Village Farms International, Inc.

Management’s Discussion and Analysis

Three Months Ended March 31, 2016

May 10, 2016

Management's Discussion and Analysis

Information is presented in thousands of United States dollars ("U.S. dollars") unless otherwise noted.

Introduction

This management's discussion and analysis ("MD&A") should be read in conjunction with the annual 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, 2016. The information provided in this MD&A is current to May 10, 2016 unless otherwise noted.

VFF is a corporation existing under the *Canada Business Corporations Act*. The Company's principal operating subsidiaries at March 31, 2016 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 ('IASB"), 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 2 of the condensed consolidated interim financial statements of the Company.

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 annual financial data is presented in 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 three 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. The Company, through its subsidiary VFCE, owns and operates a 7.0 MW power plant from landfill gas that generates electricity and provides thermal heat, in colder months, to one the Company's adjacent British Columbia greenhouse facilities and sells electricity to British Columbia Hydro and Power Authority ("BC Hydro").

The Company 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;
- capturing landfill gas on a long term contract from the City of Vancouver landfill to generate electricity under a long term contract with BC Hydro and thermal heat for an adjacent greenhouse;
- 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 Canada and Mexico that currently operate approximately 570,000 square metres (or approximately 142 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	

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 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), other speciality tomatoes under exclusive agreements and long English cucumbers at its facilities. The Company also distributes and markets premium tomatoes, bell peppers and cucumbers in the United States and Canada produced by other greenhouse growers located in 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, the Company provides its customers with flexibility in purchasing. For the three months ended March 31, 2016, the Company had an on-time delivery record of approximately 98.4%, 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 ensure 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 Wholesale Grocers, BJ's Wholesale Club Inc., Costco Wholesale, Fred Meyer, The Fresh Market, Inc., Harris Teeter Supermarkets, 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, Schnuck Markets, Inc., Trader Joe's, Unified Western Grocers, 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 March 31,	
	2016	**2015**
Sales	$31,708	$27,747
Cost of sales	(26,650)	(24,931)
Selling, general and administrative expenses	3,427	2,944
Change in biological asset [(1)]	(1,830)	(816)
Loss from operations	(199)	(944)
Interest expense, net	557	561
Other expense	(20)	(98)
Recovery of income taxes	(535)	(675)
Net loss	(241)	(938)
EBITDA [(2)]	3,710	2,020
Loss per share/ basic and diluted	($0.01)	($0.02)

(1) Biological assets consist of the Company's produce on the vines at the period end. Details of the changes are described in note 5 of the Company's condensed consolidated interim financial statements for the three months ended March 31, 2016.

(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, 2016 compared to the Three Months Ended March 31, 2015

Sales

Sales for the three months ended March 31, 2016 increased by $3,961, or 14%, to $31,708 from $27,747 for the three months ended March 31, 2015. The increase in sales is primarily due to a 34% increase in supply partner revenue, an increase in the Company's tomato and cucumber production of 8% and 12%, respectively, and increases in the average selling price of tomatoes, cucumber and peppers. The increase in supply partner volume is due to an additional grower agreement that took effect in the fall of 2015. The increase in the Company's tomato pounds is due to higher sun light levels as well as production enhancements at our Texas facilities. The comparable 2015 period experienced the lowest sun light levels in over 15 years in West Texas.

The average selling price for the three months ended March 31, 2016 versus the three months ended March 31, 2015 for tomatoes was an increase of 7%, for peppers was an increase of 25% and for cucumbers was a increase of 6%.

Cost of Sales

Cost of sales for the three months ended March 31, 2016 increased by $1,719, or 7%, to $26,650 from $24,931 for the three months ended March 31, 2015. The increase is due to a higher volume of supply partner product versus the same period in 2015 partially offset a decrease in the cost of production at the Company's facilities primarily due to increased production from increased sun light and ongoing productivity enhancements.

Selling, General and Administrative Expenses

Selling, general and administrative expenses for the three months ended March 31, 2016 increased $483 to $3,427 from $2,944 for the three months ended March 31, 2015. The increase is primarily the result of an increase in personnel cost.

Change in Biological Asset

The net change in fair value of the biological asset for the three months ended March 31, 2016 decreased by ($1,014) to ($1,830) from ($816) for the three months ended March 31, 2015. The decrease is primarily due to higher starting value at January 1, 2016 versus January 1, 2015. The fair value of the biological asset at March 31, 2016 is $7,221 and was $6,964 at March 31, 2015. The fair value less cost increased $908 to $1,601 for the three months ended March 31, 2016 and $693 for the three months ended March 31, 2015 (as described in note 5 of the Condensed Consolidated Interim Financial Statements).

Loss from Operations

Loss from operations for the three months ended March 31, 2016 decreased by $745 to ($199) from ($944) for the three months ended March 31, 2015. The decrease was the result of an increase in sales offset by an increase selling, general and administrative expenses and a decrease in change in biological asset.

Interest Expense, net

Interest expense, net, for the three months ended March 31, 2016 decreased by ($4), to $557 from $561 for the three months ended March 31, 2015. The decrease is primarily due to a reduction in the Company's debt.

Other Expense

Other expense for the three months ended March 31, 2016 decreased by ($78) to ($20) from an expense of ($98) for the three months ended March 31, 2015. The decrease in other (expense) was primarily due a decrease in foreign exchange loss in 2016 of $127 due to the Canadian dollar strengthening versus the U.S. dollar partially offset by an increase in other expense of $37.

Income Taxes

Income tax (recovery) for the three months ended March 31, 2016 was a recovery of ($535) compared to a recovery of ($675) for the three months ended March 31, 2015. The income tax recovery decrease in 2016 as compared to the same period in 2015 is due to a lower net loss before taxes in 2016 versus same period in 2015.

Net loss

Net loss for the three months ended March 31, 2016 decreased by $687, or 74%, to ($241) from ($928) for the three months ended March 31, 2015. The decrease was the result of an increase in sales offset by an increase in selling, general and administrative expenses and a decrease in the change in biological asset.

EBITDA

EBITDA for the three months ended March 31, 2016 increased by $1,690, or 84%, to $3,710 from $2,020 for the three months ended March 31, 2015, principally as a result of an increase in sales partially offset by an increase in cost of sales and an increase in selling, general and administrative expenses. See the EBITDA calculation in "Non-IFRS Measures - Reconciliation of Net Income to EBITDA."

Selected Statement of Financial Position Data

	As at March 31, 2016	As at December 31, 2015
Total assets	$131,644	$130,010
Total liabilities	$68,779	$67,079
Shareholders' equity	$62,865	$62,931

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,	
	2016	2015
Net loss	($241)	($928)
Add:		
Amortization	2,063	2,078
Foreign currency exchange (gain) loss	(19)	108
Interest expense	557	561
Income taxes	(535)	(675)
Stock compensation	43	60
Loss on asset disposal	12	-
Change in biological asset	1,830	816
EBITDA	$3,710	$2,020

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, and, if needed, from additional borrowings under the Credit Facilities (as defined below) or other long-term facilities, including capital leases or subordinated debt issuances.

For the three months ended March 31, 2016, cash flows from operating activities before changes in non-cash working capital and change in biological asset totalled $1,873 (2015 – $1,497).

Capital expenditures totalled $646 for the three months ended March 31, 2016 (2015 – $528).

The cash provided by financing activities for the three months ended March 31, 2016 totalled $1,344 (2015 – $1,832). For the three months ended March 31, 2016, the cash provided by financing activities primarily consisted of operating loan borrowings of $3,000 offset by net term debt payments, of ($1,098) and interest payments of ($551) (2015 – operating loan borrowings $3,500, debt payments of ($1,099) and interest paid ($563)).

Capital Resources

(in thousands of U.S. dollars unless otherwise noted)	**Maximum**	**Outstanding March 31, 2016**
Operating Loan	CA$10,000	$3,000
Term Loan	$46,191	$46,191
VFCE Loan	CA$2,634	CA$2,634

The Company is party to a Term Loan financing agreement with a Canadian creditor ("FCC Loan"). This non-revolving variable rate term loan was amended in March 2016 and now has a maturity date of May 1, 2021 and a balance of $46,191 as at March 31, 2016. The outstanding balance is repayable by way of monthly installments of principal and interest based on an amortization period of 15 years, with the balance and any accrued interest to be paid in full on maturity. Monthly principal payments are $347 through May 1, 2016, and $253 effective June 1, 2016. As at March 31, 2016, borrowings under the FCC Loan agreement are subject to an interest rate of 4.12575% per annum (December 31, 2015 – 3.84125% per annum). 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 is also party to a variable rate line of credit agreement with a Canadian chartered bank that has a maturity date of 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 March 31, 2016, $3,000 was drawn on the Operating Loan (December 31, 2015 – $nil), which is available to a maximum of CA$10,000, less outstanding letters of credit of US$333 and CA$38 (or US$29).

The Company's subsidiary, VFCE, has a non-revolving fixed rate loan of CA$3.0 million with a maturity date of June 30, 2023, a fixed interest rate of 4.98%, and monthly payments of principal and interest of CA$36. As at March 31, 2016, the outstanding balance was CA$2,634 (US$2,031) (December 31, 2015 - $1,953).

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, 2016 was $127,492 (December 31, 2015 – $125,928).

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 March 31, 2016 was $31,347 (December 31, 2015 - $28,309)

The borrowings are subject to certain positive and negative covenants, which include debt coverage ratios. As at March 31, 2016, the Company was in compliance with all of its covenants.

Accrued interest payable on the Credit Facilities as at March 31, 2016 was $156 (December 31, 2015 – $150) 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 $324 as at March 31, 2016 (December 31, 2015 – $371).

Contractual Obligations and Commitments

Information regarding the Company's contractual obligations at March 31, 2016 is set forth in the table below:

(in thousands of U.S. dollars)	**Total**	**1 year**	**2-3 years**	**4-5 years**	**More than 5 years**
Long-term debt	$48,222	$3,461	$6,581	$6,633	$31,547
Operating leases	5,427	1,223	2,443	1,158	603
Capital leases	29	29	-	-	-
Total	$53,678	$4,713	$9,024	$7,791	$32,150

Capital Expenditures

During the three months ended March 31, 2016, the Company purchased approximately $646 of capital assets; capital expenditures incurred during the first quarter of 2016 were used for improvements to existing facilities, distribution centres or information technology systems or hardware.

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 months ended March 31, 2016, the Company incurred $690 in costs to maintain its capital assets. These expenses are classified as repair and maintenance and are in included in cost of sales. Management estimates approximately $2,200 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, 2016	Dec 31, 2015	Sept 30, 2015	Jun 30, 2015	Mar 31, 2015	Dec 31, 2014	Sept 30, 2014	Jun 30, 2014
Sales	$31,708	$35,121	$37,855	$41,211	$27,747	$34,766	$36,578	$41,267
Net income (loss)	($241)	$2,486	($318)	$854	($928)	$2,320	($1,653)	($450)
Basic earnings (loss) per share	($0.01)	$0.06	($0.01)	$0.02	($0.02)	$0.06	($0.04)	($0.01)
Diluted earnings (loss) per share	($0.01)	$0.06	($0.01)	$0.02	($0.02)	$0.06	($0.04)	($0.01)

The Company's Canadian operations peak production period is in the summer months, with no production during the winter season. As a result, prices for products from the Company's Canadian operations have historically followed a seasonal trend of higher prices at the start and end of its crop year, with lower prices in the summer months when the supply of product is greatest. Conversely, the Company's U.S. operations winter production allows it to realize higher prices during the October through March period, due to the reduced supply of greenhouse produce in North America during the winter months. 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 each represented more than 10% of the balance of trade receivables, representing 19.3% and 12.1% of the balance of trade receivables as at March 31, 2016 (2015 – three customers, 15.4%, 12.0% and 11.1%). 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 represents approximately 85% of the Company's annual 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 interim financial statements.

Trade receivables for each customer were evaluated for collectability and an allowance for doubtful accounts has been estimated. At March 31, 2016, the allowance for doubtful accounts balance was $50 (December 31, 2015 – $50). The Company did not recorded a bad debt expense during the three months ended March 31, 2016 (2015 – $nil).

At March 31, 2016, 90.5% (December 31, 2015 – 92.5%) of trade receivables were outstanding less than 30 days, 9.3% (December 31, 2015 – 6.8%) were outstanding for between 30 and 90 days and the remaining 0.2% (December 31, 2015 – 0.7%) were outstanding for more than 90 days. Trade receivables are considered past due based on the contract terms agreed to with a customer. Aged receivables that are past due are not considered impaired unless customer specific information indicates otherwise.

Interest Rate Risk

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

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

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they become due. The following are the contractual maturities of financial liabilities as at March 31, 2016:

(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	$12,311	$12,311	$-	$-
Bank debt	48,222	3,461	3,297	41,464
	$60,533	$15,772	$3,297	$41,464

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, 2016, $3,000 was outstanding and US$333 and CA$38 was utilized in the form of an outstanding letters 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.

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.

Outlook

Overview

The forward-looking statements contained in this section and elsewhere in this MD&A are not historical facts, but rather, reflect the Company's current expectations regarding future results or events and are based on information currently available to Management. Certain material factors and assumptions were applied in providing these forward-looking statements. See the "Forward-Looking Statements" section of this MD&A.

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 most significant enhancement to the Company's operating performance is the Company's drive to differentiate its product offerings with an 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 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 three 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. During the early stages of the Company's move to expanding its exclusive varieties, its product offerings have been well received by retailers and the Company has not experienced any pricing pressure. The Company made significant changes to its product offerings, at both its Texas facilities and its Canadian facilities, to the Company's exclusive varieties for 2015. The results of the changes were promising and showed in the Company's improved operating results in 2015. In 2016, there have been some adjustments to the Company's product offerings but not the significant changes that occurred in 2015. The focus of the Company in 2016 is to sell a higher volume of its specialty tomatoes than in 2015, which will drive both revenue growth and enhance the Company's operating performance. Management believes that this strategy will decrease the Company's exposure to ongoing tomato market pricing risk and thereby reduce one of the principal risks to the Company's business and results of operations.

The impact of launching more exclusive varieties is also enhancing the Company's ability to attract additional third party growing partners. In May 2015, the Company announced that it had entered into a new distribution agreement with Great Northern Hydroponics ("Great Northern") in Ontario, Canada. The Great Northern facility is comprised of an approximately 15-acre glass greenhouse facility as well as approximately 50 acres of poly greenhouse. One of the reasons Great Northern was interested in entering to a distribution arrangement with the Company is its ability to offer higher priced specialty tomatoes as part of Great Northern's crop mix. The addition of this third party grower is expected to enhance the Company's 2016 revenues by approximately $20-$25 million.

Management is also continually focused on increasing the production volume and improving its cost efficiencies at its Permian Basin facility. The fifth tomato crop and third cucumber season are now underway and the Company continues to see improvements in costs and production on a year over year basis. Management expects this facility to continue to improve on its year over year results in 2016 with the expectation that it will approach financial results more in line with the Company's other facilities.

Growth expenditures

The Company expects to spend between $2.5 to $3.5 million on capital expenditures in 2016. These expenditures are to repair and enhance existing growing and packhouse systems either due to obsolesces of the system or to improve operational efficiencies.

Guidance

Readers should refer to the Company's 2015 year-end press release dated March 22, 2016 as filed on SEDAR at www.sedar.com, for a discussion of the Company's 2016 specific guidance.

The Purpose of the Company's guidance is to provide readers with Management's view as to the expected financial performance of the Company, using factors that are commonly accepted and viewed as meaningful indicators of financial performance in the Company's industry.

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, 2016. There were no material changes in the Company's internal control over financial reporting that occurred during the three months ended March 31, 2016 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 22, 2016 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
- Retail Consolidation
- Competition
- Labour Availability
- 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
- Product Liability
- Technological Advances
- Vulnerability to Rising Energy Costs Transportation Disruptions
- Covenant Risk
- 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, 2016.

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.

Accounting Standards Issued and Not Applied

The IASB periodically issues new standards and amendments or interpretations to existing standards. The new pronouncements listed below are those policy changes that management considers relevant to the Company now or in the future. This is not intended to be a complete list of new pronouncements made during the year.

IFRS 9, *Financial Instruments,* 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 new Standard limits the number of categories for classification of financial assets to two: amortized cost and fair value through profit or loss. The requirements for financial liabilities are largely in line with IAS 39. IFRS 9 also replaces the models for measuring equity instruments. Equity instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. The ability to recognize unquoted equity instruments at cost under IAS 39 is eliminated. 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 consolidated financial statements of the Company.

IFRS 15, *Revenue from Contracts with Customers*, replaces IAS 18, *Revenue*, and IAS 11, *Construction Contracts*, and the related Interpretations on revenue recognition. IFRS 15, issued in May 2014, 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, 2018, with early adoption permitted. Management is currently evaluating the impact of IFRS 15.

IFRS 16, *Leases*, issued in January 2016, replaces IAS 17 *Leases* and related Interpretations. IFRS 16 establishes the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e., the customer (lessee) and the supplier (lessor). IFRS 16 is effective for annual periods beginning on or after

January 1, 2019, with early adoption permitted only if the company also applies IFRS 15 *Revenue from Contracts with Customers*. Management is currently evaluating the impact of IFRS 16.

Further details of new accounting standards and potential impact on the Company can be found in the Company's Condensed Consolidated Interim Financial Statements for the three months ended March 31, 2016.

Related Party Transactions

As at March 31, 2016, included in other assets is a $106 promissory note from an employee of the Company in connection with a relocation agreement. 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) 38,832,345 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 22, 2016 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 2016 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.