

FINAL TRANSCRIPT

Village Farms International, Inc.

Second Quarter 2018 Financial Results Conference Call

Event Date/Time: August 15, 2018 — 11:00 a.m. E.T.

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August 15, 2018 — 11:00 a.m. E.T.

Village Farms International, Inc. Second Quarter 2018 Financial
Results Conference Call

CORPORATE PARTICIPANTS

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PRESENTATION

Operator

Good morning, ladies and gentlemen. Welcome to Village Farms International's Second Quarter 2018 Financial Results Conference Call.

Yesterday, Village Farms issued a news release reporting its financial results for the second quarter ended June 30, 2018. That news release, along with the Company's financial statements, are available on SEDAR and on the Company's website at villagefarms.com under the Investors heading.

Please note that today's call is being broadcast live over the internet and will be archived for replay, both by telephone and via the internet, beginning approximately one hour following completion of the call. Details of how to access the replays are available in yesterday's news release.

Before we begin, let me remind you that forward-looking statements may be made today during or after the formal part of this conference call. Certain material assumptions were applied in providing these statements, many of which are beyond our control. These statements are subject to a number of risks and uncertainties that could cause actual results to differ materially from those expressed or implied in forward-looking statements.

A summary of these underlying assumptions, risks, and uncertainties is contained in our various securities filings, including Village Farms' current Annual Information Form for the year ended December 31, 2017, and MD&A for the quarter ended June 30, 2018.

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These forward-looking statements are made as of today's date, and except as required by applicable securities law, we undertake no obligation to publicly update or revise any such statements.

I would now like to turn the call over to Michael DeGiglio, Chief Executive Officer of Village Farms International.

Please go ahead, Mr. DeGiglio.

Michael DeGiglio — Chief Executive Officer, Village Farms International, Inc.

Thank you, Stephanie. Thanks, everyone, for joining us, both by telephone and internet. With me today for the call is Village Farms' Chief Executive (sic) [Financial] Officer, Stephen Ruffini.

In terms of the agenda for today's call, I'll begin with an update on our continuing process at Pure Sunfarms, our joint venture for large-scale, high-quality, low-cost cannabis production in Canada. Steve will then do a brief review of our second quarter financial results, and I'll return for some concluding comments before Steve and I take your questions.

So beginning with Pure Sunfarms, it's been a very busy and productive summer so far, as our cannabis joint venture achieved several important milestones on or ahead of our planned schedule.

As I discussed in our last call in May, Pure Sunfarms received its first amendment to the cultivation licence for the 1.1 million square foot Delta 3 facility in Delta, British Columbia, which

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enabled the Pure Sunfarms team to begin commercial-scale production on the first 130,000 square feet.

Just a month and a half later, Pure Sunfarms received its second amendment enabling to expand production at Delta 3 ... at the Delta 3 facility to 225,000 square feet. By the end of July, all of the flower rooms in our licensed area were fully planted out and in production. On July 27, Pure Sunfarms received its sales licence from Health Canada for the Delta 3 facility.

We are incredibly proud of the speed at which Pure Sunfarms was able to achieve this, especially given the magnitude of the operation, with ongoing construction and management-employee ramp up just 144 days from receipt of the cultivation licence; to our understanding, about twice as fast as the average. It's a testament to the value of the decades of operational experience that Village Farms brings to the table, combined with our unwavering approach to always do things the right way and the right way the first time.

Pure Sunfarms has since completed its first sales of cannabis, so in well under a year since submitting its application for a cultivation licence, Pure Sunfarms has completed conversion of 500,000 square feet, or half of the facility, with the first 250,000 square feet of Delta 3 growing and harvesting at commercial scale and now generating its first revenues, as we await approval for the next expansion.

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As you will recall that Pure Sunfarms had an initial distribution agreement in place and is in discussions with other licensed producers for supply, there's no shortage of interest, and we are also discussing opportunities with various provincial government distributors.

Looking out a little further, we know that reliable supplies of high-quality, consistent large scale will be valued in the marketplace. And we believe we are well positioned for whatever the retail market holds going forward. There is consistent change, and we're standing by to see where it ends up.

But for Pure Sunfarms we'll become a vertically integrated producer, as we have said, with its own products and its own brands. And we are confident that Pure Sunfarms' goal to be the lowest-cost producer in Canada will provide it with an increasingly meaningful competitive advantage, a very durable, sustainable company in the long term as the cannabis market finds its niche and matures.

I'm also pleased to report that we've continued to—we're in the final stages of the conclusion for the presidency of Pure Sunfarms. And with the sales licence in place, Pure Sunfarms will aggressively move on its product development and branding strategies, including on—as I've said.

Importantly, even at this early stage in our production, Delta 3 facility's operating exactly as intended. The team has now completed multiple harvests, and both the quality of our product and yields are exceeding our expectations.

Every day, we are benefitting from the deep experience of the growing team, the existing skilled labour force, and specific knowledge and advantages that come with two decades of operating

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a very large-scale greenhouse, including years of understanding the microclimate that's unique to the Delta facility. It provides us with a tremendous advantage and significantly de-risks our production ramp up.

That said, I'm not surprised. Growing any crop of this kind on a massive scale is a complex and challenging undertaking, but it's what Village Farms has been doing successfully for 30 years.

We are also extremely satisfied with the performance of the nursery and its ability to keep pace without expansion. In fact, we now know the nursery not only has the capability to supply our Delta 3 facilities, but also other facilities and other producers as well.

Conversion of the remaining 1.1 million square feet continues to progress right on track, and we continue to expect the entire 1.1 million square feet to be converted by year-end, with the majority of that—approximately 75 percent—in production through the winter and full production beginning in the second quarter of next year.

As a reminder, from October to March, as per our plan, production will be temporarily suspended in Quadrant 1 at Delta 3, the quadrant we are currently growing in, as we go back and install the light fixtures. Quadrants 2, 3, and 4, 750,000 square feet, are all being converted with lighting right from the start.

The rented generating equipment to power supplemental light due this coming winter is on track to be operational by 1 October. As a reminder, for next winter, we have secured 24 megawatts of permanent power from the local utility, which will be operational for Delta 3 by the summer of

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2019. Village Farms has also secured another 24 megawatts of power, should we decide to use it in 2019.

Before I turn the call over to Steve, let me touch briefly on our incumbent produce business. Revenues of \$42 million was down about 8 percent year over year, mostly due to low volumes. In Canada, we have not fully replaced the capacity from the transfer of the 25 acres at Delta 3 facility to Pure Sunfarms.

In the US, volumes were impacted by planned maintenance at our Monahans facility. We took it out of production to do a full cleanup for the first time since 2012. So we'll be out of production—or we were for about a quarter. Record temperatures in Texas and some weather-related damage affected one of our facilities and some of our production.

So with that said, profitability this year continues to be impacted by significant higher freight costs, which were up actually 10 percent year over year—freight being in our cost of sales—as the entire US economy struggles with limited trucking capacity in the wake of new regulations.

In addition, we're still monitoring potential changes to NAFTA, where negotiations continue, and investing in more local housing in Texas to offset increased labour cost and availability.

Our produce business continues to focus on maximizing margins through exclusive high-margin varieties and low-cost production, as we provide the highest quality and safest produce to the leading grocers across the US and Canada, which we've done for 30 years. As I have said many times,

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Village Farms' years of experience driving that cost in our greenhouse operations will be of tremendous value to Pure Sunfarms going forward.

I'd now like to turn the call over to Steve to walk through our financial results in detail.

Steve?

Stephen Ruffini — Chief Financial Officer, Village Farms International, Inc.

Thanks, Mike. Our complete second quarter and year-to-date 2018 financial results and discussion are available on SEDAR, albeit they were not posted till this morning, due to SEDAR's system-wide issues that all filers experienced yesterday. I'm happy to go into more detail in the Q&A at the end of the call.

I will remind you that most of the numbers I will discuss are in US dollars, and when I discuss Pure Sunfarms, I will discuss Canadian dollars.

Sales for the second quarter of 2017, as Mike said, 42 million, down 8 percent. The decline was primarily due to lower volumes Mike has already discussed.

Overall, cost of sales for Q2 decreased 3 percent to 41.2 million from 42.8 million, primarily due to the decrease in volumes, as well as the decrease in third-party contract sales costs, which was offset by, as Mike said, increased freight expense and increased labour cost at both our Texas and BC facilities.

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Selling and other general administrative expenses for Q2 increased 5 percent to 3.4 million from 3.2 million, primarily related to higher public company-related activities, such as investor relations, legal and listing fees in the second quarter of 2018 versus '17.

We reported a net loss for the second quarter of 2018 of 2.3 million, or a loss of \$0.05 per share compared to a net profit of 4.3 million, or \$0.11 per share in Q2 of last year. Last year was primarily—profitability was primarily driven by an \$8.6 million booking recognized on the contribution of the Delta 3 facility to Pure Sunfarms in June of 2017.

Our EBITDA for Q2 was a negative 1.3 million compared to a positive 1.3 million in the same period last year.

Since our full financials were not posted until this morning, in all likelihood no one has had time to read them, and in fact if anybody actually ever does read them. But I'd like to go into the Pure Sunfarms' financials, which are contained in the footnote of the Village Farms' full financials, as most of the people on the call are probably more interested in the Pure Sunfarms business than our fresh produce business.

So I want to highlight a few financial items with respect to Pure Sunfarms. We continued to have low overheads, as our primary focus has been converting the facility, getting our Health Canada licences, and building the back office to support our oncoming sales activities.

For the quarter, we incurred C\$761,000 of operating expenses, having incurred 1.3 million year to date of operating expenses. For most of the long-term investors of Village Farms, you've heard

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me talk about our bio-asset accounting, which is required by the IFRS. The cannabis business is no different.

So for the first time on June 30th, Pure Sunfarms is reporting and has recorded a bio asset. The bio asset, as indicated in Footnote 7 of the Village Farms financial statements, has a bio asset value of \$422,000 as of June 30th. This figure essentially represents the gross margin, so that's sales value less cost of production and ancillary selling cost of the buds on the plants as of the reporting date on June 30th, which was very limited and essentially was one flower room on the reporting date of June 30th.

Pure Sunfarms did not value, as others do and are allowed to do, the full value of the plants in the facility. So the plants in the nursery, for instance, are carried at cost and are not contained in the biological value. So Pure Sunfarms' value, just the buds on the vine, which for the most part have either been sold or are in the process of prepared for sale.

So while a very small sample of what's forthcoming, the initial production is profitable. And we expect to report positive net income from Pure Sunfarms beginning in Q3. And Pure Sunfarms will be generating positive cash flow from operations in Q4 and generating excess cash flows starting in Q1 of 2019.

That concludes my remarks, and I'll turn the mic back over to Mike.

Michael DeGiglio

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Thanks, Steve. We are now just 62 days from federal legalization of adult-use of cannabis in Canada.

Village Farms, through our 50 percent ownership of what will soon be one of the largest cannabis production operations in Canada and perhaps as well as well is on the verge of transforming its earnings trajectory in the process. In many ways, we have taken a differential path to get where we are today. We entered the industry later than many of the other large LPs. We entered the industry underpinned by a \$200 million a year produce business.

We've been very capital efficient converting existing greenhouse facility operations and pursuing a partnership model. As a result, we've had limited shareholder dilution. I'm proud to be able to say that Village Farms has been able to achieve everything it has in terms of Pure Sunfarms without hiring a single additional person within the organization.

All of this, we believe, will contribute significantly to shareholder value as we expand production and drive revenue and cash flows from Pure Sunfarms.

Pure Sunfarms has had to prove itself every step of the way: conversion, licensing, production, and sales all within less than a year. As we continue to do so, we will continue to ramp production up as we ramp up sales, and as we begin to generate positive cash flow, which we expect to do shortly, I am confident that Pure Sunfarms and Village Farms as an owner will begin to recognize for the significant long-term value what is being generated.

With that, I'd like open up the call to any questions.

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Q&A

Operator

We will now take questions from institutional investors. If you would like to ask a question, please press *, then the number 1 on your telephone keypad. And we'll pause for a moment to compile the Q&A roster.

Your first question comes from Russell Stanley with Echelon Wealth Partners. Please go ahead.

Russell Stanley — Echelon Wealth Partners

Good morning, guys.

Michael DeGiglio

Good morning.

Stephen Ruffini

Russell.

Russell Stanley

Congrats on the progress. I guess my first question, with respect to quality and yield, can you talk about, I guess, what your current yields are? And how that reflects or inputs your—informs your production estimates for this year and next?

Michael DeGiglio

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Well, I think on the second part of the question—I'll answer the second part. I mean, we feel very confident about the production yields we've put out for both this year and next year. So what we're seeing makes us feel extremely confident, but we're in the midst of conversion, and it's very hard to put out yields based on one harvest.

As you remember, we're doing 85. Once we ramp up, it'll be 85 harvests a year in 17 grow rooms, roughly 5 to 5.5 per room. So we really need to get a lot more traction before we can look at where the yields will start levelling off at that point. But I can say that we are confident in exceeding our expectations that we put out.

Russell Stanley

Excellent. And with respect to quality, I guess, can you comment or provide some colour as to how you're measuring that against what you were expecting?

Michael DeGiglio

Well it's still early in the game. But I mean, outflow—we've had 100 percent harvests of meeting our specifications and what we anticipate the specifications in the market. So basically, we are harvesting everything we are growing, and it's meeting the spec.

We've had, even to our sort of surprise, we've had no shrink whatsoever, and that quality spec is being met, so. And if we judge it from what we're hearing from the customers we're selling, there's no issues at this point in time.

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And keep in mind that we have to go through a whole year cycle because growing in the summer or during the summer is much different than growing in the fall and winter. So we really need to get some more traction, again, where we can say that with confidence on a full year cycle.

We also are ... we're increasing our strains that we're growing to have a good choice on where we want to focus and what strains we want to focus on, both THC strains and CBD strains. But we definitely need more time to get through that, Russell.

Russell Stanley

Okay. That's helpful. And just, I guess, switching gears to the sales side. Not sure what detail you can provide, but any colour who you're selling to at this point?

Stephen Ruffini

At this point, we are selling to other LPs.

Russell Stanley

Okay.

Stephen Ruffini

Obviously, Emerald is included on that list. We've announced that supply agreement. We are selling to other LPs, (unintelligible) and a spot basis as product is available. People are essentially bidding for it.

With respect to everyone I've seen, BC has announced a new RFP proposal. So Pure Sunfarms now has a sales licence. We'll essentially be putting in products by the end of the month, as

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requested by the BC Liquor Board. So we're looking forward to selling product to them, based on however the rollout goes in BC.

Russell Stanley

Great. And I guess that dovetails with my last question. You mentioned BC. I guess, can you talk a little bit about beyond that where your geographic sales priorities are at this point as far as the provinces are concerned? I'm assuming Ontario's there. But can you, I guess, elaborate on where else you might be looking?

Michael DeGiglio

Go ahead.

Stephen Ruffini

Yeah. We're ramping up, and as Mike mentioned, the executive for Pure Sunfarms is getting close, and he and his sales and product development team will be making those decisions as we go forward.

Michael DeGiglio

Right. And keep in mind, we still have—as we projected for 2018 was about 7,000, 8,000 kilograms that we don't start to ramp up, really, till we get into 2019. So we certainly don't want to be out there overcommitting till we have the quality of the product.

So working in BC where we're located makes the most sense at this point in time.

Russell Stanley

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Right. That's great. Thank you for the colour, and congrats again on the progress.

Michael DeGiglio

Thanks, Russell.

Stephen Ruffini

Thanks.

Operator

Again, if you would like to ask a question, please press *, then the number 1 on your telephone keypad.

Your next question comes from Bruce Schindler with Stockbridge Associates. Please go ahead.

Bruce Schindler — Stockbridge Associates

Hi, fellas. How are you today?

Michael DeGiglio

We're good. Hey, Bruce.

Bruce Schindler

Good. I want to congratulate you on the great progress and this incredible timing on the sales licence that it came so fast. I am an investor in other companies, and I know they're waiting 8 to 12, and in some cases over a year for that sales licence. I'd also like to congratulate you on increasing with Great Northern the value of that working relationship.

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Village Farms International, Inc. Second Quarter 2018 Financial
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Thank you, Bruce.

Bruce Schindler

In particular, I'd like to—in the Echelon report that I'm sure you read, that came out, I believe, on Monday. It talks about this 40 percent that Emerald has committed to. I'd like to know, is this cast in stone and writing and part of your JV, that Emerald gets, off the top, 40 percent of production of the smaller amount in '18, and of the larger amount in '19? Is that cast in stone?

Stephen Ruffini

Bruce, this is Steve. It's not in the shareholder agreement. It's a separate supply agreement that we entered into on behalf of Pure Sunfarms for the periods 2018 and '19, but it's not a requirement in the shareholder agreement. It was a separate, arms-length transaction between essentially two LPs, Pure Sunfarms and Emerald.

Bruce Schindler

Okay. And next, I'd like to ask about the next 25 acres, potentially. I'm sure you have enough on your plate, obviously, in expanding all the footage in Delta 3, I guess, is what it is. But can you give any insight into the 25 acres? And how those conversations might be coming along?

Michael DeGiglio

I can. Well, first of all, Village Farms gave Pure Sunfarms an option for the other existing facilities, Delta 1 and 2, one being—Delta 2 being 25 acres or another 1.1 million square feet, and

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Delta 1 being 60 acres or almost 3 million square feet. Those options cannot be triggered under the shareholder agreement till such time that Delta 3 has its full cultivation licence for the full 1.1 million square feet where, as we've said, we're looking at year-end for that to occur.

But Village Farms' view is that we have opened those discussions up because we can provide a waiver to Pure Sunfarms, should they want to move on that option sooner. And all I can say is we've put that forward, and there's been no decision as of yet.

Bruce Schindler

Okay. It just seems to me that—do we believe Emerald is having any financial problems or anything? Since it was clear in research that nothing was going to happen in their Richmond facility; they've been turned down twice. And none of our group at Stockbridge can figure out what they did in Quebec and—

Michael DeGiglio

Well, I can say though, Bruce, that, that has nothing to do with Pure Sunfarms and nothing to do—

Bruce Schindler

No?

Michael DeGiglio

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—with Village Farms. So I really don't know what—you would have to refer to Emerald because we have no knowledge or information of that, and I would rather not—you know, it's their business.

Bruce Schindler

Yeah. All right—

Michael DeGiglio

So I know that I can say Pure Sunfarms is looking down the road. It's not restricted to operate in any other country as an entity, and it is also looking at opportunities within Canada as well, to what we're doing in Delta or may do in Delta. So that's all I can really say about that at this point.

Bruce Schindler

Okay. That's very enlightening. I have some questions. Some of the figures I had seen, there's been these 1.1 million feet that is built out. Based upon projections only, that would equal about 5 percent of the grow in Canada, and that was done by a fellow at Pacific—I forget the exact name of the research house. Do you concur with that? If you had seen that report, I think it was out about three years ago—

Michael DeGiglio

Yeah. I've seen that before, but I guess really, it really depends where the market's going to be in two years, so. But I would say within 5 percent is probably a good number, based on what we think our ramp-up will be in 2020.

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Bruce Schindler

Okay. Well, thanks very much and a wonderful report.

Michael DeGiglio

Thank you.

Operator

There are no further questions at this time.

Michael DeGiglio

Okay. I want to thank everybody for joining this conference call, and we look forward to reporting on our progress over the next couple months going forward. Thank you.

Operator

Thank you. This concludes today's conference call. You may now disconnect.
