

# **Village Farms International, Inc.**

**Condensed Consolidated Interim Financial Statements**

**Three and Six Months Ended**

**June 30, 2016 and 2015**

**(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 Chartered Professional Accountants of Canada 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)

	June 30, 2016 (Unaudited)	December 31, 2015 (Audited)
<b>ASSETS</b>		
<i>Current assets</i>		
Cash and cash equivalents	\$ 6,002	\$ 4,957
Trade receivables	13,213	9,144
Other receivables	948	425
Inventories (note 4)	12,750	13,301
Prepaid expenses and deposits	1,335	298
Biological asset (note 5)	6,147	6,079
Total current assets	40,395	34,204
<i>Non-current assets</i>		
Property, plant and equipment (note 6)	91,898	94,285
Other assets (note 7)	1,546	1,521
Total assets	\$ 133,839	\$ 130,010
<b>LIABILITIES</b>		
<i>Current liabilities</i>		
Trade payables	\$ 11,655	\$ 8,857
Accrued liabilities	4,927	2,623
Income taxes payable	-	662
Operating loan (note 8)	3,000	-
Current maturities of long-term debt (note 8)	3,275	4,388
Current maturities of capital lease obligations	45	28
Total current liabilities	22,902	16,558
<i>Non-current liabilities</i>		
Long-term debt (note 8)	43,641	44,428
Long-term maturities of capital lease obligations	103	7
Deferred tax liability	4,090	5,184
Deferred compensation	933	902
Total liabilities	71,669	67,079
<b>SHAREHOLDERS' EQUITY</b>		
Share capital	24,927	24,903
Contributed surplus	1,291	1,197
Accumulated other comprehensive loss	(470)	(602)
Retained earnings	36,422	37,433
Total shareholders' equity	62,170	62,931
Total liabilities and shareholders' equity	\$ 133,839	\$ 130,010

*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 Six Months Ended June 30, 2016 and 2015**  
(In thousands of United States dollars, except for shares outstanding)  
(Unaudited)

	Number of Common Shares	Share Capital	Contributed Surplus	Accumulated Other Comprehensive Income/(Loss)	Retained Earnings	Total Shareholders' Equity
Balance at January 1, 2015	38,707,345	\$ 24,850	\$ 1,021	\$ (210)	\$ 35,339	\$ 61,000
Share-based compensation (note 16)	-	-	100	-	-	100
Cumulative translation adjustment	-	-	-	(147)	-	(147)
Net loss	-	-	-	-	(74)	(74)
Balance at June 30, 2015	<u>38,707,345</u>	<u>24,850</u>	<u>1,121</u>	<u>(357)</u>	<u>35,265</u>	<u>60,879</u>
Balance at January 1, 2016	38,807,345	24,903	1,197	(602)	37,433	62,931
Shares issued on exercise of stock options	25,000	24	-	-	-	24
Share-based compensation (note 16)	-	-	94	-	-	94
Cumulative translation adjustment	-	-	-	132	-	132
Net loss	-	-	-	-	(1,011)	(1,011)
Balance at June 30, 2016	<u>38,832,345</u>	<u>\$ 24,927</u>	<u>\$ 1,291</u>	<u>\$ (470)</u>	<u>\$ 36,422</u>	<u>\$ 62,170</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 (Loss) and Comprehensive Income (Loss)**  
**For the Six Months Ended June 30, 2016 and 2015**  
(In thousands of United States dollars, except per share data)  
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Sales (note 13)	\$ 44,441	\$ 41,211	\$ 76,149	\$ 68,958
Cost of sales (note 10)	(41,908)	(38,014)	(68,558)	(62,945)
Change in biological asset (note 5)	66	1,486	(1,764)	670
Selling, general and administrative expenses (note 10)	(3,050)	(2,923)	(6,477)	(5,867)
Income from operations	(451)	1,760	(650)	816
Interest expense	641	585	1,198	1,146
Foreign exchange loss	22	18	3	126
Other expense (income), net	(9)	(14)	18	(24)
Loss on sale of assets	-	-	12	-
Income (loss) before income taxes	(1,105)	1,171	(1,881)	(432)
Provision for (Recovery of) income taxes	(335)	317	(870)	(358)
Net (loss) income	<u>\$ (770)</u>	<u>\$ 854</u>	<u>\$ (1,011)</u>	<u>\$ (74)</u>
Basic (loss) earnings per share (note 14)	<u>\$ (0.02)</u>	<u>\$ 0.02</u>	<u>\$ (0.03)</u>	<u>\$ (0.00)</u>
Diluted (loss) earnings per share (note 14)	<u>\$ (0.02)</u>	<u>\$ 0.02</u>	<u>\$ (0.03)</u>	<u>\$ (0.00)</u>
Other comprehensive income (loss):				
Foreign currency translation adjustment	-	53	132	(147)
Comprehensive (loss) income	<u>\$ (770)</u>	<u>\$ 907</u>	<u>\$ (879)</u>	<u>\$ (221)</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 Six Months Ended June 30, 2016 and 2015**  
(In thousands of United States dollars)  
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
<b>Cash flows from operating activities:</b>				
Net (loss) income	\$ (770)	\$ 854	\$ (1,011)	\$ (74)
Adjustments to reconcile net (loss) income to net cash provided by/(used in) operating activities:				
Depreciation and amortization	2,084	2,102	4,147	4,180
Amortization of deferred charges	106	-	106	-
Loss on sale of assets	-	-	12	-
Unrealized foreign exchange loss	19	18	-	126
Interest paid	509	594	1,060	1,157
Share-based compensation	51	40	94	100
Deferred income taxes	(558)	(350)	(1,094)	(734)
Change in biological asset	(66)	(1,486)	1,764	(670)
Changes in non-cash working capital items (note 12)	2,542	2,502	(2,496)	(2,919)
Net cash provided by operating activities	<u>3,917</u>	<u>4,274</u>	<u>2,582</u>	<u>1,166</u>
<b>Cash flows from investing activities:</b>				
Purchases of property, plant and equipment	(746)	(419)	(1,392)	(947)
Net cash used in investing activities	<u>(746)</u>	<u>(419)</u>	<u>(1,392)</u>	<u>(947)</u>
<b>Cash flows from financing activities:</b>				
Proceeds from borrowings	1,000	1,500	4,000	5,000
Repayments on borrowings	(2,006)	(6,101)	(3,104)	(7,200)
Interest paid on long-term debt	(508)	(594)	(1,059)	(1,157)
Proceeds from exercise of stock options	24	-	24	-
Payments on capital lease obligations	(6)	(7)	(13)	(13)
Net cash used in financing activities	<u>(1,496)</u>	<u>(5,202)</u>	<u>(152)</u>	<u>(3,370)</u>
Effect of exchange rate changes on cash and cash equivalents	(12)	(18)	7	(126)
<b>Net increase/(decrease) in cash and cash equivalents</b>	1,663	(1,365)	1,045	(3,277)
<b>Cash and cash equivalents, beginning of period</b>	4,339	4,425	4,957	6,337
<b>Cash and cash equivalents, end of period</b>	<u>\$ 6,002</u>	<u>\$ 3,060</u>	<u>\$ 6,002</u>	<u>\$ 3,060</u>
<b>Supplemental cash flow information:</b>				
Income taxes paid	<u>\$ 286</u>	<u>\$ 362</u>	<u>\$ 1,148</u>	<u>\$ 665</u>
<b>Supplemental disclosure of non-cash information:</b>				
Purchases of capital expenditures by financing capital lease	<u>\$ (126)</u>	<u>\$ -</u>	<u>\$ (126)</u>	<u>\$ -</u>

*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 and Six Months Ended June 30, 2016 and 2015

(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, together with its subsidiaries, the “Company”) is incorporated under the *Canada Business Corporation Act*. VFF’s principal operating subsidiaries as at June 30, 2016 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 80<sup>th</sup> Street, Delta, British Columbia, Canada, V4K 3N3.

The Company’s shares are listed on the Toronto Stock Exchange under the symbol VFF and are also traded in the United States on the OTCQX® Best Market under the symbol VFFIF.

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 7.0 MW power plant that generates electricity.

### 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, 2015, 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 (loss) and comprehensive income (loss) (“interim statements of income”):

- 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 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 thousands, except per share amounts.

### 3 CHANGES IN ACCOUNTING POLICIES

The Company has adopted the following new and revised standards, along with any consequential amendments as at January 1, 2015. These changes were made in accordance with the applicable transitional provisions.

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

# VILLAGE FARMS INTERNATIONAL, INC.

## Notes to Condensed Consolidated Interim Financial Statements for the Three and Six Months Ended June 30, 2016 and 2015

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

- The IASB issued *Disclosure Initiative, Amendments to IAS 1* in December 2014. The Amendments clarify materiality and disclosures within the financial statements and footnotes. These Amendments are effective for annual periods beginning on January 2016, and did not have a material impact on the Company's interim financial statements.
- 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, and did not have an impact on the Company's interim financial statements.

### 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 interim 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, ie 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. Management is currently evaluating the impact of IFRS 16.

Further details of new accounting standards and potential impact on the Company can be found in the Company's consolidated financial statements for the year ended December 31, 2015.

### 4 INVENTORIES

	June 30, 2016	December 31, 2015
Deferred crop costs	\$16,831	\$15,473
Purchased produce inventory	321	402
Biological asset adjustment (note 5)	(4,480)	(2,648)
Spare parts inventory	78	74
	<u>\$12,750</u>	<u>\$13,301</u>

The cost of inventories recognized as expense and included in cost of sales amounted to \$36,140 for the three months ended June 30, 2016 (2015 – \$33,127) and \$58,378 for the six months ended June 30, 2016 (2015 - \$53,680). 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 is as follows:



# VILLAGE FARMS INTERNATIONAL, INC.

## Notes to Condensed Consolidated Interim Financial Statements for the Three and Six Months Ended June 30, 2016 and 2015

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

	June 30, 2016	December 31, 2015	June 30, 2015
Estimated sales value - biological asset	\$13,530	\$10,100	\$15,339
Less			
Estimated remaining costs to complete	6,700	3,346	6,764
Estimated selling costs	683	675	856
Fair value of biological asset less costs to sell	6,147	6,079	7,719
Less actual costs (note 4)	4,480	2,648	5,540
Increase in fair value of biological asset over cost	1,667	3,431	2,179
Fair value over cost of harvested and sold biological asset – beginning of year	3,431	1,509	1,509
Change in biological asset	(\$1,764)	\$1,922	\$670
Change in biological asset three months ended March 31,	(\$1,830)		(\$,816)
Change in biological asset three months ended June 30,	\$66		\$1,486

### 6 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

	Land	Leasehold and land improve- ments	Buildings	Machinery and Equipment	Construction in process	Total
<b>At December 31, 2015</b>						
Cost	\$5,027	\$3,460	\$82,341	\$63,196	\$697	\$154,721
Accumulated depreciation	-	(1,996)	(29,112)	(29,328)	-	(60,436)
Net book value	\$5,027	\$1,464	\$53,229	\$33,868	\$697	\$94,285
<b>Six months ended June 30, 2016</b>						
Opening net book value	\$5,027	\$1,464	\$53,229	\$33,868	\$697	\$94,285
Additions	-	-	-	-	1,378	1,378
Capital lease additions	-	-	-	140	-	140
Placed in service	-	-	165	1,343	(1,508)	-
Disposals	-	-	-	(244)	-	(244)
Accum Depr on Disposals	-	-	-	232	-	232
Depreciation expense	-	(71)	(1,634)	(2,442)	-	(4,147)
FX translation adjustment	-	-	27	227	-	254
Closing net book value	\$5,027	\$1,393	\$51,787	\$33,124	\$567	\$91,898
<b>At June 30, 2016</b>						
Cost	\$5,027	\$3,460	\$82,538	\$64,700	\$567	\$156,292
Accumulated depreciation	-	(2,067)	(30,751)	(31,576)	-	(64,394)
Net book value	\$5,027	\$1,393	\$51,787	\$33,124	\$567	\$91,898

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

# VILLAGE FARMS INTERNATIONAL, INC.

## Notes to Condensed Consolidated Interim Financial Statements for the Three and Six Months Ended June 30, 2016 and 2015

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

### 7 OTHER ASSETS

The following table summarizes the components of other assets:

	June 30, 2016	December 31, 2015
Patronage stock	\$437	\$437
Note receivable	104	109
Security deposits	103	103
Cash surrender value - insurance	851	832
Other	51	40
<b>Total</b>	<b>\$1,546</b>	<b>\$1,521</b>

### 8 DEBT

	June 30, 2016	December 31, 2015
<b>Long-term debt:</b>		
Opening balance	\$49,187	\$53,981
Repayment of debt	(2,104)	(4,394)
Foreign Currency Translation	135	(400)
Closing balance	\$47,218	\$49,187
Current portion	3,275	4,388
Non-current portion	43,943	44,799
Less: Unamortized deferred transaction costs	(302)	(371)
	\$46,916	\$48,816

#### Credit Facilities

The Company has a Term Loan financing agreement with a Canadian creditor (“FCC Loan”). The non-revolving variable rate term loan was amended in March 2016 and has a maturity date of May 1, 2021 and a balance of \$45,244 as at June 30, 2016. The outstanding balance is repayable by way of monthly installments of principal and interest based on an amortization period of 15 years, with the balance and any accrued interest to be paid in full on May 1, 2021. Monthly principal payments were \$347 through May 1, 2016, and \$253 effective June 1, 2016. As at June 30, 2016, borrowings under the FCC Loan agreement are subject to an interest rate of 5.1366% (December 31, 2015 – 3.84125%). 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’s subsidiary VFCE has a 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. As at June 30, 2016, the balance was US\$1,974 (December 31, 2015 – US\$1,953).

The Company has a line of credit agreement with a Canadian Chartered Bank (“Operating Loan”). The revolving Operating Loan was amended in May 2016 and has a line of credit up to CA\$13,000 and variable interest rates with a maturity date on May 31, 2021, and is subject to margin requirements stipulated by the bank. As at June 30, 2016, \$3,000 was drawn on this facility (December 31, 2015 – \$nil), which is available to a maximum of CA\$13,000, less outstanding letters of credit totaling \$333 and CA\$38.

The Amendments to the Company’s FCC Loan and Operating Loan have been accounted for as modifications of the existing debt in accordance with IFRS 7 *Financial Instruments*.

The Company’s borrowings (“Credit Facilities”) are subject to certain positive and negative covenants. As at June 30, 2016, the Company was in compliance with all covenants on its Credit Facilities.

Accrued interest payable on the credit facilities and loans as at June 30, 2016 was \$183 (December 31, 2015 – \$150) and these amounts are included in accrued liabilities in the interim statements of financial position.

# VILLAGE FARMS INTERNATIONAL, INC.

## Notes to Condensed Consolidated Interim Financial Statements for the Three and Six Months Ended June 30, 2016 and 2015

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

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 June 30, 2016 was \$129,698 (December 31, 2015 – \$125,928).

Transaction costs incurred in connection with these financing activities are deferred and amortized over the terms of the related financing agreement. Transaction costs incurred in connection with the Amendments totaled \$31. Total deferred financing costs, net of accumulated amortization, are netted against long-term debt on the interim statements of financial position, and total \$302 as at June 30, 2016 (December 31, 2015 – \$371).

The aggregate annual maturities of long-term debt as at June 30, 2016 are as follows:

Remaining 2016	\$ 1,636
2017	3,281
2018	3,294
2019	3,307
2020	3,321
Thereafter	32,379
	<u>\$47,218</u>

## 9 FINANCIAL INSTRUMENTS

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

	<u>June 30, 2016</u>	<u>December 31, 2015</u>
Cash and cash equivalents	\$6,002	\$4,957
Trade receivables	\$13,213	\$9,144
Other receivables	\$1,489	\$971
Other financial liabilities	\$67,579	\$61,895

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:

	<u>Three months ended June 30,</u>		<u>Six months ended June 30,</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Interest income earned on cash/cash equivalents	\$-	\$3	\$-	\$3
Interest expense from other financial liabilities	\$641	\$588	\$1,198	\$1,149

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 (i.e., as prices) or indirectly (i.e., derived from prices)
- Level 3 - Inputs for the asset or liability that are not based on observable market data (i.e., 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 June 30, 2016. The Company uses financial instruments only for risk management purposes, not for generating trading profits.

#### 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

# VILLAGE FARMS INTERNATIONAL, INC.

## Notes to Condensed Consolidated Interim Financial Statements for the Three and Six Months Ended June 30, 2016 and 2015

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

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 had two customers that represented more than 10% of the balance of trade receivables, representing 13.2% and 10.1% as at June 30, 2016 (2015 – two customers, 13.1% and 12.9%). 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 85% of the Company’s annual sales. The PACA protection gives a claim filed under the PACA first lien on all PACA assets (which include cash and trade receivables). The PACA fosters trading practices in the marketing of fresh and frozen fruits and vegetables in interstate and foreign commerce. It prohibits unfair and fraudulent practices and provides a means of enforcing contracts. Historical write-offs have represented less than one-half of one percent of sales. The maximum amount of credit risk exposure is limited to the carrying amount of the balances on the interim financial statements.

Trade receivables for each customer were evaluated for collectability and an allowance for doubtful accounts has been estimated. At June 30, 2016, the allowance for doubtful accounts balance was \$50 (December 31, 2015 – \$50). The Company has not recorded a bad debt expense during the three and six months ended June 30, 2016 (2015 – \$nil).

At June 30, 2016, 93.1% (December 31, 2015 – 92.5%) of trade receivables were outstanding less than 30 days, 6.7% (December 31, 2015 – 6.8%) were outstanding for between 30 and 90 days and the remaining 0.2% (December 31, 2015 – 0.7%) were outstanding for more than 90 days. Trade receivables are considered past due based on the contract terms agreed to with a customer. Aged receivables that are past due are not considered impaired unless customer specific information indicates otherwise.

### 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, the net income during the six months ended June 30, 2016 would have been higher by \$226. This represents \$226 in increased interest expense (2015 – (\$264)).

### iii) Foreign exchange risk

At June 30, 2016, the Canadian/U.S. foreign exchange rate was CA\$1.00 = US\$0.7717 (December 31, 2015 – US\$0.7209). 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 June 30, 2016 and December 31, 2015 with the net foreign exchange gain or loss directly impacting net (loss) income for the period.

	<u>June 30, 2016</u>	<u>December 31, 2015</u>
<b>Financial assets</b>		
Cash and cash equivalents	\$28	\$95
Trade receivables	476	170
<b>Financial liabilities</b>		
Trade payables and accrued liabilities	(325)	(344)
Loan payable	(256)	(271)
<b>Net foreign exchange loss</b>	<u>(\$77)</u>	<u>(\$350)</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 June 30, 2016:

# VILLAGE FARMS INTERNATIONAL, INC.

## Notes to Condensed Consolidated Interim Financial Statements for the Three and Six Months Ended June 30, 2016 and 2015

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

Financial liabilities	Total	1 year	2-3 years	4-5 years	More than 5 years
Long-term debt, net of fees	\$46,916	\$3,275	\$6,332	\$6,388	\$30,921
Operating loan	3,000	3,000	-	-	-
Trade payables	11,655	11,655	-	-	-
Accrued liabilities and taxes	4,927	4,927	-	-	-
Obligations under capital lease	148	45	103	-	-
Other liabilities	933	-	933	-	-
<b>Total</b>	<b>\$67,579</b>	<b>\$22,902</b>	<b>\$7,368</b>	<b>\$6,388</b>	<b>\$30,921</b>

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\$13,000, less an outstanding balance of \$3,000 and outstanding letters of credit totaling \$333 and CA\$38.

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 June 30, 2016 (December 31, 2015 - \$nil).

### 10 EXPENSES BY NATURE

The following tables outline the Company's significant expenses by nature:

<i>Cost of sales</i>	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Purchased produce	\$11,761	\$5,477	\$20,075	\$12,026
Raw materials and consumables used	13,696	16,245	19,212	22,266
Depreciation and amortization	2,041	2,054	4,056	4,084
Transportation and storage	5,108	4,656	8,498	7,953
Employee compensation and benefits	9,302	9,582	16,717	16,616
	<b>\$41,908</b>	<b>\$38,014</b>	<b>\$68,558</b>	<b>\$62,945</b>

<i>Selling, general and administrative</i>	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Employee compensation and benefits	\$1,687	\$1,827	\$3,992	\$3,646
Marketing	222	163	280	261
Professional services	337	271	709	649
Office expenses	395	369	740	724
Other	409	293	756	587
	<b>\$3,050</b>	<b>\$2,923</b>	<b>\$6,477</b>	<b>\$5,867</b>

<i>Employee compensation and benefits</i>	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Salaries and other employee benefits	\$10,938	\$11,369	\$20,615	\$20,162
Share-based payments	51	40	94	100
	<b>\$10,989</b>	<b>\$11,409</b>	<b>\$20,709</b>	<b>\$20,262</b>

### 11 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 six months ended June 30, 2016 was 30%, excluding the change in bio asset as reported on the interim statements of income, and 32% for the six months ended June 30, 2015.

# VILLAGE FARMS INTERNATIONAL, INC.

## Notes to Condensed Consolidated Interim Financial Statements for the Three and Six Months Ended June 30, 2016 and 2015

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### 12 CHANGES IN NON-CASH WORKING CAPITAL ITEMS

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Trade receivables	(\$2,930)	(\$4,137)	(\$4,056)	(\$3,400)
Inventories	1,386	3,123	557	4,075
Inventories reclassified to biological asset	1,139	731	(1,833)	(2,351)
Other receivables	(716)	34	(524)	250
Prepaid expenses and deposits	(510)	(26)	(1,036)	(370)
Trade payables	2,999	2,658	2,783	(1,024)
Accrued liabilities and taxes	1,265	61	1,650	(390)
Other assets/other liabilities, net	(91)	58	(37)	291
	\$2,542	\$2,502	(\$2,496)	(\$2,919)

### 13 SEGMENT AND GEOGRAPHIC INFORMATION

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 June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Net Sales				
Produce - U.S.	\$35,737	\$32,992	\$64,843	\$58,319
Produce - Canada	8,169	7,695	10,245	9,629
Produce - Other	-	-	-	-
Energy - Canada	535	524	1,061	1,010
	\$44,441	\$41,211	\$76,149	\$68,958

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

	June 30, 2016	December 31, 2015
United States	\$53,128	\$55,186
Canada	35,049	35,413
Energy - Canada	3,721	3,686
	\$91,898	\$94,285

Depreciation and amortization charges in the Produce business for the three and six months ended June 30, 2016 were \$1,954 (2015 - \$1,980) and \$3,906 (2015 - \$3,968), respectively. Depreciation and amortization charges in the Energy business for the three and six months ended June 30, 2016 were \$130 (2015 - \$122) and \$241 (2015 - \$212), respectively.

### 14 EARNINGS (LOSS) PER SHARE

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

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Net income/(loss) attributable to owners of the Company	(\$770)	\$854	(\$1,011)	(\$74)
Weighted average number of common shares outstanding (thousands)	38,832	38,707	38,832	38,707
Basic earnings/(loss) per share	(\$0.02)	\$0.02	(\$0.03)	(\$0.00)

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## Notes to Condensed Consolidated Interim Financial Statements for the Three and Six Months Ended June 30, 2016 and 2015

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

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Net income/(loss) attributable to owners of the Company	(\$770)	\$854	(\$1,011)	(\$74)
Weighted average number of common shares outstanding (thousands)	38,832	38,707	38,832	38,707
Adjustment for:				
Share options (thousands)	543	114	268	103
Weighted average number of common shares outstanding for diluted earnings per share (thousands)	39,375	38,821	39,100	38,810
Diluted earnings/(loss) per share	(\$0.02)	\$0.02	(\$0.03)	(\$0.00)

### 15 CAPITAL DISCLOSURES

The Company's capital comprises net debt and equity:

	June 30, 2016	December 31, 2015
Total bank debt	\$50,218	\$49,187
Less cash and cash equivalents	(6,002)	(4,957)
Net debt	44,216	44,230
Total equity	62,170	62,931
	\$106,386	\$107,161

It is the Company's intention to meet its obligations through the collection of current accounts receivable and cash. As at June 30, 2016, the Company has an available operating loan up to CA\$13,000, less \$3,000 drawn on the loan and \$333 and CA\$38 outstanding letters of credit (as at December 31, 2015, \$nil was outstanding on the operating loan, and \$433 and CA\$38 outstanding on the letters of credit). As at June 30, 2016, the operating loan borrowing base was \$9,925 based on a percentage of the Company's outstanding accounts receivable. 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.

### 16 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 June 30, 2016 of \$51 (2015 - \$40) and for the six months ended June 30, 2016 of \$94 (2015 - \$100) 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:

	June 2016	March 2016	November 2015	October 2015
Expected volatility	51.9%	52.5%	53.3%	53.6%
Dividend	\$nil	\$nil	\$nil	\$nil
Risk-free interest rate	1.26%	1.52%	1.39%	1.49%
Expected life	6.5 years	6.5 years	6.5 years	6.5 years
Fair value	\$0.650	\$0.650	\$0.421	\$0.439

Expected volatility was based on three years of historical data.

## VILLAGE FARMS INTERNATIONAL, INC.

### Notes to Condensed Consolidated Interim Financial Statements for the Three and Six Months Ended June 30, 2016 and 2015

(In thousands of United States dollars, except per share amounts and unless otherwise noted)  
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The following table summarizes stock options granted, stock options exercised, and stock options forfeited for the six months ended June 30, 2016 and 2015.

	Six months Ended June 30,			
	2016		2015	
	Stock options	Weighted average exercise price	Stock options	Weighted average exercise price
Beginning of period	1,899,999	CA\$1.14	1,839,999	CA\$1.15
Granted	250,000	CA\$1.43	100,000	CA\$0.94
Granted	50,000	CA\$1.55	-	-
Exercised	(25,000)	CA\$1.24	-	-
Forfeitures	(5,000)	CA\$1.48	(25,000)	CA\$1.24
End of period	2,169,999	CA\$1.18	1,914,999	CA\$1.14

The following table summarizes stock options granted and outstanding as at June 30, 2016:

Exercise price	Number outstanding	Remaining contractual life (years)	Number of exercisable options
CA\$0.70	249,999	3.5	249,999
CA\$1.24	565,000	4.9	565,000
CA\$1.27	150,000	5.7	150,000
CA\$0.85	100,000	6.7	100,000
CA\$1.10	240,000	7.3	160,000
CA\$1.48	370,000	7.7	246,667
CA\$0.94	100,000	8.7	33,333
CA\$0.83	45,000	9.3	Nil
CA\$0.80	50,000	9.4	Nil
CA\$1.43	250,000	9.8	Nil
CA\$1.55	50,000	10.0	Nil
	2,169,999		

There were 25,000 options exercised in the six months ended June 30, 2016, and none exercised in the six months ended June 30, 2015. Share options outstanding as at June 30, 2016 have the following expiry dates and exercise prices:

	Exercise price in CA\$ per share	June 30, 2016	December 31, 2015
Expiry date - January 13, 2020	0.70	249,999	249,999
Expiry date - May 20, 2021	1.24	565,000	590,000
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	370,000	375,000
Expiry date - March 19, 2025	0.94	100,000	100,000
Expiry date - October 6, 2025	0.83	45,000	45,000
Expiry date - November 16, 2025	0.80	50,000	50,000
Expiry date - March 29, 2026	1.43	250,000	-
Expiry date - June 30, 2026	1.55	50,000	-
		2,169,999	1,899,999