Village Farms International, Inc.

Management's Discussion and Analysis

Year Ended December 31, 2015

March 22, 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 year ended December 31, 2015 ("the Consolidated Financial Statements"). The information provided in this MD&A is current to March 22, 2016 unless otherwise noted.

VFF is a corporation existing under the *Canada Business Corporations Act*. The Company's principal operating subsidiaries at December 31, 2015 were Village Farms Canada Limited Partnership ("VFCLP"), Village Farms, L.P. ("VFLP") and VF Clean Energy, Inc. ("VFCE").

Basis of Presentation

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

Segment Reporting

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

Acquisitions and Dispositions

In July 2014, the Company acquired 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 BC Hydro and thermal heat for the Company's greenhouse facilities. Following the closing of this acquisition, the name of the acquired 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 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 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 year ended December 31, 2015, the Company had an on-time delivery record of approximately 98.8%, 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, 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 December 31,	
	2015	**2014**
Sales	$35,121	$34,766
Cost of sales	(29,885)	(29,204)
Selling, general and administrative expenses	3,377	3,346
Change in biological asset [(1)]	741	(624)
Income from operations	2,600	1,592
Interest expense, net	540	589
Other income (expense)	(354)	(905)
(Recovery of) income taxes	(780)	(2,222)
Net income	2,486	2,320
EBITDA [(2)]	3,962	4,468
Earnings per share/ basic and diluted	$0.06	$0.06

(1) Biological assets consist of the Company's produce on the vines at the period end. Details of the changes are described in note 7 of the Consolidated Financial Statements.

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

Results of Operations for the Three Months Ended December 31, 2015 compared to the Three Months Ended December 31, 2014

Sales

Sales for the three month period ended December 31, 2015 increased by $355, or 1%, to $35,121 from $34,766 for the three month period ended December 31, 2014. The increase in sales is primarily due to a 28% increase in supply partner revenue, partially offset by a (2%), decrease in the Company's tomato production and an (8%) decrease in the Company's cucumber production. The increase in supply partner volume is due to additional grower agreements. The decrease in tomato pounds is from a continued increase in the growing area of lower yielding exclusive specialty tomatoes and the decrease in cucumber is due to the crop cycle ending at a different time in fall of 2015 versus the fall of 2014.

The average selling price for the three months ended December 31, 2015 versus the three months ended December 31, 2014; for tomatoes was flat, for peppers was an increase of 3% and for cucumbers was a decrease of (17%). The Company's average selling price for tomatoes remained flat versus the prior year period due to the Company increasing its volume of higher priced specialty tomatoes offsetting a decrease of (7%) in the Company's largest crop tomato-on-the-vine.

Cost of Sales

Cost of sales for the three month period ended December 31, 2015 increased by $681, or 2%, to $29,885 from $29,204 for the three months ended December 31, 2014. The increase is due to a 27% higher volume of supply partner product versus the same period in 2014. The Company experienced a decrease in the cost of production at the Company's facilities primarily due to a lower cost at the Permian Basin facility, as it is in its fourth year of production with a more experienced labour force and enhancements in the technology.

Selling, General and Administrative Expenses

Selling, general and administrative expenses for the three month period ended December 31, 2015 increased $31 to $3,377 from $3,346 for the three month period ended December 31, 2014.

Change in Biological Asset

The net change in fair value of the biological asset for the three month period ended December 31, 2015 increased by $1,365 to $741 from ($624) for the three month period ended December 31, 2014. The increase is primarily due to higher selling prices in January 2016 versus January 2015. The higher prices are mainly due to increases from the tomatoes-on-vine and beefsteak varieties. The fair value of the biological asset at December 31, 2015 is $6,079 and was $4,698 at December 31, 2014.

Income from Operations

Income from operations for the three month period ended December 31, 2015 increased by $1,008 to $2,600 from $1,592 for the three month period ended December 31, 2014. The increase was primarily the result of an increase in the change in biological asset of $1,365 and slightly higher sales, which were offset by increases in cost of sales.

Interest Expense, net

Interest expense, net, for the three month period ended December 31, 2015 decreased by ($49), to $540 from $589 for the three month period ended December 31, 2014. The decrease is primarily due to a reduction in the Company's debt.

Other (Expense)

Other (expense) for the three month period ended December 31, 2015 decreased by $551 to ($354) from an expense of ($905) for the three month period ended December 31, 2014. The decrease in other (expense) was primarily due the one-off 2014 expense of ($887) from the derecognizing the thermal energy intangible asset partially offset by a 2015 loss on sale of asset ($240) and an additional foreign exchange loss in 2015 of ($119) due to the weaker Canadian dollar versus the U.S. dollar. The intangible asset was derecognized as a result of the Company acquiring VFCE, as the Company became the buyer and seller of the energy contract.

Income Taxes

Income tax (recovery) for the three month period ended December 31, 2015 was a recovery of ($780) compared to a recovery of ($2,222) for the three month period ended December 31, 2014. The income tax recovery decrease in 2015 as compared to the same period in 2014 is due to higher income before taxes in 2015 versus same period in 2014. The recovery in 2015 is mostly related to unrealized foreign exchange for the Canadian operations.

Net Income

Net income for the three month period ended December 31, 2015 increased by $166, or 7%, to $2,486 from $2,320 for the three month period ended December 31, 2014. The increase was the result of an increase in income from operations, a decrease in interest expense and a decrease in other expense which were offset by a decrease in income tax recovery.

EBITDA

EBITDA for the three month period ended December 31, 2015 decreased by ($506), or (11%), to $3,962 from $4,468 for the three month period ended December 31, 2014, principally as a result of a (7%) decrease in tomato-on-the-vine prices from the three month period ended December 31, 2014 and a one-time worker's compensation settlement in 2015. See the EBITDA calculation in "Non-IFRS Measures - Reconciliation of Net Income to EBITDA."

Annual Consolidated Financial Performance

(in thousands, except per Share amounts)	**For the year ended December 31,**		
	2015	**2014**	**2013**
Sales	$141,934	$136,615	$137,635
Cost of Sales	128,178	122,730	119,363
Insurance proceeds, net	-	-	15,948
Provision for property and equipment damaged[(1)]	-	-	(601)
Selling, general and administrative	12,046	13,381	12,873
Change in biological asset[(2)]	1,922	(125)	(1,222)
Income from operations	3,632	379	19,524
Interest expense, net	2,256	2,494	3,672
Other expense, net	(443)	(1,254)	(113)
(Recovery of) provision for income taxes	(1,161)	(3,262)	5,477
Net income/(loss)	2,094	(107)	10,488
EBITDA[(3)]	$10,193	$8,674	$28,211
Earnings per share – basic and diluted	$0.05	$0.00	$0.27

(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 7 of the Consolidated Financial Statements.

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

Results of Operations for the Year Ended December 31, 2015 Compared to the Year Ended December 31, 2014

Sales

Sales for the year ended December 31, 2015, increased $5,319 or 4%, to $141,934 compared to $136,615 for the year ended December 31, 2014. The increase in sales is primarily due to the addition of 20 acres of greenhouse operations, (this facility did not have production until late June 2014) as well as a 10% increase in revenue at the Permian Basin facility, and an increase of 5% in contract revenue offset by a (5%) decrease in production from other of the Company's greenhouse facilities due to increasing specialty tomato acreage, which produce lower pounds than larger tomato varieties. Supply partner tomato pounds sold increased by 17%, while supply partner pepper pounds sold decreased by (35%) due to closure of the Company's Dominican Republic operation and cucumber pounds sold were unchanged.

The average selling price for the year ended December 31, 2015 versus the year ended December 31, 2014 for tomatoes was an increase of 12%, for peppers was a decrease of (2%) and for cucumbers was a decrease of (11%). For the year ended December 31, 2015, total tomato pounds sold decreased (4%) over the comparable period in 2014; pepper pounds sold for the year ended December 31, 2015 decreased (35%) and cucumber pieces sold for the year ended December 31, 2015 were the same as the comparable period in 2014.

Cost of Sales

Cost of sales for the year ended December 31, 2015 increased 5,448, or 4%, to $128,178 from $122,730 for the year ended December 31, 2014. The increase is primarily due to the $3,740 in added cost from the addition of a 20 acre facility that did not start production until late June 2014 and $1,337 in additional contract sales costs (due to increased volume) and $922 for VFCE costs (not part of the Company for the first six months of 2014).

Change in fair value of biological asset, net

The net change in fair value of biological asset for the year ended December 31, 2015, increased $2,047, to $1,922 from ($125) for the year ended December 31, 2014. The increase is primarily due to a higher selling price in January 2016 versus January 2015 and 5% more pounds on the vine at December 31, 2015 versus at December 31, 2014. The fair value of the biological asset at December 31, 2015 is $6,079 and was $4,698 at December 31, 2014.

Selling, General and Administrative Expenses

Selling, general and administrative expenses for the year ended December 31, 2015 decreased ($1,335) or (10%) to $12,046 from $13,381 for the year ended December 31, 2014. The decrease is primarily due to reduced overhead costs, which resulted from decreases in professional fees.

Income from Operations

Income from operations for the year ended December 31, 2015 increased $3,253, to $3,632 from $379 for the year ended December 31, 2014. The increase is primarily a result of lower selling, general and administrative expenses of $1,335 and an increase in change in biological asset of $2,047. The change in the biological asset is due to a higher selling price in January 2016 versus January 2015 and 5% more pounds on the vine at December 31, 2015 versus at December 31, 2014.

Interest expense, net

Interest expense, net, for the year ended December 31, 2015 decreased ($238) to $2,256 from $2,494 for the year ended December 31, 2014. The decrease is primarily due to a decrease in the Company's principal balance.

Other (expense) income

Other (expense) for the year ended December 31, 2015 decreased $811, to an expense of ($443) from ($1,254) for the year ended December 31, 2014. The decrease was primarily due to the 2014 expense of ($887) from the one-time derecognizing of the Company's the thermal energy intangible asset. The asset was derecognized as a result of the Company acquiring VFCE at which time it became both the buyer and seller of the energy contract. The accounts in other (expense) income are: amortization of intangible assets, gains or loss on foreign exchange, loss on sales of assets and other income.

Income Taxes

Income taxes for the year ended December 31, 2015 was a recovery of $1,161 compared to a recovery of $3,262 for the year ended December 31, 2014. The decrease in the recovery for income taxes between the periods is due to higher income from operations in 2015 versus income from operations in 2014 due to an increase in change in fair value of biological asset and a decrease in selling, general and administrative expenses.

Net Income/ (Loss)

Net income/ (loss) for the year ended December 31, 2015 increased $2,201 to $2,094 from a loss of ($107) for the year ended December 31, 2014. The increase was the result of an increase in income from operations, a decrease in interest expense and a decrease in other expense, offset by a decrease in the income tax recovery.

EBITDA

EBITDA for the year ended December 31, 2015 increased $1,519, or 18%, to $10,193 from $8,674 for the year ended December 31, 2014, primarily as a result of a decrease in selling, general and administrative expenses. See the EBITDA calculation in "Non-IFRS Measures - Reconciliation of Net Income to EBITDA."

Results of Operations for the Year Ended December 31, 2014 Compared to the Year Ended December 31, 2013

Sales

Sales for the year ended December 31, 2014, decreased ($1,020) or (1%), to $136,615 compared to $137,635 for the year ended December 31, 2013. The decrease in sales is primarily due to a (7%) decrease in the average selling price of tomatoes, partially offset by a 25% increase in supply partner revenues. The decrease in tomato prices is mainly due to the weak pricing market of tomatoes-on-vine which are down (16%) over the same period in 2013. The increase in supply partner revenues is mostly due to an 18% increase in volume and a 13% increase in pepper pricing.

The average selling price for the year ended December 31, 2014 versus the year ended December 31, 2013; for tomatoes was a decrease of (7%), for peppers was an increase of 13% and for cucumbers was a decrease of (3%). For the year ended December 31, 2014, total tomato pounds sold increased 3% over the comparable period in 2013; pepper pounds sold for the year ended December 31, 2014 increased 13% over the comparable period in 2013 and cucumber pieces sold for year ended December 31, 2014 increased 11% over the comparable period in 2013.

Cost of Sales

Cost of sales for the year ended December 31, 2014 increased 3,367, or 3%, to $122,730 from $119,363 for the year ended December 31, 2013. The increase is primarily due to higher volumes of supply partner product, offset by lower costs at the Company's 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 year ended December 31, 2013, the Company received $15,948 in business interruption insurance proceeds net of recovery costs. The insurance claim was settled in September 2013, and no insurance proceeds were received in 2014.

Change in fair value of biological asset, net

The net change in fair value of biological asset for the year ended December 31, 2014, increased $1,097, to ($125) from ($1,222) for the year ended December 31, 2013. The increase is due to a lower beginning value on January 1, 2014 versus the January 1, 2013 value and more pounds on the vine at December 31, 2014 versus December 31, 2013. The fair value of the biological asset at December 31, 2014 is $4,698 and was $3,732 at December 31, 2013.

Selling, General and Administrative Expenses

Selling, general and administrative expenses for the year ended December 31, 2014 increased $508 or 4% to $13,381 from $12,873 for the year ended December 31, 2013. Overhead costs increases are primarily due to increases in professional fees.

Income from Operations

Income from operations for the year ended December 31, 2014 decreased ($19,145), to $379 from $19,524 for the year ended December 31, 2013. The decrease is primarily a result of the 2013 insurance proceeds of $15,948 and decreases in the average selling prices for most tomato types during 2014.

Adjusted Income (loss) from Operations

Adjusted income (loss) from operations for the year ended December 31, 2014, decreased by ($3,798) to $379 from $4,177 for the year ended December 31, 2013. The decrease was primarily due to a (7%) 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 year ended December 31, 2014 decreased ($1,178) to $2,494 from $3,672 for the year ended December 31, 2013. The decrease is primarily due to a decrease in the Company's borrowing rates and a reduction of the Company's debt

Other (expense) income

Other (expense) for the year ended December 31, 2014 decreased ($1,141), to an expense of ($1,254) from ($113) for the year ended December 31, 2013. The decrease was primarily due a loss on sale of assets of ($238) and an expense of ($887) from the derecognizing the thermal energy intangible asset. The asset was derecognized as a result of the Company acquiring VFCE at which time it became both the buyer and seller of the energy contract. The accounts in other income are: amortization of intangible assets, gains or loss on foreign exchange, gain on derivatives, loss on sales of assets and other income.

Income Taxes

Income tax expense / (recovery) for the year ended December 31, 2014 was a recovery of ($3,262) compared to an expense of $5,477 for the year ended December 31, 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.

Adjusted Net Income Before Taxes

Adjusted net income for the year ended December 31, 2014, decreased by ($3,100) to ($2,482) from $618 for the year ended December 31, 2013. The decrease was mostly due to a 7% decrease in the average selling price of tomatoes as compared to the same period in 2013. See the Adjusted net income before taxes calculation in "Non-IFRS Measures - Calculation of Adjusted Income from Operations and Adjusted EBITDA".

Net (Loss) Income

Net (loss) income for the year ended December 31, 2014 decreased ($10,595) to a loss of ($107) from $10,488 for the year ended December 31, 2013. The decrease is primarily a result of the receipt of insurance proceeds of $15,948 in 2013 and decreases in average selling prices for tomatoes in 2014, partially offset by a decrease in provision for income taxes.

EBITDA

EBITDA for the year ended December 31, 2014 decreased ($19,538) to $8,674 from $28,212 for the year ended December 31, 2013, primarily as a result of the decrease in insurance proceeds of $15,948 and a (7%) 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 year ended December 31, 2014 decreased by ($4,191) to $8,674 from $12,865 for the year ended December 31, 2013. The decrease was primarily due to a (7%) 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 December 31,		
	2015	**2014**	**2013**
Total assets	$130,010	$138,889	$139,905
Total liabilities	$67,079	$77,889	$78,805
Shareholders' equity	$62,931	$61,000	$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 December 31,**		**For the year ended December 31,**		
	2015	**2014**	**2015**	**2014**	**2013**
Net income (loss)	$2,486	$2,320	$2,094	($107)	$10,488
Add:					
Amortization	2,059	2,122	8,285	7,885	7,314
Foreign currency exchange loss	119	75	225	142	(16)
Interest expense	540	589	2,256	2,494	3,672
Income taxes	(780)	(2,222)	(1,161)	(3,262)	5,477
Stock compensation	39	63	176	272	161
Derivatives	-	-	-	-	(106)
Change in biological asset	741	624	(1,922)	125	1,222
Intangible derecognizing	-	887	-	887	-
Loss on disposal of assets	240	10	240	238	-
EBITDA	$3,962	$4,468	$10,193	$8,674	$28,212

Calculation of Adjusted Income from Operations, Adjusted Net Income and Adjusted EBITDA

Adjusted income from operations and adjusted EBITDA are non-IFRS 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-IFRS measures are not intended to replace the presentation of the Company's financial results in accordance with IFRS. 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 Marfa, TX in May 2012. The adjusted income from operation and adjusted EBITDA for the three months ended December 31, 2015 and 2014 are unchanged as all hail storm related transactions ended as at September 30, 2013.

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

(in thousands of U.S. dollars)	**For the Year ended December 31,**		
	2015	**2014**	**2013**
Income from operations	$3,632	$379	$19,524
Less: insurance proceeds	-	-	(15,948)
Add: asset write-off	-	-	601
Adjusted income (loss) from operations	$3,632	$379	$4,177

The following table is the calculation of adjusted net income before taxes:

(in thousands of U.S. dollars)	For the Year ended December 31,		
	2015	**2014**	**2013**
Adjusted net income (loss) from operations	$3,632	$379	$4,177
Interest expense, net	2,256	2,494	3,672
Foreign exchange loss /(gain)	225	142	(16)
Amortization of intangible	-	104	103
Gain on derivatives	-	-	(106)
Other income	(22)	(117)	(91)
Settlement of pre-existing relationship	-	887	-
Loss (gain) on sale of assets	240	238	(3)
	933	(3,369)	618
Add: Intangible derecognizing	-	887	-
Adjusted (loss) income before taxes	933	($2,482)	$618

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

(in thousands of U.S. dollars)	For the Year ended December 31,		
	2015	**2014**	**2013**
Net income	$2,094	($107)	$10,488
Amortization	8,285	7,885	7,314
Interest expense	2,256	2,494	3,672
Income taxes	(1,161)	(3,262)	5,477
Change in biological asset	(1,922)	125	1,222
Other non-cash items	641	1,539	39
EBITDA	10,193	8,674	28,212
Less: insurance proceeds	-	-	(15,948)
Add: asset write-off	-	-	601
Adjusted EBITDA	$10,193	$8,674	$12,865

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 December 31, 2015, cash flows from operating activities before changes in non-cash working capital and change in biological asset totalled $4,555 (2014 – $3,714) and for the year ended December 31, 2015 was $10,842 (2014 - $7,685).

Capital expenditures totalled $538 for the three months ended December 31, 2015 (2014 – $1,491) and $2,075 for the year ended December 31, 2015 (2014 – $12,941). 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 VFCE.

The cash used in financing activities for the three months ended December 31, 2015 totalled ($1,587) (2014 - $2,629), and for the year ended December 31, 2015 totalled ($6,632) (2014 – $4,068). For the three months ended December 31, 2015, the cash used in financing activities primarily consisted of debt payments, of ($1,096) and interest payments of ($538) (2014 – debt payments of ($2,042) and interest paid ($581)). For the year ended

December 31, 2015, the cash used in financing activities primarily consisted of term debt payments, net of ($4,394) and interest payments of ($2,265) (2014 – term debt payments of ($1,479) and interest payments of ($2,564)).

Capital Resources

(in thousands of U.S. dollars unless otherwise noted)	**Maximum**	**Outstanding December 31, 2015**
Operating Loan	CA$10,000	$nil
Term Loan	$47,234	$47,234
VFCE Loan	CA$2,709	CA$2,709

The Company has a term loan financing with a Canadian creditor (the "FCC Loan"). The FCC Loan has a maturity date of April 1, 2018 and a balance of $47,234 as at December 31, 2015. The outstanding balance is repayable by way of monthly installments of principal and interest based on an amortization period of 14 years, with the balance and any accrued interest to be paid in full on April 1, 2018. Monthly principal payments are $347. As at December 31, 2015, borrowings under the FCC Loan are subject to an interest rate of 3.84125% (December 31, 2014 – 3.739%). 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 has a line of credit agreement with a Canadian chartered bank. 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 December 31, 2015, $nil was drawn on this facility (December 31, 2014 – $nil), which is available to a maximum of CA$10,000, less outstanding letters of credit of U.S.$433 and CA$38 or (U.S.$28).

The Company's subsidiary VFCE has a non-revolving fixed rate loan of CA$3.0 million has a maturity date of June 30, 2023, fixed interest rate of 4.98%, and monthly payments of CA$36. As at December 31, 2015, the outstanding balance was CA$2,709 (U.S.$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 December 31, 2015 was $125,928 (December 31, 2014 – $133,449).

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 December 31, 2015 was $28,309 (December 31, 2014 - $28,233)

The borrowings are subject to certain positive and negative covenants, which include debt coverage ratios. As at December 31, 2015, the Company is in compliance with all of its covenants.

Accrued interest payable on the Credit Facilities as at December 31, 2015 was $150 (December 31, 2014 – $159) 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 $371 as at December 31, 2015 (December 31, 2014 – $616).

Contractual Obligations and Commitments

Information regarding the Company's contractual obligations at December 31, 2015 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	$49,186	$4,388	$43,541	$524	$733
Operating leases	5,724	1,213	2,440	1,352	719
Capital leases	36	29	7	-	-
Total	$54,946	$5,630	$45,988	$1,876	$1,452

Capital Expenditures

During the three months and year ended December 31, 2015, the Company purchased approximately $538 and $2,075, respectively, of capital assets. The December 31, 2015, capital expenditures 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 month period and year ended December 31, 2015, the Company incurred $529 and $2,258, respectively, 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)	Dec 31, 2015	Sept 30, 2015	Jun 30, 2015	Mar 31, 2015	Dec 31, 2014	Sept 30, 2014	Jun 30, 2014	Mar 31, 2014
Sales	$35,121	$37,855	$41,211	$27,747	$34,766	$36,578	$41,267	$24,004
Net income (loss)	$2,486	($318)	$854	($928)	$2,320	($1,653)	($450)	($324)
Basic earnings (loss) per share	$0.06	($0.01)	$0.02	($0.02)	$0.06	($0.04)	($0.01)	($0.01)
Diluted earnings (loss) per share	$0.06	($0.01)	$0.02	($0.02)	$0.06	($0.04)	($0.01)	($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 represented more than 10% of the balance of trade receivables, representing 15.0% and 10.2% of the balance of trade receivables as at December 31, 2015 (2014 – two customers, 14.6% and 12.2%). 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 85% of the Company's sales. The PACA protection gives a claim filed under the PACA first lien on all PACA assets (which include cash and trade receivables). The PACA fosters trading practices in the marketing of fresh and frozen fruits and vegetables in interstate and foreign commerce. It prohibits unfair and fraudulent practices and provides a means of enforcing contracts. Historical write-offs have represented less than one half of one percent of sales. The maximum amount of credit risk exposure is limited to the carrying amount of the balances on the financial statements.

Trade receivables for each customer were evaluated for collectability and an allowance for doubtful accounts has been estimated. At December 31, 2015, the allowance for doubtful accounts balance was $50 (December 31, 2014 - $50). In addition, the Company recorded a bad debt expense of $nil during the three and year ended December 31, 2015 (2014 – $nil).

At December 31, 2015, 92.5% (December 31, 2014 – 90.2%) of trade receivables were outstanding less than 30 days, 6.8% (December 31, 2014 – 9.0%) were outstanding for between 30 and 90 days and the remaining 0.7% (December 31, 2014 – 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 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.

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 become due. The following are the contractual maturities of financial liabilities as at December 31, 2015:

(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	$12,142	$12,142	$-	$-
Bank debt	49,187	4,388	4,399	40,400
	$61,329	$16,530	$4,399	$40,400

It is the Company's intention to meet these obligations through the collection of current accounts receivable and cash. The Company has available lines of credit of CA$10,000 (as at December 31, 2015, $nil was outstanding and US$433 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.

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 it had signed a new distribution agreement with Great Northern Hydroponics in Ontario, Canada. The Great Northern facility is comprised of a 15-acre glass greenhouse facility as well as approximately 50 acres of poly greenhouse. One of the reasons Great Northern was attracted to a distribution arrangement with the Company's is its ability to offer higher priced specialty tomatoes as part of Great Northern's crop mix. The addition of this third party grower will enhance the Company's 2016 revenues by $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 under way 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 will 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.

Internal Control over Financial Reporting

Disclosure Controls and Procedures

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

For the year ended December 31, 2015, the Company's management evaluated the effectiveness of the Company's disclosure controls and procedures, as defined under rules adopted by the CSA. This evaluation was performed under the supervision of, and with the participation of, the Company's CEO and CFO.

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

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

Internal Control over Financial Reporting

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

For the year ended December 31, 2015, the Company's management evaluated the effectiveness of the Company's internal control over financial reporting, as defined under rules adopted by the CSA. This evaluation was performed under the supervision of, and with the participation of, the Company's CEO and CFO.

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

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

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

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

There were no changes in the Company's internal control over financial reporting during the year ended December 31, 2015 that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Risks and Uncertainties

The Company is subject to various risks and uncertainties which are summarized below, 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 December 31, 2015.

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.

The IASB issued Amendments to IAS 16 *Property, Plant and Equipment* and IAS 41 *Agriculture* in June 2014 with the publication of *Agriculture: Bearer Plants*. The amendments change the financial reporting for bearer plants, which are used solely to grow produce, into the scope of IAS 16 so that they are accounted for in the same way as property, plant, and equipment. The amendments are effective for annual periods beginning on or after January 1, 2016, with early application permitted. Management is currently evaluating the impact of these Amendments but do not believe the Amendments will have an impact to the Company.

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, 2015.

Related Party Transactions

As at December 31, 2015, included in other assets is a $109 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) 38,807,345 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.