

# **Village Farms International, Inc.**

**Condensed Consolidated Interim Financial Statements**

**Three Months Ended**

**March 31, 2015 and 2014**

**(Unaudited)**

### **NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS**

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the interim financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed consolidated interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these interim financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

**Village Farms International, Inc.**  
**Condensed Consolidated Interim Statements of Financial Position**  
(In thousands of United States dollars)

	March 31, 2015 (Unaudited)	December 31, 2014 (Audited)
<b>ASSETS</b>		
<i>Current assets</i>		
Cash and cash equivalents	\$ 4,425	\$ 6,337
Trade receivables	8,431	9,168
Other receivables	723	939
Inventories (note 4)	13,472	14,424
Prepaid expenses and deposits	573	229
Biological asset (note 5)	6,964	4,698
Total current assets	34,588	35,795
<i>Non-current assets</i>		
Property, plant and equipment (note 6)	99,543	101,430
Other assets (note 7)	1,477	1,664
Total assets	\$ 135,608	\$ 138,889
<b>LIABILITIES</b>		
<i>Current liabilities</i>		
Trade payables	\$ 8,113	\$ 11,795
Accrued liabilities	3,626	3,651
Income taxes payable	-	426
Operating loan (note 8)	3,500	-
Current maturities of long-term debt (note 8)	4,399	4,418
Current maturities of capital lease obligations	27	26
Total current liabilities	19,665	20,316
<i>Non-current liabilities</i>		
Long-term debt (note 8)	47,746	48,947
Long-term maturities of capital lease obligations	28	35
Deferred tax liability	7,390	7,774
Deferred compensation	847	817
Total liabilities	75,676	77,889
<b>SHAREHOLDERS' EQUITY</b>		
Share capital	24,850	24,850
Contributed surplus	1,081	1,021
Accumulated other comprehensive loss	(410)	(210)
Retained earnings	34,411	35,339
Total shareholders' equity	59,932	61,000
Total liabilities and shareholders' equity	\$ 135,608	\$ 138,889

*The accompanying notes are an integral part of these condensed consolidated interim financial statements.*

**Village Farms International, Inc.**  
**Condensed Consolidated Interim Statements of Changes in Shareholders' Equity**  
**For the Three Months Ended March 31, 2015 and 2014**  
(In thousands of United States dollars, except for shares outstanding, unaudited)

	Number of Common Shares	Share Capital	Contributed Surplus	Accumulated Other Comprehensive Income	Retained Earnings	Total Shareholders' Equity
Balance at January 1, 2014	38,707,345	\$ 24,850	\$ 749	\$ 55	\$ 35,446	\$ 61,100
Share-based compensation (note 17)	-	-	54	-	-	54
Net loss and comprehensive loss	-	-	-	-	(324)	(324)
Balance at March 31, 2014	<u>38,707,345</u>	<u>24,850</u>	<u>803</u>	<u>55</u>	<u>35,122</u>	<u>\$ 60,830</u>
Balance at January 1, 2015	38,707,345	24,850	1,021	(210)	35,339	61,000
Share-based compensation (note 17)	-	-	60	-	-	60
Cumulative translation adjustment	-	-	-	(200)	-	(200)
Net loss and comprehensive loss	-	-	-	-	(928)	(928)
Balance at March 31, 2015	<u>38,707,345</u>	<u>\$ 24,850</u>	<u>\$ 1,081</u>	<u>\$ (410)</u>	<u>\$ 34,411</u>	<u>\$ 59,932</u>

*The accompanying notes are an integral part of these condensed consolidated interim financial statements.*

**Village Farms International, Inc.**  
**Condensed Consolidated Interim Statements of Income and Comprehensive Income**  
**For the Three Months Ended March 31, 2015 and 2014**  
(In thousands of United States dollars, except per share data, unaudited)

	<u>2015</u>	<u>2014</u>
Net sales (note 14)	\$ 27,747	\$ 24,004
Cost of sales (note 11)	(24,931)	(21,717)
Change in biological asset (note 5)	(816)	1,113
Selling, general and administrative expenses (note 11)	<u>(2,944)</u>	<u>(3,127)</u>
(Loss) Income from operations	(944)	273
Interest expense, net	561	688
Foreign exchange loss	108	38
Amortization of intangible assets	-	26
Other income	<u>(10)</u>	<u>(17)</u>
Loss before income taxes	(1,603)	(462)
Recovery of income taxes	<u>(675)</u>	<u>(138)</u>
Net loss	<u>\$ (928)</u>	<u>\$ (324)</u>
Basic loss per share (note 15)	<u>\$ (0.02)</u>	<u>\$ (0.01)</u>
Diluted loss per share (note 15)	<u>\$ (0.02)</u>	<u>\$ (0.01)</u>
Other comprehensive loss:		
Foreign currency translation adjustment	<u>(200)</u>	<u>-</u>
Comprehensive loss	<u>\$ (1,128)</u>	<u>\$ (324)</u>

*The accompanying notes are an integral part of these condensed consolidated interim financial statements.*

**Village Farms International, Inc.**  
**Condensed Consolidated Interim Statements of Cash Flows**  
**For the Three Months Ended March 31, 2015 and 2014**  
(In thousands of United States dollars, unaudited)

	<b>2015</b>	<b>2014</b>
<b>Cash flows from operating activities:</b>		
Net loss	\$ (928)	\$ (324)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	2,078	1,826
Foreign exchange loss	108	38
Interest paid	563	698
Share-based compensation	60	54
Deferred income taxes	(384)	(161)
Change in biological asset	816	(1,113)
Changes in non-cash working capital items (note 13)	(5,654)	(7,904)
Net cash used in operating activities	(3,341)	(6,886)
<b>Cash flows from investing activities:</b>		
Purchases of property, plant and equipment	(528)	(4,704)
Other non-current assets and liabilities, net	233	56
Net cash used in investing activities	(295)	(4,648)
<b>Cash flows from financing activities:</b>		
Proceeds from borrowings	3,500	1,000
Repayments on borrowings	(1,099)	(1,042)
Interest paid on long-term debt, net	(563)	(698)
Payments on capital lease obligations	(6)	(6)
Net cash provided by (used in) financing activities	1,832	(746)
Effect of exchange rate changes on cash and cash equivalents	(108)	(38)
<b>Net decrease in cash and cash equivalents</b>	(1,912)	(12,318)
<b>Cash and cash equivalents, beginning of period</b>	6,337	18,668
<b>Cash and cash equivalents, end of period</b>	\$ 4,425	\$ 6,350
<b>Supplemental cash flow information:</b>		
Income taxes paid	\$ 303	\$ 1,009

*The accompanying notes are an integral part of these condensed consolidated interim financial statements.*

**VILLAGE FARMS INTERNATIONAL, INC.**  
**Notes to Condensed Consolidated Interim Financial Statements for the**  
**Three Months Ended March 31, 2015 and 2014**

(In thousands of United States dollars, except per share amounts and unless otherwise noted)  
(Unaudited)

**1 NATURE OF OPERATIONS**

Village Farms International, Inc. (“VFF” the parent company and, together with its subsidiaries, the “Company”) is incorporated under the Canada Business Corporation Act. VFF’s principal operating subsidiaries as at March 31, 2015 are Village Farms Canada Limited Partnership (“VFCLP”), Village Farms, L.P. (“VFLP”), and VF Clean Energy, Inc (“VFCE”). The address of the registered office of VFF is 4700 80th Street, Delta, British Columbia, Canada, V4K 3N3.

The Company is a publicly traded company, which is listed on the Toronto Stock Exchange under the symbol VFF.

The Company, through its subsidiaries VFCLP and VFLP, owns and operates sophisticated, highly intensive agricultural greenhouse facilities in British Columbia and Texas, where it produces, markets and sells premium-quality tomatoes, bell peppers, and cucumbers. The Company also markets and sells third party produce through its subsidiaries. The Company, through its subsidiary VFCE, owns and operates a 7.5 MW power plant that generates electricity. On October 3, 2014, the Company sold ownership of Village Farms DR, SLR to an unrelated third party in exchange for a waiver of termination fees on a remaining lease obligation.

**2 BASIS OF PRESENTATION**

**Statement of Compliance**

The Company’s unaudited condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) and its interpretations, as issued by the International Accounting Standards Board (“IASB”). These condensed consolidated interim financial statements are prepared in accordance with International Accounting Standard (“IAS”) 34, *Interim Financial Reporting*. They do not include all of the information required for full annual financial statement disclosures, and should be read in conjunction with the Company’s audited annual Consolidated Financial Statements for the year ended December 31, 2014, which were prepared in accordance with IFRS.

**Basis of Presentation**

The condensed consolidated interim financial statements are prepared on a going concern basis. The accounting policies have been applied consistently in all material respects. These condensed consolidated interim financial statements have been prepared by applying the same accounting policies, assessments of estimates and judgments, and methods of computation as compared with the most recent annual consolidated financial statements.

**Basis of Measurement**

The condensed consolidated interim financial statements (“interim financial statements”) have been prepared on the historical cost basis except for the following material items in the condensed consolidated interim statements of financial position (“interim statements of financial position”) and in the condensed consolidated interim statements of income and comprehensive income (“interim statements of income and comprehensive income”):

- Derivative financial instruments are measured at fair value;
- Available-for-sale financial assets are measured at fair value; and
- Biological assets are measured at fair value less costs to sell.

**Functional and Presentation Currency**

These interim financial statements are presented in United States dollars (“U.S. dollars”), which is the Company’s primary functional currency. VFCE’s functional currency is in Canadian dollars and conversion to U.S. dollars is performed in accordance with IAS 21, *The Effects of Changes in Foreign Exchange Rates*. All financial information presented in U.S. dollars has been rounded to the nearest thousand.

**3 CHANGES IN ACCOUNTING POLICIES**

The Company has adopted the following new and revised standards, along with any consequential amendments as at January 1, 2014. These changes were made in accordance with the applicable transitional provisions.

# VILLAGE FARMS INTERNATIONAL, INC.

## Notes to Condensed Consolidated Interim Financial Statements for the Three Months Ended March 31, 2015 and 2014

(In thousands of United States dollars, except per share amounts and unless otherwise noted)  
(Unaudited)

- The Company assessed its consolidation conclusion and determined that the adoption of IFRS 10, *Consolidated Financial Statements*, did not result in any changes in the consolidation status of any of its subsidiaries.
- The Company adopted the amendments to IAS 1, *Presentation of Financial Statements*. These amendments required the Company to group other comprehensive income items by those that may be recycled through net income and those that will not be recycled through net income. These changes did not result in adjustments to other comprehensive income.

### Accounting Standards Issued and Not Applied

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 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, 2017, with early adoption permitted. Management is currently evaluating the impact of IFRS 15.

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, 2014.

### 4 INVENTORIES

	March 31, 2015	December 31, 2014
Deferred crop costs	\$19,289	\$17,033
Purchased produce inventory	357	487
Biological asset adjustment (note 5)	(6,271)	(3,189)
Spare parts inventory	97	93
	\$13,472	\$14,424

The cost of inventories recognized as expense and included in cost of sales for the three months ended March 31, 2015 amounted to \$20,553 (2014 – \$17,420).

The biological asset adjustment reclassifies actual costs incurred for the biological asset from inventories to biological asset on the interim statements of financial position.

### 5 BIOLOGICAL ASSET

Information about the biological asset presented on the interim statements of financial position and in the interim statements of income and comprehensive income is as follows:

	March 31, 2015	December 31, 2014	March 31, 2014
Estimated sales value - biological asset	\$15,649	\$8,207	\$14,822
Less			
Estimated remaining costs to complete	7,911	2,987	6,510
Estimated selling costs	774	522	831
Fair value of biological asset less costs to sell	6,964	4,698	7,481
Less actual costs (note 4)	6,271	3,189	4,734
Increase in fair value of biological asset over cost	693	1,509	2,747
Fair value over cost of harvested and sold			
biological asset – beginning of year	1,509	1,634	1,634
Change in biological asset	(\$816)	(\$125)	\$1,113



# VILLAGE FARMS INTERNATIONAL, INC.

## Notes to Condensed Consolidated Interim Financial Statements for the Three Months Ended March 31, 2015 and 2014

(In thousands of United States dollars, except per share amounts and unless otherwise noted)  
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### 6 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

	<u>Land</u>	<u>Leasehold and land improve- ments</u>	<u>Buildings</u>	<u>Machinery and Equipment</u>	<u>Construction in process</u>	<u>Total</u>
<b>At December 31, 2014</b>						
Cost	\$5,027	\$3,460	\$82,352	\$62,238	\$626	\$153,703
Accumulated depreciation	-	(1,851)	(25,387)	(25,035)	-	(52,273)
Net book value	<u>\$5,027</u>	<u>\$1,609</u>	<u>\$56,965</u>	<u>\$37,203</u>	<u>\$626</u>	<u>\$101,430</u>
<b>Three months ended March 31, 2015</b>						
Opening net book value	\$5,027	\$1,609	\$56,965	\$37,203	\$626	\$101,430
Additions	-	-	-	-	528	528
Placed in service	-	-	-	774	(774)	-
Depreciation expense	-	(36)	(935)	(1,107)	-	(2,078)
Foreign currency translation adjustment	-	-	(41)	(296)	-	(337)
Closing net book value	<u>\$5,027</u>	<u>\$1,573</u>	<u>\$55,989</u>	<u>\$36,574</u>	<u>\$380</u>	<u>\$99,543</u>
<b>At March 31, 2015</b>						
Cost	\$5,027	\$3,460	\$82,309	\$62,705	\$380	\$153,881
Accumulated depreciation	-	(1,887)	(26,320)	(26,131)	-	(54,338)
Net book value	<u>\$5,027</u>	<u>\$1,573</u>	<u>\$55,989</u>	<u>\$36,574</u>	<u>\$380</u>	<u>\$99,543</u>

Depreciation related to the greenhouse facilities and equipment is expensed in cost of sales.

### 7 OTHER ASSETS

The following table summarizes the components of other assets:

	<u>March 31, 2015</u>	<u>December 31, 2014</u>
Patronage stock	\$437	\$437
Note receivable	109	314
Security deposits	103	107
Cash surrender value - insurance	787	765
Other	41	41
Total	<u>\$1,477</u>	<u>\$1,664</u>

### 8 DEBT

	<u>March 31, 2015</u>	<u>December 31, 2014</u>
<b>Long-term debt:</b>		
Opening balance	\$53,981	\$55,569
Proceeds from Credit Facilities	-	2,689
Repayment of debt	(1,099)	(4,168)
Foreign Currency Translation	(207)	(109)
Closing balance	<u>\$52,675</u>	<u>\$53,981</u>

**VILLAGE FARMS INTERNATIONAL, INC.**  
**Notes to Condensed Consolidated Interim Financial Statements for the**  
**Three Months Ended March 31, 2015 and 2014**

(In thousands of United States dollars, except per share amounts and unless otherwise noted)  
(Unaudited)

Current portion	4,399	4,418
Non-current portion	48,276	49,563
Less: Unamortized deferred transaction costs	(530)	(616)
	\$52,145	\$53,365

**Credit Facilities:**

The Company has a Term Loan financing agreement with a Canadian creditor (“FCC Loan”). The non-revolving variable rate term loan has a maturity date of April 1, 2018 and a balance of \$50,359 as at March 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 March 31, 2015, borrowings under the FCC Loan agreement are subject to an interest rate of 3.759% (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.

On September 26, 2014, the Company’s subsidiary VFCE entered into a new loan agreement with a Canadian Chartered Bank. The non-revolving fixed rate loan of CA\$3.0 million has a maturity date of June 2023, fixed interest rate of 4.98%, and monthly payments of CA\$36 beginning January 2015. As at March 31, 2015, the balance was USD \$2,316 (December 31, 2014 – \$2,580).

The Company has a line of credit agreement with a Canadian Chartered Bank (“Operating Loan”). The revolving Operating Loan of up to CA\$10,000 is at variable interest rates with a maturity date on August 30, 2016, and is subject to margin requirements stipulated by the bank. As at March 31, 2015, \$3,500 was drawn on this facility (December 31, 2014 – \$nil), which is available to a maximum of CA\$10,000, less outstanding letters of credit totaling \$433 and CA\$338.

The Company’s borrowings (“Credit Facilities”) are subject to certain positive and negative covenants. As at March 31, 2015, the Company was in compliance with all covenants on its Credit Facilities with the exception of one of its Operating Loan covenants. The Company received a waiver for its Fixed Charge covenant until June 30, 2015.

Accrued interest payable on the credit facilities and loans as at March 31, 2015 was \$157 (December 31, 2014 – \$159) and these amounts are included in accrued liabilities in the interim statements of financial position.

As security for the FCC Loan, the Company has provided promissory notes, a first mortgage on the greenhouse properties, and general security agreements over its assets. In addition, the Company has provided full recourse guarantees and has granted security therein. The carrying value of the assets and securities pledged as collateral as at March 31, 2015 was \$130,769 (December 31, 2014 – \$133,449).

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 \$530 as at March 31, 2015 (December 31, 2014 – \$616).

The aggregate annual maturities of long-term debt as at March 31, 2015 are as follows:

Remaining 2015	\$ 3,298
2016	4,409
2017	4,422
2018	39,165
2019	281
Thereafter	1,100
	\$52,675

**VILLAGE FARMS INTERNATIONAL, INC.**  
**Notes to Condensed Consolidated Interim Financial Statements for the**  
**Three Months Ended March 31, 2015 and 2014**

(In thousands of United States dollars, except per share amounts and unless otherwise noted)  
(Unaudited)

**9 FINANCIAL INSTRUMENTS**

The following table summarizes the carrying and fair value of the Company's financial instruments:

	<u>March 31, 2015</u>	<u>December 31, 2014</u>
Cash and cash equivalents	\$4,425	\$6,337
Trade receivables	8,431	9,168
Other receivables	1,269	1,690
Other financial liabilities	68,286	70,115

Interest income, expense and gains and losses from loans, receivables and other financial liabilities are recognized in the interim statements of income. The following table summarizes interest income and expense for the three months ended March 31:

	<u>2015</u>	<u>2014</u>
Interest income earned on cash and cash equivalents	\$nil	\$nil
Interest expense from other financial liabilities	\$561	\$688

The company classifies financial assets and liabilities that are recognized on the interim statements of financial position at fair value in a hierarchy that is based on significance of the inputs used in making the measurements. The levels in the hierarchy are:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 - Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices)
- Level 3 - Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

**Management of financial risks**

The Company, through its financial assets and liabilities, is exposed to various risks. The following provides a measurement of some of these risks as at March 31, 2015.

i) 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, trade receivables and other receivables.

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

The Company's trade receivables had three customers that each represented more than 10% of the balance of trade receivables, representing 15.4%, 12.0% and 11.1% of the balance of trade receivables as at March 31, 2015 (2014 – two customers, 16.1% and 10.8%). The Company believes that its trade receivables risk is limited due to the high credit quality of its customers and the protection afforded to the Company by the *Perishable Agricultural Commodities Act* (the "PACA") for its sales in the United States, which represent approximately 80% annually 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 interim financial statements.

Trade receivables for each customer were evaluated for collectability and an allowance for doubtful accounts has been estimated. At March 31, 2015, the allowance for doubtful accounts balance was \$50 (December 31, 2014 – \$50). The Company has not recorded a bad debt expense during the three months ended March 31, 2015 (2014 – \$nil).

# VILLAGE FARMS INTERNATIONAL, INC.

## Notes to Condensed Consolidated Interim Financial Statements for the Three Months Ended March 31, 2015 and 2014

(In thousands of United States dollars, except per share amounts and unless otherwise noted)  
(Unaudited)

At March 31, 2015, 96.7% (December 31, 2014 – 90.2%) of trade receivables were outstanding less than 30 days, 2.4% (December 31, 2014 – 9.0%) were outstanding for between 30 and 90 days and the remaining 0.9% (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. Aged receivables that are past due are not considered impaired unless customer specific information indicates otherwise.

### ii) 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 is exposed to interest rate risk on its long-term debt, for which the interest rates charged fluctuate based on the 90-day LIBOR rate. If interest rates had been 50 basis points higher (lower), the net loss during the three months ended March 31, 2015 would have been higher (lower) by (\$267). This represents \$267 in increased interest expense (2014 – (\$275)).

### iii) Foreign exchange risk

At March 31, 2015, the Canadian/U.S. foreign exchange rate was CA\$1.00 = US\$0.7909 (December 31, 2014 – US\$0.8599). Assuming that all other variables remain constant, an increase of \$0.10 in the Canadian dollar would have the following impact on the ending balances of certain interim statements of financial position items at March 31, 2015 and December 31, 2014 with the net foreign exchange gain or loss directly impacting net loss for the year.

	<u>March 31, 2015</u>	<u>December 31, 2014</u>
<b>Financial assets</b>		
Cash and cash equivalents	\$99	\$243
Trade receivables	172	214
<b>Financial liabilities</b>		
Trade payables and accrued liabilities	(287)	(236)
Loan payable	(293)	(300)
<b>Net foreign exchange loss</b>	<u>(\$309)</u>	<u>(\$ 79)</u>

### iv) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they fall due. The following are the contractual maturities of financial liabilities as at March 31, 2015:

	<b>Total</b>	<b>Less than 1 year</b>	<b>2-3 years</b>	<b>4-5 years</b>	<b>More than 5 years</b>
Financial liabilities					
Long-term debt, net of fees	\$52,145	\$3,299	\$8,831	\$38,972	\$1,043
Operating loan	3,500	3,500	-	-	-
Trade payables	8,113	8,113	-	-	-
Accrued liabilities and taxes	3,626	3,626	-	-	-
Obligations under capital lease	55	27	28	-	-
Other liabilities	847	-	847	-	-
<b>Total</b>	<u>\$68,286</u>	<u>\$18,565</u>	<u>\$9,706</u>	<u>\$38,972</u>	<u>\$1,043</u>

It is the Company's intention to meet these obligations through the collection of current accounts receivable and cash from sales. 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. In addition, the Company has available an operating loan of up to CA\$10,000, less an outstanding balance of \$3,500 and outstanding letters of credit totaling \$433 and CA\$338.

### v) Fair values

The carrying amount of short-term financial instruments, less provisions for impairment if applicable, is consistent with the fair value of such instruments. The Company's debt bears a variable interest rate and therefore its carrying value approximates its fair value. There were no derivatives held at March 31, 2015 (December 31, 2014 - \$nil).

**VILLAGE FARMS INTERNATIONAL, INC.**  
**Notes to Condensed Consolidated Interim Financial Statements for the**  
**Three Months Ended March 31, 2015 and 2014**

(In thousands of United States dollars, except per share amounts and unless otherwise noted)  
(Unaudited)

**10 RELATED PARTY TRANSACTIONS AND BALANCES**

Included in other assets as at March 31, 2015, is a \$109 (December 31, 2014 - \$314) promissory note from an employee of the Company in connection with a relocation at the request of the Company. The \$109 balance represents the unpaid amount the Company advanced on this employee's behalf in connection with the relocation.

**11 EXPENSES BY NATURE**

The following table outlines the Company's significant expenses by nature:

<i>Cost of sales</i>	<u>Three Months Ended</u> <u>March 31, 2015</u>	<u>Three Months Ended</u> <u>March 31, 2014</u>
Purchased produce	\$ 6,600	\$ 6,658
Raw materials and consumables used	5,982	3,149
Depreciation and amortization	2,030	1,745
Transportation and storage	3,285	3,637
Employee compensation and benefits	7,034	6,528
	<u>\$24,931</u>	<u>\$21,717</u>
<i>Selling, general and administrative expenses</i>	<u>Three Months Ended</u> <u>March 31, 2015</u>	<u>Three Months Ended</u> <u>March 31, 2014</u>
Employee compensation and benefits	\$ 1,819	\$ 1,830
Marketing	98	92
Professional services	378	395
Office expenses	355	482
Other	294	328
	<u>\$ 2,944</u>	<u>\$ 3,127</u>
<i>Employee compensation and benefits</i>	<u>Three Months Ended</u> <u>March 31, 2015</u>	<u>Three Months Ended</u> <u>March 31, 2014</u>
Salaries and short-term employee benefits	\$ 8,793	\$ 8,304
Share-based compensation	60	54
	<u>\$ 8,853</u>	<u>\$ 8,358</u>

**12 DEFERRED INCOME TAXES**

Income tax expense is recognized based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual rate used for the three months ended March 31, 2015 was 30% and the three months ended March 31, 2014 was 30%.

**13 CHANGES IN NON-CASH WORKING CAPITAL**

	<u>Three Months Ended March 31,</u>	
	<u>2015</u>	<u>2014</u>
Trade receivables	\$737	(\$849)
Inventories	952	(2,875)
Inventories reclassified to biological asset	(3,082)	(2,636)
Other receivables	216	20
Prepaid expenses and deposits	(344)	(320)
Trade payables	(3,682)	(851)
Accrued liabilities and taxes	(451)	(393)
	<u>(\$5,654)</u>	<u>(\$7,904)</u>

# VILLAGE FARMS INTERNATIONAL, INC.

## Notes to Condensed Consolidated Interim Financial Statements for the Three Months Ended March 31, 2015 and 2014

(In thousands of United States dollars, except per share amounts and unless otherwise noted)  
(Unaudited)

### 14 SEGMENT AND GEOGRAPHIC INFORMATION

On July 17, 2014, the Company acquired VFCE, which added a second reporting segment to the Company's business. The Company's two reporting segments include the Produce business and the Energy business. The Produce business produces, markets, and sells the product group which consists of premium quality tomatoes, bell peppers and cucumbers. The Energy business produces power that it sells per a long term contract to its one customer.

The Company's primary operations are in the United States and Canada. Net sales by the countries in which its customers are located are as follows:

	Three Months Ended March 31,	
	2015	2014
Net Sales		
United States	\$25,327	\$22,540
Canada	1,934	1,454
Other	-	10
Energy - Canada	486	-
	\$27,747	\$24,004

The Company's property, plant and equipment, net of accumulated depreciation, are located as follows:

	March 31, 2015	December 31, 2014
United States	\$ 58,847	\$ 60,155
Canada	36,675	37,104
Energy - Canada	4,021	4,171
	\$ 99,543	\$ 101,430

The depreciation and amortization charges for the three months ended March 31, 2015 in the Produce business were \$1,989 (2014 - \$1,826) and \$89 (2014 - \$nil) in the Energy business.

### 15 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net income attributable to owners of the Company by the weighted average number of common shares in issue during the year excluding common shares purchased by the Company and held as treasury shares.

	Three Months Ended March 31,	
	2015	2014
Net loss attributable to owners of the Company	(\$928)	(\$324)
Weighted average number of common shares and special shares outstanding (thousands)	38,707	38,707
Basic loss per share	(\$0.02)	(\$0.01)

Diluted earnings per share is calculated by adjusting the weighted average number of common shares outstanding to assume conversion of all dilutive potential common shares. The Company's share options are potentially dilutive to common shares. A calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the Company's shares for the year) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated above is compared with the number of shares that would have been issued assuming the exercise of the share options. If dilutive effect is less than zero, then issuance is anti-dilutive and is excluded from dilutive earnings per share calculation.

# VILLAGE FARMS INTERNATIONAL, INC.

## Notes to Condensed Consolidated Interim Financial Statements for the Three Months Ended March 31, 2015 and 2014

(In thousands of United States dollars, except per share amounts and unless otherwise noted)  
(Unaudited)

	Three Months Ended March 31,	
	2015	2014
Net loss attributable to owners of the Company	(\$928)	(\$324)
Weighted average number of common shares and special shares outstanding (thousands)	38,707	38,707
Adjustment for:		
Share options (thousands)	92	377
Weighted average number of common shares and special shares outstanding for diluted earnings per share (thousands)	38,799	39,084
Diluted loss per share	(\$0.02)	(\$0.01)

### 16 CAPITAL DISCLOSURES

The Company's capital comprises net debt and equity:

	March 31, 2015	December 31, 2014
Total bank debt	\$56,175	\$53,981
Less cash and cash equivalents	(4,425)	(6,337)
Net debt	51,750	47,644
Total equity	59,932	61,000
	\$111,682	\$108,644

It is the Company's intention to meet its obligations through the collection of current accounts receivable and cash. As at March 31, 2015, the Company has an available operating loan up to CA\$10,000, less \$3,500 drawn on the loan and \$433 and CA\$338 outstanding letters of credit (as at December 31, 2014, \$nil was outstanding on the operating loan, and \$845 and CA\$338 outstanding on the letters of credit). As at March 31, 2015, the operating loan borrowing base was \$5,912 based on a percentage of the Company's outstanding accounts receivable less the current advance of \$3,500 and outstanding letters of credit totaling \$433 and CA\$338. 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.

### 17 SHARE-BASED COMPENSATION PLAN

The Company has a share-based compensation plan. The maximum number of common shares that can be issued upon the exercise of options granted is equal to 10% of the aggregate number of common shares issued and outstanding from time to time. The term during which an option may be exercised is 10 years from the date of the grant. Options vest at a rate of 33% per year, beginning one year following the grant date of the options. Share-based compensation expense for the three months ended March 31, 2015 of \$60 (2014 – \$54) was recorded in selling, general and administrative expenses and the corresponding amount credited to contributed surplus.

The following table presents the assumptions used to establish the fair value assigned to the options issued using the Black-Scholes valuation model:

	March 2015	March 2014	September 2013	March 2013
Expected volatility	59.6%	57.0%	56.4%	46.4%
Dividend	\$nil	\$nil	\$nil	\$nil
Risk-free interest rate	1.47%	1.52%	1.52%	2.04%
Expected life	6.5 years	6.5 years	6.5 years	6.5 years
Fair value	\$0.539	\$0.822	\$0.606	\$0.410

Expected volatility was based on three years of historical data.

## VILLAGE FARMS INTERNATIONAL, INC.

### Notes to Condensed Consolidated Interim Financial Statements for the Three Months Ended March 31, 2015 and 2014

(In thousands of United States dollars, except per share amounts and unless otherwise noted)  
(Unaudited)

The following table summarizes stock options granted and stock option forfeitures for the three months ended March 31, 2015 and 2014.

	Three Months Ended March 31,			
	2015		2014	
	Stock options	Weighted average exercise price	Stock options	Weighted average exercise price
Beginning of period	1,839,999	CA\$1.15	1,454,999	CA\$1.06
Granted	100,000	CA\$0.94	410,000	CA\$1.48
Forfeitures	(25,000)	CA\$1.24	-	-
End of period	1,914,999	CA\$1.14	1,864,999	CA\$1.15

The following table summarizes stock options outstanding and granted as at March 31, 2015:

Exercise price	Number outstanding	Remaining contractual life (years)	Number of exercisable options
CA\$0.70	349,999	4.8	349,999
CA\$1.24	590,000	6.1	590,000
CA\$1.27	150,000	7.0	150,000
CA\$0.85	100,000	8.0	66,667
CA\$1.10	240,000	8.5	80,000
CA\$1.48	385,000	9.0	128,333
CA\$0.94	100,000	10.0	Nil
	1,914,999		

No options were exercised for the three months ended March 31, 2015 and 2014. Share options outstanding as at March 31, 2015 have the following expiry dates and exercise prices:

	Exercise price in CA\$ per share	March 31, 2015	December 31, 2014
Expiry date - January 13, 2020	0.70	349,999	349,999
Expiry date - May 20, 2021	1.24	590,000	615,000
Expiry date - March 13, 2022	1.27	150,000	150,000
Expiry date - March 13, 2023	0.85	100,000	100,000
Expiry date - September 26, 2023	1.10	240,000	240,000
Expiry date - March 18, 2024	1.48	385,000	385,000
Expiry date - March 19, 2025	0.94	100,000	-
		1,914,999	1,839,999