Village Farms International, Inc.

Condensed Consolidated Interim Financial Statements

Three Months Ended March 31, 2019 and 2018

(Unaudited)

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

	March 31, 2019	December 31, 2018
ASSETS		
Current assets		
Cash and cash equivalents	$ 6,188	$ 11,920
Trade receivables	9,789	11,292
Amounts due from joint ventures (note 7)	11,223	10,873
Other receivables	267	332
Inventories (note 4)	22,888	22,485
Prepaid expenses and deposits	1,030	889
Biological asset (note 5)	5,170	4,230
Total current assets	56,555	62,021
Non-current assets		
Property, plant and equipment (note 6)	69,583	77,479
Right-of-use assets (note 3)	4,276	-
Investment in joint ventures (note 7)	41,319	18,108
Other assets	3,968	2,207
Total assets	$ 175,701	$ 159,815
LIABILITIES		
Current liabilities		
Line of credit	$ 5,000	$ 2,000
Trade payables	11,208	14,601
Current maturities of long-term debt (note 8)	3,449	3,414
Accrued liabilities	4,299	3,509
Lease liabilties - current (note 3)	801	78
Total current liabilities	24,757	23,602
Non-current liabilities		
Long-term debt (note 8)	31,611	32,445
Deferred tax liability	5,814	1,920
Lease liabilities (note 3)	3,524	102
Other liabilities	1,134	1,050
Total liabilities	66,840	59,119
SHAREHOLDERS' EQUITY		
Share capital	61,832	60,872
Contributed surplus	2,681	2,198
Revaluation surplus (note 6)	3,351	4,321
Accumulated other comprehensive loss	(518)	(562)
Retained earnings	41,515	33,867
Total shareholders' equity	108,861	100,696
Total liabilities and shareholders' equity	$ 175,701	$ 159,815

Subsequent event (note 17)

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

(In thousands of United States dollars, except for shares outstanding)

(Unaudited)

	Number of Common Shares	Share Capital	Contributed Surplus	Revaluation Surplus	Accumulated Other Comprehensive (Loss) Income	Retained Earnings	Total Shareholders' Equity
Balance at January 1, 2018 (restated - note 3)	42,242,612	$ 36,115	$ 1,726	$ 4,321	$ (391)	$ 39,012	$ 80,783
Shares issued on exercise of stock options	205,001	169	-	-	-	-	169
Share-based compensation (note 16)	-	-	118	-	-	-	118
Cumulative translation adjustment	-	-	-	-	(55)	-	(55)
Net loss	-	-	-	-	-	(1,143)	(1,143)
Balance at March 31, 2018	42,447,613	$ 36,284	$ 1,844	$ 4,321	$ (446)	$ 37,869	$ 79,872
Balance at January 1, 2019	47,642,672	$ 60,872	$ 2,198	$ 4,321	$ (562)	$ 33,867	$ 100,696
Shares issued on exercise of stock options	15,999	54	(18)	-	-	-	36
Share-based compensation (note 16)	153,332	908	501	-	-	-	1,409
Issuance costs	-	(2)	-	-	-	-	(2)
Cumulative translation adjustment	-	-	-	-	44	-	44
Reclassification of previously recorded revaluation gain of land (note 6)	-	-	-	(970)	-	-	(970)
Net income	-	-	-	-	-	7,648	7,648
Balance at March 31, 2019	47,812,003	$ 61,832	$ 2,681	$ 3,351	$ (518)	$ 41,515	$ 108,861

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 Loss

(In thousands of United States dollars, except per share data)

(Unaudited)

	Three Months Ended March 31, 2019	2018
Sales (note 14)	$ 31,890	$ 29,490
Cost of sales (note 11)	(31,582)	(25,902)
Change in biological asset (note 5)	(100)	(659)
Selling, general and administrative expenses (note 11)	(5,432)	(3,475)
Loss from operations	(5,224)	(546)
Interest expense, net	607	598
Foreign exchange gain	(278)	(7)
Other expense, net	132	(18)
Share of (income) loss from joint ventures (note 7)	(4,268)	237
Gain on disposal of assets (note 6)	(13,566)	-
Income before income taxes	12,149	(1,356)
Provision for (recovery of) income taxes	4,501	(213)
Net income (loss)	$ 7,648	$ (1,143)
Basic income (loss) per share (note 15)	$ 0.16	$ (0.03)
Diluted income (loss) per share (note 15)	$ 0.15	$ (0.03)
Other comprehensive loss:		
Foreign currency translation adjustment	44	(55)
Comprehensive income (loss)	$ 7,692	$ (1,198)

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

(In thousands of United States dollars)

(Unaudited)

	Three Months Ended March 31, 2019	Three Months Ended March 31, 2018
Cash flows used in operating activities:		
Net income (loss)	$ 7,648	$ (1,143)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,926	1,801
Share of (income) loss from joint ventures (note 7)	(4,268)	237
Interest expense	743	598
Interest income	(136)	-
Gain on disposal of assets (note 7)	(13,566)	-
Share-based compensation (note 16)	1,409	118
Deferred income taxes	3,892	(216)
Change in biological asset (note 5)	100	659
Changes in non-cash working capital items (note 13)	(2,377)	(7,390)
Net cash used in operating activities	(4,629)	(5,336)
Cash flows used in investing activities:		
Purchases of property, plant and equipment, net of rebate	3	(348)
Note receivables to joint ventures (note 7)	(2,311)	-
Proceeds from sale of asset	60	-
Investment in joint ventures (note 7)	(281)	-
Net cash used in investing activities	(2,529)	(348)
Cash flows from financing activities:		
Proceeds from borrowings	3,000	3,000
Repayments on borrowings	(838)	(77)
Interest paid on long-term debt, net	(558)	(598)
Proceeds from exercise of stock options	34	169
Payments on capital lease obligations	(212)	(17)
Net cash provided by financing activities	1,426	2,477
Effect of exchange rate changes on cash and cash equivalents	-	(15)
Net decrease in cash and cash equivalents	(5,732)	(3,222)
Cash and cash equivalents, beginning of period	11,920	7,091
Cash and cash equivalents, end of period	$ 6,188	$ 3,869
Supplemental cash flow information:		
Income taxes paid	$ -	$ -

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

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 March 31, 2019 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^{th} Street, Delta, British Columbia, Canada, V4K 3N3. VFF owns a 65% equity interest in Village Fields Hemp USA LLC ("VF Hemp") and a 50% equity interest in Pure Sunfarms Corp. ("Pure Sunfarms"), both of which are recorded as Investments in Joint Ventures (note 7).

The Company's shares are listed on the Toronto Stock Exchange under the symbol VFF and are also listed in the United States on the Nasdaq Capital Market ("Nasdaq") under the symbol VFF.

The Company 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. The Company's joint venture, Pure Sunfarms, is a licensed producer and supplier of cannabis products to be sold to other licensed providers and provincial governments across Canada and internationally. The Company's joint venture VF Hemp is in the start of stage of becoming an outdoor cultivator of high cannabidiol ("CBD") hemp and CBD extraction in multiple states throughout the United States

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"), as applicable to interim financial statements, including 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, 2018, 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 with the exception of IFRS 16, *Leases* as described in Note 3.

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 interim statement of financial position ("interim statement of financial position"):

- biological assets are measured at fair value less costs to sell;
- land is valued at fair market value; and
- marketable equity securities are measured at fair value through profit and loss.

Functional and Presentation Currency

The functional currency for each entity included in these interim financial statements is the currency of the primary economic environment in which the entity operates. These interim financial statements are presented in United States dollars ("U.S. dollars") which have been rounded to the nearest thousands, except per share amounts. Currency conversion to U.S. dollars is performed in accordance with IAS 21, *The Effects of Changes in Foreign Exchange Rates*.

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

3 CHANGES IN ACCOUNTING POLICIES

These changes were made in accordance with the applicable transitional provisions.

Amendments to IFRS 11, *Joint Arrangements*, and IAS 28, *Investments in Associates and Joint Ventures* establishes the criteria for accounting for joint ventures. Investments in joint ventures are accounted for using the equity method. The equity method involves recording the initial investment at cost and subsequently adjusting the carrying value of the investment for the proportionate share of the profit or loss, other comprehensive income or loss and any other changes in the joint venture's net assets such as dividends. At each statement of financial position date, the Company will consider whether there is objective evidence that its investment in the joint venture is impaired. If there is such evidence of impairment, the Company will determine the amount of the impairment and a loss will be recorded in the condensed consolidated interim statement of income (loss) ("interim statement of income (loss)"). The adoption of the amendments to IFRS 11 did not have and impact on the Company's interim financial statements.

IFRS 16, *Leases*, was issued in January 2016 to replace IAS 17, *Leases*, and related Interpretations. IFRS 16 establishes the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer (lessee) and the supplier (lessor) to increase transparency and comparability among organizations by requiring the recognition of right-of-use assets and lease liabilities on the balance sheet.

On January 1, 2019, the Company adopted IFRS 16 using the updated modified retrospective transition approach and did not restate prior periods. The Company's classes of assets include land leases, building leases and equipment leases.

On adoption, the Company recognized lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17, *Leases*. These lease liabilities were measured at the present value of the remaining lease payments, discounted using the borrowing rate of the Company. The weighted average incremental borrowing rate applied to the lease liabilities on January 1, 2019 was 6.25%. These leases are included in right-of-use assets, short-term lease liabilities and long-term lease liabilities in our consolidated balance sheet. Right-of-use assets are amortized on a straight-line basis over the lease term.

For leases previously classified as finance leases the entity recognized the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right of use asset and the lease liability at the date of initial application.

Additionally, the Company has elected the short-term lease exception for all classes of assets, and does not apply the recognition requirements for leases of 12 months or less, and recognizes lease payments for short-term leases as expense either straight-line over the lease term or as incurred depending on whether the lease payments are fixed or variable. These elections are applied consistently for all leases.

	2019
Operating lease commitments disclosed as at December 31, 2018	$ 5,064
Less: short-term leases recognized on a straight-line basis as expense	(210)
	4,854
Discounted using the lessee's incremental borrowing rate of 6.25% at the date of initial application	4,269
Add: additional leases identified on adoption of IFRS 16	88
Add: finance lease liabilities recognized as at December 31, 2018	180
Lease liability recognized as at January 1, 2019	$ 4,537
Of which are:	
Current lease liabilities	1,022
Non-current lease liabilities	3,515
	$ 4,537

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

The recognized right-of-use assets relate to the following types of assets:

	December 31, 2018	January 1, 2019
Land	$ -	$ 140
Building	-	4,017
Equipment	176	380
Total right-of-use assets	$ 176	$ 4,537

4 INVENTORIES

	March 31, 2019	December 31, 2018
Deferred crop costs	$ 26,193	$ 24,649
Purchased produce inventory	535	643
Biological asset adjustment (note 5)	(3,911)	(2,871)
Spare parts inventory	71	64
	$ 22,888	$ 22,485

The cost of inventories recognized as expense and included in cost of sales for the three months ended March 31, 2019 amounted to $25,738 (2018 - $20,205). 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 (loss) is as follows:

	March 31, 2019	December 31, 2018	March 31, 2018
Estimated sales value - biological asset	$ 11,646	$ 8,004	$ 12,793
Less			
Estimated remaining costs to complete	5,901	3,304	6,127
Estimated selling costs	575	470	667
Fair value of biological asset less costs to sell	5,170	4,230	5,999
Less actual costs	3,911	2,871	4,465
Increase in fair value of biological asset over cost	1,259	1,359	1,534
Fair value over cost of harvested and sold biological asset - beginning of year	1,359	2,193	2,193
Change in biological asset	$ (100)	$ (834)	$ (659)

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
At January 1, 2019						
Cost	$ 9,047	$ 3,820	$ 77,003	$ 65,664	$ 552	$ 156,086
Accumulated depreciation	-	(2,308)	(36,289)	(40,186)	-	(78,783)
Net book value (note 3)	$ 9,047	$ 1,512	$ 40,714	$ 25,478	$ 552	$ 77,303

Three Months ended March 31, 2019

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

Opening net book value	$ 9,047	$ 1,512	$ 40,714	$ 25,478	$ 552	$ 77,303
Additions/transfers					166	166
Placed in service					(12)	(12)
Disposals	(1,848)		(4,489)	(4,178)		(10,515)
Accum deprec on disposal			1,934	2,305		4,239
Depreciation expense		(21)	(590)	(1,056)		(1,667)
Foreign currency translation adjustment			6	63		69
Closing net book value	$ 7,199	$ 1,491	$ 37,575	$ 22,612	$ 706	$ 69,583
At March 31, 2019						
Cost	$ 7,199	$ 3,819	$ 72,510	$ 60,862	$ 706	$ 145,096
Accumulated depreciation	-	(2,328)	(34,935)	(38,250)	-	(75,513)
Net book value	$ 7,199	$ 1,491	$ 37,575	$ 22,612	$ 706	$ 69,583

Depreciation related to the greenhouse facilities and equipment is expensed in cost of sales. Land is the only item of property, plant and equipment that is stated at fair values. On March 31, 2019, Pure Sunfarms exercised its option to acquire the Delta 2 assets and operations. Delta 2 land was disposed of as part of that transaction (note 7). The revaluation surplus related to Delta 2 of $1.7 million, net of taxes, that was previously recorded as a component of equity, was reclassified and included as part of the gain on disposal of assets recorded in the interim statements of income (loss).

7 INVESTMENT IN JOINT VENTURES

Pure Sunfarms Corp.

On June 6, 2017, the Company entered into an agreement to form Pure Sunfarms, a B.C. corporation, with Emerald Health Therapeutics Inc. ("Emerald"). The purpose of Pure Sunfarms is to produce, market and distribute cannabis in Canada. Village Farms has a 50% ownership interest in Pure Sunfarms in the form of common shares. The Company has concluded that the agreement constitutes a joint arrangement where joint control is shared with Emerald and therefore has accounted for Pure Sunfarms in accordance with IFRS 11 and IAS 28, using the equity method.

On July 5, 2018, the Company and Emerald Health Therapeutics Canada Inc. (a subsidiary of Emerald) (together, the "Shareholders") entered into a Shareholder Loan Agreement (the "Loan Agreement") with Pure Sunfarms, whereby, as at March 31, 2019, the Shareholders had each contributed CA$13,000 (US$10,082) the form of a demand loan to Pure Sunfarms. Effective January 1, 2019, the loan amounts bear simple interest at the rate of 6.2% per annum, calculated semi-annually. Interest will accrue and be payable upon demand being made by both Shareholders (see note 10).

On March 30, 2019, Pure Sunfarms exercised its option to utilize the Delta 2 assets and operations. The contribution of the assets has been accounted for as a disposal of the land, greenhouse facility and other assets in exchange for 25,000,000 common shares of Pure Sunfarms. This was a non-cash transaction, and it was estimated that the fair value of the land, building and other assets was CA$25 million (US$18.7 million) at the date of contribution. The Company recognized a gain of $13.6 million on the contribution of the fixed assets. The Company had previously recorded a fair value increase on the Delta 2 land being contributed (2016 - $2.0 million), which was recorded in accumulated other comprehensive income, net of taxes of $1.0 million. As a result of the contribution of the Delta 2 land, this amount has been recycled to the interim statements of income, and has been included in the gain noted above. As at March 31, 2019, the total investment in Pure Sunfarms of US$41.1 million is recorded in the interim statements of financial position. Final determination with respect to the transfer of the land, building and equipment will not be made until year end. As such, the investment and related gain on disposal of assets may be adjusted at year end.

The Company's share of the joint venture consists of the following:

Balance, January 1, 2019	$ 18,108
Investments in joint venture	18,661
Transaction costs	55
Share of net income for the year	4,298
Balance, March 31, 2019	$ 41,122

Summarized financial information of Pure Sunfarms (in $000's of CAD):

	March 31, 2019	December 31, 2018
Current assets		
Cash and cash equivalents	$ 7,027	$ 2,362
Trade receivables	12,807	1,312
Inventory	7,090	8,356
Biological asset	18,192	7,388
Other current assets	872	996
Non-current assets	101,001	67,263
Current liabilities		
Trade payables	(4,290)	(9,361)
Borrowings due to joint venture partners	(28,296)	(26,523)
Other current liabilities	(6,224)	(3,582)
Non-current liabilities		-
Borrowings – long term	(18,500)	-
Deferred tax liability	(5,228)	(2,688)
Net assets	$ 84,451	$ 45,523

Reconciliation of net assets:	March 31, 2019	December 31, 2018
Accumulated retained earnings	$ 16,951	$ 5,523
Contributions from joint venture partners	67,500	40,000
Net assets	$ 84,451	$ 45,523

	Three Months Ended March 31, 2019	Three Months Ended March 31, 2018
Revenue	$ 14,359	$ -
Cost of sales*	(5,076)	-
Selling, general and administrative expenses	(1,328)	(554)
Change in fair value of bio-asset	8,114	-
Income (loss) from operations	16,069	(554)
Interest expense, net	1	-
Foreign exchange gain	(52)	-
Other income, net	(13)	(50)
Income (loss) before taxes	16,133	(604)
(Provision for) recovery of income taxes	(4,705)	-
Net income (loss)	$ 11,428	$ (604)

*Included in cost of sales is CA$606 of amortization expense.

Village Fields Hemp USA LLC

On February 27, 2019, the Company entered into a joint venture with Nature Crisp, LLC ("Nature Crisp") to form VF Hemp for the objective of outdoor cultivation of high percentage cannabidiol ("CBD") hemp and CBD extraction in multiple states throughout the United States. VF Hemp is 65% owned by the Company and 35% owned by Nature Crisp. Under the terms of the VF Hemp Joint Venture Agreement, the Company will lend approximately US$15 million to VF Hemp for start-up costs and working capital. Capital investment for extraction capabilities is to be determined and dependent on future decisions with respect to the locations of hemp production and the extraction operations. The Company has concluded that the agreement constitutes a joint arrangement where joint control is shared with Nature Crisp and therefore has accounted for VF Hemp in accordance with IFRS 11 and IAS 28, using the equity method.

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

On March 25, 2019, the Company entered into a Grid Loan Agreement (the "Grid Loan") with VF Hemp, whereby, as at March 31, 2019, the Company had advanced $2,250 in the form of a grid loan to VF Hemp. The Grid Loan has a maturity date of March 25, 2022, and will bear simple interest at the rate of 8% per annum, calculated monthly (note 10).

The Company's share of the joint venture consists of the following:

Balance, beginning of the period	$	-
Investments in joint venture		7
Share of net loss		(30)
Transaction costs		220
Balance, March 31, 2019	$	197

Summarized financial information of VF Hemp:

Current assets		
Cash and cash equivalents	$	10
Prepaid growing supplies		2,125
Other current assets		333
Non-current assets		15
Current liabilities		(268)
Non-current liabilities		(2,250)
Net assets	$	(35)

Reconciliation of net assets:		
Net loss for the three months ended March 31, 2019	$	(45)
Contributions from joint venture partners		10
Net assets	$	(35)

8 DEBT

	March 31, 2019		December 31, 2018	
Long-term debt:				
Opening balance	$	35,859	$	38,380
IFRS adjustment for deferred financing fees		-		260
Repayment of debt		(838)		(2,738)
Foreign currency translation		39		(43)
Closing balance	$	35,060	$	35,859
Current portion		3,449	$	3,414
Non-current portion		31,611		32,445
	$	35,060	$	35,859

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 May 1, 2021 and a balance of $33,615 as at March 31, 2019. 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. As at March 31, 2019, borrowings under the FCC Loan agreement are subject to an interest rate of 7.233% (December 31, 2018 – 7.082%) which 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 that includes a non-revolving fixed rate loan of CA$3.0 million with a maturity date of June 2023 and fixed interest rate of 4.98%. As at March 31, 2019, the balance was US$1,262 (December 31, 2018 - US$1,279). The loan agreement also includes an uncommitted, non-revolving credit facility for up to CA$300 to cover Letters of Guarantee issued by the bank on behalf of the Company, with a maximum term of

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

365 days, renewable annually. The loan agreement also includes an uncommitted credit facility for up to CA$700 to support financing of certain capital expenditures. The Company received an initial advance of CA$250 in October 2017. Each advance is to be repaid on a five-year, straight-line amortization of principal, repaid in monthly installments of principal plus interest at an interest rate of CA$ prime rate plus 200 basis points. As at March 31, 2019, the balance was US$134 (December 31, 2018 - $138).

The Company has a line of credit agreement with a Canadian Chartered Bank ("Operating Loan"). The revolving Operating Loan 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 March 31, 2019, US$5,000 was drawn on this facility (December 31, 2018 - $2,000), which is available to a maximum of CA$13,000, less outstanding letters of credit totaling US$261 and CA$38.

The Company's borrowings ("Credit Facilities") are subject to certain positive and negative covenants. As at March 31, 2019 the Company was in compliance with all covenants on its Credit Facilities.

Accrued interest payable on the credit facilities and loans as at March 31, 2019 was $232 (December 31, 2018 - $184) and these amounts are included in accrued liabilities in the interim statement of financial position.

As security for the FCC Loan, the Company has provided promissory notes, a first mortgage on the VFF-owned greenhouse properties (excluding the Delta 3 and Delta 2 greenhouse facilities), 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, 2019 was $137,463 (December 31, 2018 – $114,544).

As security for the Operating Loan, the Company has provided promissory notes and a first priority security interest over its accounts receivable and inventory. In addition, the Company has granted full recourse guarantees and security therein. The carrying value of the assets pledged as collateral as at March 31, 2019 was $37,847 (December 31, 2018 - $38,007).

The aggregate annual principal maturities of long-term debt for the next five years and thereafter are as follows:

Remainder of 2019	$	2,571
2020		3,420
2021		28,560
2022		337
2023		172
Thereafter		-
	$	35,060

9 FINANCIAL INSTRUMENTS

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

	March 31, 2019		December 31, 2018	
Cash and cash equivalents	$	6,188	$	11,920
Trade receivables	$	9,789	$	11,292
Other financial assets	$	14,017	$	11,659
Other financial liabilities	$	60,109	$	57,198

Financial assets and liabilities are recognized on the interim statements of financial position at fair value in a hierarchy that is based on the 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).

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

As at March 31, 2019 and December 31, 2018, the Company's financial instruments included cash and cash equivalents, trade receivables, notes receivable, other receivables, patronage stock, accounts payable, other current liabilities and notes payable. Due to the short-term maturities of cash and cash equivalents, accounts receivable, accounts payable and other current liabilities, the carrying amounts approximate fair value at the respective statement of financial position sheet dates. The carrying value of the notes receivable and notes payable approximate their fair value based on a comparison with the prevailing market interest rates. The fair values of the Company's notes receivable and notes payable are level 2 measurements in the fair value hierarchy. All other financial assets and liabilities are level 1. None were classified as level 3.

There were no financial instruments categorized as Level 3 as at March 31, 2019 and December 31, 2018. There were no transfers of assets or liabilities between levels during the three and twelve months ended March 31, 2019 and December 31, 2018, respectively.

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

	2019	2018
Interest income earned on cash and cash equivalents	$ 25	$ -
Interest income earned on other financial assets	$ 111	$ -
Interest expense from other financial liabilities	$ 743	$ 598

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, 2019 and December 31, 2018. The Company uses financial instruments only for risk management purposes, not for generating trading profit.

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 represented more than 10% of the balance of trade receivables, representing 15.6%, 15.5% and 11.6% of the balance of trade receivables as at March 31, 2019 (December 31, 2018 - two customer represented 13.8% and 11.5%). The Company believes that its expected credit losses are limited due to the protection afforded to the Company by the *Perishable Agricultural Commodities Act* (the "PACA") for its sales in the United States, which represent the majority 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 of the debtor).

As at March 31, 2019, the allowance for doubtful accounts balance was calculated based on the expected credit loss model and expected credit losses continues to be insignificant.

As at March 31, 2019, 91.1% (December 31, 2018 – 90.3%) of trade receivables were outstanding less than 30 days, 7.3% (December 31, 2018 – 8.3%) were outstanding for between 30 and 90 days and the remaining 1.6% (December 31, 2018 – 1.4%) 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 three months ended March 31, 2019 would have been lower by $43. This represents $43 in increased interest expense (2018 - $54).

iii) Foreign exchange risk

As at March 31, 2019, the Canadian/U.S. foreign exchange rate was CA$1.00 = US$0.7489 (December 31, 2018 – US$0.7336). 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, 2019 and December 31, 2018 with the net foreign exchange gain or loss directly impacting net income (loss).

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

	March 31, 2019	December 31, 2018
Financial assets		
Cash and cash equivalents	$ 214	$ 839
Trade receivables	230	328
JV notes receivable	1,346	1,335
Financial liabilities		
Trade payables and accrued liabilities	(282)	(373)
Loan payable	(186)	(193)
Net foreign exchange gain (loss)	$ 1,322	$ 1,936

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, 2019:

Financial liabilities	**Total**	**1 year**	**2-3 years**	**4-5 years**	**More than 5 years**
Long-term debt	$ 38,896	$ 3,814	$ 34,483	$ 599	$ -
Line of credit	5,000	5,000	-	-	-
Trade payables	11,208	11,208	-	-	-
Accrued liabilities	3,844	3,844	-	-	-
Lease liabilities	4,971	1,101	2,233	1,408	229
Other liabilities	1,134	-	1,134	-	-
Total	$ 65,053	$ 24,967	$ 37,850	$ 2,007	$ 229

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, as at March 31, 2019, the Company has an operating credit facility of up to CA$13,000, of which US$5,000 was drawn as at March 31, 2019, less outstanding letters of credit totaling US$261 and CA$38.

10 RELATED PARTY TRANSACTIONS AND BALANCES

On February 13, 2019, the Company announced that Pure Sunfarms had entered into a credit agreement with Bank of Montreal, as agent and lead lender, and Farm Credit Canada, as lender, in respect of a CA$20 million secured non-revolver term loan (the "Credit Facility"). The Credit Facility, which matures on February 7, 2022, is secured by the Delta 3 facility, and contains customary financial and restrictive covenants. The Company is not a party to the Credit Facility but has provided a limited guarantee in the amount of CA$10 million in connection with the Credit Facility.

As at March 31, 2019, the Company had amounts due from its joint venture, Pure Sunfarms, totaling $1,140 (December 31, 2018 - $1,079) primarily for consulting services and the reimbursement of expenses which occurred in the year. These amounts are non-interest bearing and due on demand. On July 5, 2018, the Shareholders entered into a Loan Agreement with Pure Sunfarms, whereby, as at March 31, 2019, the Shareholders had each contributed CA$13,000 (US$10,082) in the form of a demand loan to Pure Sunfarms. Effective January 1, 2019, the loan amounts bear simple interest at the rate of 6.2% per annum, calculated semi-annually. Interest is accrued and payable on demand being made by either Shareholder. Prior to January 1, 2019, the loan amount bore interest at the rate of 8.0%. These amounts are included in amounts due from joint venture in the interim statements of financial position.

On March 25, 2019, the Company entered into a Grid Loan Agreement (the "Grid Loan") with VF Hemp, whereby, as at March 31, 2019, the Company had contributed $2,250 in the form a grid loan to VF Hemp. The Grid Loan has a maturity date of March 25, 2022, and will bear simple interest at the rate of 8% per annum, calculated monthly.

One of the Company's employees is related to a member of the Company's executive management team and received approximately $27 in salary and benefits during the three months ended March 31, 2019 (2018 - $27).

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

Included in other assets as at March 31, 2019 is a $62 (December 31, 2018 - $64) promissory note that represents the unpaid amount the Company advanced to an employee in connection with a relocation at the request of the Company.

11 EXPENSES BY NATURE

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

Cost of sales	Three Months Ended March 31, 2019		Three Months Ended March 31, 2018	
Purchased produce	$	11,675	$	8,186
Raw materials and consumables used		5,634		3,435
Depreciation and amortization		1,898		1,771
Transportation and storage		4,757		4,536
Employee compensation and benefits		7,618		7,974
	$	31,582	$	25,902

Selling, general and administrative expenses	Three Months Ended March 31, 2019		Three Months Ended March 31, 2018	
Employee benefits - salaries and short-term benefits	$	2,096	$	2,052
Employee benefits - share-based payments		1,409		118
Marketing		1		86
Professional services		1,060		411
Office expenses		444		442
Other		422		366
	$	5,432	$	3,475

Employee compensation and benefits	Three Months Ended March 31, 2019		Three Months Ended March 31, 2018	
Salaries and short-term employee benefits	$	9,715	$	9,728
Share-based compensation		1,409		118
	$	11,124	$	9,846

12 DEFERRED INCOME TAX

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, 2019 was 16%, excluding the change in biological asset as reported on the interim statements of income (loss), and 25% for the three months ended March 31, 2018.

13 CHANGES IN NON-CASH WORKING CAPITAL ITEMS

	Three Months Ended March 31,			
	2019		2018	
Trade receivables	$	1,506	$	2,147
Inventories		2,468		(2,173)
Inventories reclassified to biological asset		(3,911)		(2,253)
Other receivables		(2)		58
Prepaid expenses and deposits		(73)		(158)
Trade payables		(3,369)		(4,756)
Accrued liabilities and income taxes payable		718		44
Other assets, net of other liabilities		286		(299)
	$	(2,377)	$	(7,390)

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

14 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 March 31, 2019	Three Months Ended March 31, 2018
Sales		
Produce - U.S.	$ 28,199	$ 27,426
Produce - Canada	3,379	1,539
Energy - Canada	312	525
	$ 31,890	$ 29,490

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

	March 31, 2019	December 31, 2018
United States	$ 44,292	$ 43,651
Canada	26,354	30,459
Energy - Canada	3,213	3,369
	$ 73,859	$ 77,479

The depreciation and amortization charges for the three months ended March 31, 2019 in the Produce business were $1,703 (2018 - $1,578) and $228 (2018 - $223) in the Energy business.

15 INCOME PER SHARE

Basic income 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, 2019	Three Months Ended March 31, 2018
Net income (loss) attributable to owners of the Company	$ 7,648	$ (1,143)
Weighted average number of common shares outstanding (thousands)	47,677	42,372
Basic income (loss) per share	$ 0.16	$ (0.03)

Diluted income 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 income per share calculation.

For the three months ended March 31, 2019, no options to purchase shares of the Company's common stock were excluded from the diluted income per share computation. For the three months ended March 31, 2018, there were 2,132 options to purchase shares of the Company's common stock that were excluded from the diluted income per share computation because the impact of the assumed exercise of such stock options would have been anti-dilutive.

	Three Months Ended March 31, 2019	Three Months Ended March 31, 2018

Net income (loss) attributable to owners of the Company	$	7,648	$	(1,143)
Weighted average number of common shares outstanding (thousands)		47,677		42,372
Adjustment for:				
Share options (thousands)		1,829		-
Weighted average number of common shares outstanding for diluted income (loss) per share (thousands)		49,506		42,372
Diluted income (loss) per share	$	0.15	$	(0.03)

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 generally 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, 2019 of $1,409 (2018 - $118) was recorded in selling, general and administrative expenses and the corresponding amount credited to contributed surplus.

During the three months ended March 31, 2019, 355,000 performance-based restricted share units were granted to Village Farms employees and directors involved with future developments of the Company. Once a performance target is met and the share units are deemed earned and vested, compensation expense based on the fair value of the share units on the grant date is recorded in selling, general and administrative expenses in the interim statements of income. There were 1,253,333 performance-based restricted share units outstanding as at March 31, 2019, of which 1,034,000 were not vested as at March 31, 2019.

17 SUBSEQUENT EVENT

In June 2017, as part of the formation of Pure Sunfarms, the Company issued 300,000 common share purchase warrants, valued at $148 (CA$192), to an affiliate of a Canadian financial institution ("warrants holder") as partial consideration for services related to the joint venture agreement. In April 2019, the warrants holder exercised its warrant rights and subscribed for 300,000 shares of the Company's common stock resulting in a contribution of CA$621,000.

In April 2019, the Company completed a bought deal offering of 1,000,000 common shares of the Company at an offering price of CA$20.00 per offered share for net aggregate proceeds to the Company of approximately CA$18,700,000.