating Loan, the Company has provided promissory notes and a first priority security interest over its accounts receivable and inventory. In addition, the Company has granted full recourse guarantees and

security therefore. The carrying value of the assets pledged as collateral as at September 30, 2014 was $26,480 (December 31, 2013 - $21,471)

The borrowings are subject to certain positive and negative covenants, which include debt coverage ratios. As at December 31, 2013, the Company was in compliance with all covenants on all of its Credit Facilities. On September 30, 2014, the Company was in compliance with all covenants on its FCC Loan and had secured an interim waiver until December 31, 2014 in respect of its fixed charge coverage ratio covenant on its Operating Loan until December 31, 2014 and was in compliance with all the other covenants on its Operating Loan. On October 31, 2014, the Company received an amendment letter from one of its lenders in respect of the Company's financial covenants on its FCC Loan for the period ended December 31, 2014. Based on management's current expectations the Company does not anticipate breaching any of its existing or amended covenants on its FCC Loan for the period ending December 31, 2014. The Company is currently in discussions with its lender under the Operating Loan to extend or amend the existing fixed charge coverage ratio covenant beyond December 31, 2014. If the Company is unsuccessful in negotiating such a waiver or amendment, the outstanding indebtedness under the Operating Loan could become immediately due and payable, or access to additional available borrowing capacity under the Operating Loan may not be provided.

Accrued interest payable on the Credit Facilities as at September 30, 2014 was $152 (December 31, 2013 – $229) and these amounts are included in accrued liabilities in the interim statements of financial position.

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 interim statements of financial position, and total $669 as at September 30, 2014 (December 31, 2013 – $709).

Contractual Obligations and Commitments

Information regarding the Company's contractual obligations at September 30, 2014 is set forth in the table below:

(in thousands of U.S. dollars)	**Total**	**Less than 1 year**	**1-3 years**	**4-5 years**	**More than 5 years**
Long-term debt	$54,463	$4,362	$8,890	$39,979	$1,232
Operating loan	$1,000	1,000	-	-	-
Operating leases	6,978	1,219	2,256	2,221	1,282
Capital leases	67	26	41	-	-
Total	$62,508	$6,607	$11,187	$42,200	$2,514

Capital Expenditures

During the three and nine months ended September 30, 2014, the Company purchased approximately $5,333 and $11,450 respectively of capital assets, $5,830 of the 2014 capital expenditures were related to the Company's 20-acre greenhouse rebuild in Marfa, Texas and $4,150 is related to the purchase of VF Clean Energy, Inc.

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 and nine month periods ended September 30, 2014, the Company incurred $489 and $1,546, respectively, in costs to maintain its capital assets. Management estimates approximately $2,000 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)	Sept 30, 2014	Jun 30, 2014	Mar 31, 2014	Dec 31, 2013	Sept 30, 2013	Jun 30, 2013	Mar 31, 2013	Dec 31, 2012
Net sales	$36,578	$41,267	$24,004	$31,738	$39,645	$40,866	$25,385	$30,557
Net (loss) income	($1,653)	($450)	($324)	($1,325)	$7,757	$1,448	$2,608	($9,237)
Basic (loss) earnings per share	($0.04)	($0.01)	($0.01)	($0.03)	$0.20	$0.04	$0.07	($0.24)
Diluted (loss) earnings per share	($0.04)	($0.01)	($0.01)	($0.03)	$0.20	$0.04	$0.07	($0.24)

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 three customers that represented more than 10% of the balance of trade receivables, representing 13.2%, 10.7% and 10.0% of the balance of trade receivables as at September 30, 2014 (2013 – three customers, 12.8%, 12.4% and 10.0%). 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 September 30, 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 and nine months ended

September 30, 2014 (2013 – $nil).

At September 30, 2014, 92.3% (December 31, 2013 – 89.9%) of trade receivables were outstanding less than 30 days, 7.1% (December 31, 2013 – 9.3%) were outstanding for between 30 and 90 days and the remaining 0.6% (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 September 30, 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	$15,163	$15,163	$-	$-
Operating loan	1,000	1,000	-	-
Bank debt	54,463	4,362	4,438	45,663
	$70,626	$20,525	$4,438	$45,663

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 September 30, 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".

Under the terms of the Credit Facilities, the Company is subject to a number of covenants, including debt service covenants. These covenants could reduce the Company's flexibility in conducting the Company's operations by limiting the Company's ability to borrow money and may create a risk of default on the Company's debt (including by a cross-default to other credit agreements) if the Company cannot satisfy or continue to satisfy these covenants. In the event that the Company cannot comply with a debt covenant, or anticipates that it will be unable to comply with a debt covenant in the future, management may seek a waiver and/or amendment from the applicable lenders in respect of any such covenant in order to avoid any breach or default that might otherwise result there from. If the Company defaults under any of the Credit Facilities and the default is not waived by the applicable lenders, the debt extended pursuant to all of its debt instruments could become due and payable prior to its stated due date. The Company cannot give any assurance that (i) its lenders will continue agree to any covenant amendments or waive any covenant breaches or defaults that may occur under the applicable debt instruments, and (ii) it could pay this debt if it became due prior to its stated due date. Accordingly, any default by the Company under its existing debt that is not waived by the applicable lenders could materially adversely impact the Company's results of operations and financial results and may have a material adverse effect on the trading price of its common shares. See also "Risk Factors − Dependence Upon Credit Facilities" in the Company's current Annual Information Form.

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. Due to the poor market conditions in its primary product, fresh tomatoes, the Company's performance has been well below management's expectation for the first nine months of 2014. At this time while tomato pricing has recently improved, management does not believe that it will be possible to fully recover, in the final quarter of 2014, an acceptable full year result. The primary driver of the low pricing environment has been both the addition of new capacity both within the Company's core sales markets of the U.S. and Canada, as well as from imports from Mexico. The Company is or has implemented cost reductions and productivity enhancements in its existing operations with the closure of its Dominican Republic operations and the impending closure of its Delaware distribution centre. Additionally, Management is moving to future differentiate its product offerings with a more aggressive expansion into exclusive specialty tomatoes to both reduce its exposure to more common tomato varieties such as tomatoes on the vine and improve the Company's profit margins through the sale of higher volumes of higher profit margin tomato offerings, while increasing its profit margins through the reduction in volume of lower margin tomato offerings.

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. While in its early stages the exclusive varieties marketed during the first nine months of 2014 have been well received and have not experienced any pricing pressure, and the Company has been able to maintain its standard pricing on all of is its exclusive variety products. The Company is expanding production acreage in its Texas facilities to accommodate the incremental demand for the remainder of 2014, as well as expanding production acreage in its Canadian facilities, on the Company's exclusive varieties for the upcoming 2015 growing season. Management believes that this strategy will decrease the Company's exposure to tomato market pricing risk and thereby reduce one of the principal risks to the Company's business and results of operations.

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 labour force is the primary reason for this improvement, improving the facility's efficiency and quality. This facility continues year over year improved financial results as 2014 progresses. Management expects this facility to continue to improve on its year on year results in 2015 with the expectation that it will approach financial results more in line with the Company's other facilities.

The Company has completed repairs on one of two remaining 20 acre blocks at the still damaged 40 acre Marfa, Texas facility. The facility started producing again 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.

The Company expects to provide adequate financing to maintain and improve its property, plant and equipment and to fund working capital needs for the foreseeable future from cash flows from operations, and, if needed, from additional borrowings under the Credit Facilities or other long-term facilities, including capital leases or subordinated debt issuances. Notwithstanding the foregoing, in the event that the recent lower pricing trends for the Company's products continue, the Company believes that it will need to seek an extension of its current waiver with its Operating Loan lender and/or amendment from the Company's lenders under one or both of the Credit Facilities in respect of the debt service covenants contained therein in order to avoid any breach or default that might otherwise result therefrom. If the Company is unsuccessful in negotiating such waivers and/or amendments, the outstanding indebtedness under either or both of the Credit Facilities could become due and payable prior to its stated due date. In such a scenario, the Company would look to refinance its outstanding debt, but may in the interim, no longer have access to the Credit Facilities as liquidity sources.

Growth expenditures

The Company recently completed the installation of lights in 5 acres of its Permian Basin facility, which was a $700,000 investment. The addition of the lights will enhance the Company's winter production of cucumbers in order to fulfill its existing customer cucumber demand in the lower light winter months. This addition will enhance the output and financial returns on one of its existing facilities. Management will evaluate the lighting project at the end of the winter growing season and if the expected operational and financial goals are achieved will look to expand the lighting capacity of the Permian Basin facility in the fall of 2015, as it is based in one of the lowest electricity rate markets in North America.

In June 2014, 20 acres of the damaged 40 acres of the Marfa facility was complete and in full production. The facility performed in line with management's expectations in its first quarter of production. 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 it believes it has economic retailer demand for this additional acreage, At the present time, management of the Company does not expect that the facility will be rebuilt in 2015.

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 September 30, 2014. There were no material changes in the Company's internal control over financial reporting that occurred during the three months ended September 30, 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, as well as those discussed in this MD&A. 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
- Covenant Risk
- 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 September 30, 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 September 30, 2014.

Changes in Accounting Policies

The Company has adopted the following new and revised standards, along with any consequential amendments as at January 1, 2013. 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 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 extended to annual periods beginning on or after January 1, 2018, with early adoption permitted. IFRS 9 is not expected to have a material impact on amounts recorded in the Company's consolidated financial statements.

In May 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers*, which replaces IAS 18, *Revenue*, and IAS 11, *Construction Contracts*, and the related Interpretations on revenue recognition. IFRS 15 establishes the requirements for recognizing revenue that apply to all contracts with customers, except for contracts that are within the scope of the Standards on leases, insurance contracts, and financial instruments. IFRS 15 is effective for annual periods beginning on or after January 1, 2017, with early adoption permitted. IFRS 15 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 September 30, 2014, included in other assets is a $316 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, industry performance and trends, and capital availability, including the Company's expectations for 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, including product pricing trends and the Company's continued compliance with the terms of its Credit Facilities. 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.