

Village Farms International, Inc.

Consolidated Financial Statements
Years Ended December 31, 2013 and 2012



March 13, 2014

Independent Auditor's Report

**To the Shareholders of
Village Farms International, Inc.**

We have audited the accompanying consolidated financial statements of Village Farms International, Inc. and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2013 and December 31, 2012 and the consolidated statements of income and comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Village Farms International, Inc. and its subsidiaries as at December 31, 2013 and December 31, 2012 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

(Signed) "PricewaterhouseCoopers LLP"

Chartered Accountants

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

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

	December 31, 2013	December 31, 2012
ASSETS		
<i>Current assets</i>		
Cash and cash equivalents	\$ 18,668	\$ 2,801
Trade receivables	7,109	7,377
Other receivables	325	552
Inventories (note 5)	10,630	11,970
Income taxes receivable	36	503
Prepaid expenses and deposits	168	246
Biological asset (note 6)	3,732	4,757
Total current assets	40,668	28,206
<i>Non-current assets</i>		
Property, plant and equipment (note 8)	96,709	99,372
Intangible assets (note 9)	991	1,094
Other assets (note 10)	1,537	1,462
Total assets	\$ 139,905	\$ 130,134
LIABILITIES		
<i>Current liabilities</i>		
Trade payables	\$ 7,063	\$ 10,011
Accrued liabilities	3,225	2,609
Income taxes payable	917	7
Current maturities of long-term debt (note 11)	4,168	3,413
Current maturities of capital lease obligations (note 13)	25	23
Current portion of derivative (note 12)	-	106
Total current liabilities	15,398	16,169
<i>Non-current liabilities</i>		
Long-term debt (note 11)	50,692	54,897
Long-term maturities of capital lease obligations (note 13)	61	86
Deferred tax liability (note 19)	11,970	8,041
Deferred compensation	684	490
Total liabilities	78,805	79,683
SHAREHOLDERS' EQUITY		
Share capital (note 23)	24,850	24,850
Contributed surplus	749	588
Accumulated other comprehensive income	55	55
Retained earnings	35,446	24,958
Total shareholders' equity	61,100	50,451
Total liabilities and shareholders' equity	\$ 139,905	\$ 130,134

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

Village Farms International, Inc.
Consolidated Statement of Changes in Shareholders' Equity
For the Years Ended December 31, 2013 and 2012
(In thousands of United States dollars, except for shares outstanding)

	Number of Common Shares	Share Capital	Contributed Surplus	Accumulated Other Comprehensive Income	Retained Earnings	Total Shareholders' Equity
Balance at January 1, 2012	19,433,394	\$ 24,850	\$ 312	\$ 55	\$ 17,056	\$ 42,273
Share-based compensation (note 26)	-	-	276	-	-	276
Net income and comprehensive income	-	-	-	-	7,902	7,902
Balance at December 31, 2012	<u>19,433,394</u>	<u>24,850</u>	<u>588</u>	<u>55</u>	<u>24,958</u>	<u>\$ 50,451</u>
Balance at January 1, 2013	19,433,394	24,850	588	55	24,958	50,451
Share-based compensation (note 26)	-	-	161	-	-	161
Conversion of special shares to common shares	19,273,951	-	-	-	-	-
Net income and comprehensive income	-	-	-	-	10,488	10,488
Balance at December 31, 2013	<u>38,707,345</u>	<u>\$ 24,850</u>	<u>\$ 749</u>	<u>\$ 55</u>	<u>\$ 35,446</u>	<u>\$ 61,100</u>

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

Village Farms International, Inc.
Consolidated Statements of Income and Comprehensive Income
For the Years Ended December 31, 2013 and December 31, 2012
(In thousands of United States dollars, except per share data)

	December 31, 2013	December 31, 2012
Net sales	\$ 137,635	\$ 133,942
Cost of sales (note 17)	(119,363)	(125,965)
Insurance proceeds, net (note 7)	15,948	31,231
Provision for property and equipment damaged	(601)	(4,352)
Provision for inventory-damaged crop, growing materials, supplies	-	(4,649)
Change in biological asset (note 6)	(1,222)	(540)
Selling, general and administrative expenses (note 17)	(12,873)	(14,537)
Income from operations	19,524	15,130
Interest expense	3,675	4,331
Interest income	(3)	(2)
Foreign exchange (gain)/loss	(16)	103
Amortization of intangible assets (note 9)	103	104
Gain on derivatives (note 12)	(106)	(1,180)
Other income, net	(91)	(261)
Gain on sale of assets	(3)	(178)
Income before income taxes	15,965	12,213
Provision for income taxes (note 18)	5,477	4,311
Net income and comprehensive income	\$ 10,488	\$ 7,902
Basic earnings per share (note 24)	\$ 0.27	\$ 0.20
Diluted earnings per share (note 24)	\$ 0.27	\$ 0.20

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

Village Farms International, Inc.
Consolidated Statements of Cash Flows
For the Years Ended December 31, 2013 and December 31, 2012
(In thousands of United States dollars)

	December 31, 2013	December 31, 2012
Cash flows from operating activities:		
Net income	\$ 10,488	\$ 7,902
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	7,314	7,552
Gain on sale of assets	(3)	(178)
Provision for property and equipment damaged	51	4,352
Gain on derivative	(106)	(1,180)
Provision for bad debt	(204)	-
Foreign exchange (gain)/loss	(16)	103
Net interest paid	3,483	4,331
Share-based compensation	161	276
Deferred income taxes	3,929	4,800
Change in biological asset	1,222	540
Changes in non-cash working capital items (note 20)	965	(117)
Net cash provided by operating activities	27,284	28,381
Cash flows from investing activities:		
Purchases of property, plant and equipment	(4,615)	(13,438)
Proceeds from sale of property, plant, and equipment, net	19	593
Other noncurrent assets and liabilities, net	(590)	409
Net cash used in investing activities	(5,186)	(12,436)
Cash flows from financing activities:		
Payments on long-term debt	(60,741)	(18,462)
Proceeds from long-term debt	58,000	6,917
Interest paid on long-term debt	(3,486)	(4,333)
Interest received	3	2
Payments on capital lease obligation	(23)	(30)
Net cash used in financing activities	(6,247)	(15,906)
Effect of exchange rate changes on cash and cash equivalents	16	(103)
Net increase/(decrease) in cash and cash equivalents	15,867	(64)
Cash and cash equivalents, beginning of year	2,801	2,865
Cash and cash equivalents, end of year	\$ 18,668	\$ 2,801
Supplemental cash flow information:		
Income taxes paid	\$ 420	\$ 14
Supplemental non-cash financing and investing information:		
Assets acquired by capital lease	\$ -	\$ 139

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

VILLAGE FARMS INTERNATIONAL, INC.

Notes to Consolidated Financial Statements for the Years Ended December 31, 2013 and 2012

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

1 NATURE OF OPERATIONS

Village Farms International, Inc. (“VFF” the parent company and, together with its subsidiaries, the “Company”) is incorporated under the *Canada Business Corporation Act*. VFF’s principal operating subsidiaries at December 31, 2013 are Village Farms Canada Limited Partnership (“VFCLP”), Village Farms, L.P. (“VFLP”) and Village Farms DR, SLR (“VFDR”). The address of the registered office of VFF is 4700 80th Street, Delta, British Columbia, Canada, V4K 3N3.

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

The Company, through its subsidiaries VFCLP and VFLP, owns and operates sophisticated, highly intensive agricultural greenhouse facilities in British Columbia and Texas, where it produces, markets and sells premium-quality tomatoes, bell peppers, and cucumbers. The Company also markets and sells third party produce through its subsidiaries.

2 BASIS OF PRESENTATION

Basis of Presentation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) applicable to the preparation of financial statements as issued by the International Accounting Standards Board (“IASB”) and interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”).

The policies applied in these consolidated financial statements are based on IFRS issued and outstanding as of December 31, 2013. The consolidated financial statements were approved by the Board of Directors of the Company for issue on March 12, 2014. Management does not have the authority to amend the consolidated financial statements after the statements have been issued, without the approval by the Board of Directors of the Company. The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 3.

Basis of Measurement

The consolidated annual financial statements have been prepared on the historical cost basis except for the following material items in the statement of financial position:

- derivative financial instruments are measured at fair value;
- available-for-sale financial assets are measured at fair value; and
- biological assets are measured at fair value less costs to sell.

Functional and Presentation Currency

These consolidated financial statements are presented in United States dollars (“U.S. dollars”), which is the Company’s functional currency. All financial information presented in U.S. dollars has been rounded to the nearest thousands.

3 SIGNIFICANT ACCOUNTING POLICIES, JUDGMENTS AND ESTIMATION UNCERTAINTY

The significant accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

Consolidation

The financial statements of the Company consolidate the accounts of VFF and its subsidiaries. All intercompany transactions, balances and unrealized gains and losses from intercompany transactions are eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Company. Certain reclassifications have been made, where appropriate, to prior year financial statements to conform to the current year presentation.

Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the

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

operating segments, has been identified as the CEO. Based on the aggregation criteria in IFRS 8, *Operating Segments*, the operating segments of the Company are treated as one reporting segment.

Foreign Currency Translation

The Company's functional currency is the U.S. dollar. For the Company's integrated foreign operations, monetary assets and liabilities are translated into U.S. dollars at year-end exchange rates and other assets and liabilities are translated at historical rates. Revenues, expenses and cash flows are translated at monthly average exchange rates. Gains and losses on translation are charged to earnings. Transactions denominated in foreign currencies are translated at the rate prevailing at the transaction date.

Financial Instruments

Financial assets and liabilities are recognized when the Company becomes party to the contractual provisions of the financial instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when the obligation specified in the contract is discharged, cancelled or expires.

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

At initial recognition, the Company classifies its financial instruments in the following categories depending on the purpose for which the instruments were acquired:

- (i) Financial assets and liabilities carried at fair value through profit or loss:

A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short-term. Derivatives are also included in this category unless they are designated as hedges. The only instrument held by the Company, classified in this category, is an interest rate swap (see (v) below).

Financial instruments in this category are recognized initially and subsequently at fair value. Transaction costs are expensed as incurred in the statement of income. Gains and losses arising from changes in fair value are presented in the statement of income within gain or loss on derivatives in the period in which they arise. Financial assets and liabilities carried at fair value through profit or loss are classified as current except for the portion expected to be realized or paid beyond twelve months of the statement of financial position date, which is classified as non-current.

- (ii) Available-for-sale investments:

Available-for-sale investments are non-derivatives that are either designated in this category or not classified in any of the other categories. The Company currently has no available-for-sale investments on its statement of financial position. Available-for-sale investments are recognized initially at fair value plus transaction costs and are subsequently carried at fair value. Gains or losses arising from changes in fair value are recognized in other comprehensive income. Available-for-sale investments are classified as non-current, unless the investment matures within twelve months, or management expects to dispose of them within twelve months.

- (iii) Loans and receivables:

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's loans and receivables comprise trade receivables, other receivables, and cash and cash equivalents, and are included in current assets due to their short-term nature. Loans and receivables are initially recognized at the amount expected to be received less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment.

- (iv) Financial liabilities at amortized cost:

Financial liabilities at amortized cost include trade payables, accrued liabilities, obligations under capital leases and long-term debt. Trade payables and accrued liabilities are initially recognized at the amount required to be paid less, when material, a discount to reduce the payables to fair value. Subsequently, trade payables and accrued liabilities are measured at amortized

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

cost using the effective interest method. Long-term debt is recognized initially at fair value, net of transaction costs incurred which are amortized over the term of the loans. Financial liabilities are classified as current liabilities if payment is due within twelve months. Otherwise, they are presented as non-current liabilities.

(v) Derivative financial instruments:

The Company used derivatives in the form of interest rate swaps to manage risks related to some of its variable rate long-term debt. Derivatives have been classified as carried at fair value through profit or loss, are included on the statement of financial position within liabilities, and are classified as current or non-current based on the contractual terms specific to the instrument. Gains and losses on re-measurement are included in the statement of income.

Impairment of Financial Assets

At each reporting date, the Company assesses whether there is objective evidence that a financial asset is impaired.

The criteria used to determine if objective evidence of an impairment loss exists include:

- (i) significant financial difficulty of the obligor;
- (ii) delinquencies in interest or principal payments; and
- (iii) it becomes probable that the borrower will enter bankruptcy or other financial reorganization.

If such evidence exists, the Company recognizes an impairment loss as follows:

- i) Financial assets carried at amortized cost: The loss is the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account.
- ii) Available-for-sale financial assets: The impairment loss is the difference between the original cost of the asset and its fair value at the measurement date, less any impairment losses previously recognized in the statement of income. This amount represents the cumulative loss in accumulated other comprehensive income that is reclassified to net income.

Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized. Impairment losses on available-for-sale equity instruments are not reversed.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash deposits held with banks, and other highly liquid short-term interest bearing securities with maturities at the date of purchase of three months or less.

Trade Receivables

Trade receivables are measured at amortized cost, net of allowance for uncollectible amounts. Credit is extended based on an evaluation of a customer's financial condition. Accounts outstanding longer than the contractual payment terms are considered past due. The Company determines its allowance by considering a number of factors, including the length of time accounts are past due, the Company's previous loss history and the customer's current ability to pay its obligation to the Company. The Company writes off receivables when they become uncollectible, and payments subsequently received on such receivables are credited to bad debt expense.

Inventories

Inventories refer to deferred crop costs and other supplies and packaging which are incurred to date on current production and are not defined as a biological asset. Inventories of Company-grown produce consist of raw materials, labour and overhead costs incurred less costs charged to cost of sales throughout the various crop cycles, which end at various times throughout the year. Growing crops are accounted for in accordance with the Company's policy on biological assets. Cost of sales is based on estimated costs over the crop cycle allocated to both actual and estimated future yields at each period end date.

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The carrying value of agricultural produce is its fair value less costs to sell and complete at the date of harvest and is presented with biological asset on the statement of financial position.

Supplies and packaging are recorded at the lower of cost or replacement cost.

The cost of produce inventory purchased from third parties is valued at the lower of cost or net realizable value.

Biological Asset

Biological asset consists of the Company's produce on the vines at year end. Measurement of the biological asset begins six weeks prior to harvest as management at this point has visibility on production and expected sales. Costs related to the crop prior to this point are presented in deferred crop costs (inventories). The produce on the vine is measured at fair value less costs to sell and costs to complete, with any change therein recognized in earnings. Costs to sell include all costs that would be necessary to sell the assets, including finishing and transportation costs.

Property, Plant and Equipment

Recognition and measurement

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and borrowing costs.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of the property, plant and equipment, and is presented net within gain/loss on disposal of assets in the statement of income.

Subsequent costs

The cost of replacing a component of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Company, and its cost can be measured reliably. The carrying amount of the replaced component is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in earnings as incurred.

Depreciation

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed, and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

Depreciation is recognized in earnings on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives of the class of assets for the current and comparative periods are as follows:

<u>Classification</u>	<u>Estimated Useful Lives</u>
Leasehold and land improvements	5-20 years
Greenhouse buildings	12-30 years
Greenhouse equipment	3-30 years
Machinery and equipment	3-10 years

Construction in process reflects the cost of assets under construction, which are not depreciated until placed into service.

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Notes to Consolidated Financial Statements for the Years Ended December 31, 2013 and 2012

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Intangible Assets

Intangible assets consist of an energy supply agreement and are recorded at cost less accumulated amortization. Amortization is recorded on a straight-line basis over the life of the related contract, which is 20 years.

Impairment of Non-Financial Assets

Property, plant and equipment and intangible assets are tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. For the purpose of testing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units or "CGUs"). An impairment loss is recognized for the amount, if any, by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use (being the present value of the expected future cash flows of the relevant asset or CGU).

Leased Assets

Leases where the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and rent expenses are recognized in the Company's statement of income.

Borrowing Costs

Borrowing costs attributable to the acquisition, construction or production of qualifying assets are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. All other borrowing costs are recognized initially at fair value. Borrowings are subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the statement of income over the year of the borrowings using the effective interest method.

Revenue Recognition

Revenue from the sale of produce in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognized when persuasive evidence exists that the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognized as a reduction of revenue as the sales are recognized.

The timing of the transfer of risks and rewards occurs at the time the produce has been successfully delivered, the risk of loss has passed to the customer, and collectability is reasonably assured.

Income Taxes

The tax expense for the year comprises current and deferred tax. Tax is recognized in the statement of income, except to the extent that it relates to items recognized in other comprehensive income or directly in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the statement of financial position date in the relevant tax jurisdiction. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of the amounts expected to be paid to the tax authorities.

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted at the statement of financial position date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

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Notes to Consolidated Financial Statements for the Years Ended December 31, 2013 and 2012

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

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Offsetting of deferred income tax assets and liabilities occurs only when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Share-Based Compensation

The Company grants stock options to certain employees. Stock options vest over three years (33% per year following the grant date) and expire after ten years. Each tranche in an award is considered a separate award with its own vesting period. Fair value of each tranche is measured at date of grant using the Black-Scholes option pricing model. Compensation expense is recognized over the tranche's vesting period by increasing contributed surplus based on the number of awards expected to vest. The number of awards expected to vest is reviewed at least annually, with any impact recognized immediately.

Provisions

Provisions for legal claims, where applicable, are recognized in accrued liabilities when the Company has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the end of the reporting period, and are discounted to present value where the effect is material. The Company performs evaluations to identify onerous contracts and, where applicable, records provisions for such contracts.

Earnings Per Share

Basic earnings per share are computed using the weighted average number of common shares outstanding during the period. The treasury stock method is used for the calculation of diluted earnings per share. Under this method, the weighted average number of common shares outstanding assumes that the proceeds to be received on the exercise of dilutive share options are applied to repurchase common shares at the average market price for the period. Share options are dilutive when the average market price of the common shares during the period exceeds the exercise price of the options.

Significant Accounting Judgments and Estimation Uncertainties

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. These estimates and judgments have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Critical accounting estimates and judgments

i) Estimated useful lives of property, plant and equipment

Management estimates the useful lives of property, plant and equipment based on the period during which the assets are expected to be available for use. The amounts and timing of recorded expenses for depreciation of property, plant and equipment for any period are affected by these estimated useful lives. The estimates are reviewed at least annually and are updated if expectations change as a result of physical wear and tear, technical or commercial obsolescence and legal or other limits to use. It is possible that changes in these factors may cause significant changes in the estimated useful lives of the Company's property, plant and equipment in the future.

ii) Financial instruments

The Company's over-the-counter derivative includes an interest rate swap used to economically hedge exposure to variable cash flows associated with interest payments on the Company's borrowings. Management utilizes a third party to value the derivative at each reporting period; the estimates and assumptions used by the third party are based on available market data which includes market yields and counterparty credit spreads.

iii) Biological asset

The fair value of the biological asset is derived using a discounted cash flow model. Management uses estimates for the expected sales price of produce on the vine and costs to sell and complete, which are determined by considering historical

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

actual costs incurred on a per pound basis. The estimated selling price and costs are subject to fluctuations based on the timing of prevailing growing conditions and market conditions.

iv) Intangible assets

The intangible assets of the Company (note 9) were recorded at their estimated fair value comparing the cost of energy from the supplier against the cost to purchase a natural gas contract at October 18, 2006.

v) Inventories and cost of sales

Cost of sales is based upon incurred costs, and estimated costs to be incurred, of each crop allocated to both actual and estimated future yields over each crop cycle. The estimates of future yields are reviewed at each reporting period for accuracy. However, numerous factors such as weather, diseases and prevailing market conditions can impact the estimation of pricing, costs, and future yields. The estimated costs to be incurred are based on references to historical costs and updated for discussions with suppliers and senior management. Inventories include the actual cost of the crop not yet defined as a biological asset, packaging supplies, and purchased produce, less the amounts that have been expensed in cost of sales.

vi) Income taxes and deferred income tax assets or liabilities

Management uses judgment and estimates in determining the appropriate rates and amounts in recording deferred taxes, giving consideration to timing and probability. Actual taxes could vary significantly from these estimates as a result of future events, including changes in income tax law or the outcome of reviews by tax authorities and related appeals. The resolution of these uncertainties and the associated final taxes may result in adjustment to the Company's tax assets and tax liabilities. The recognition of deferred income tax assets is subject to judgment and estimation over whether these amounts can be realized. Management estimates, at this time, that the hail storm insurance proceeds received are not currently taxable, but if certain conditions are not met, a portion could become taxable in the future.

4 CHANGES IN ACCOUNTING POLICIES

Accounting Standards Issued and Not Applied

The IASB periodically issues new standards and amendments or interpretations to existing standards. The new pronouncements listed below are those policy changes that management considers relevant to the Company now or in the future. This is not intended to be a complete list of new pronouncements made during the year.

Consolidation and interests in other entities

IFRS 10, *Consolidated Financial Statements*, introduces a new single control model and single consolidation model built on a revised definition of control and criteria for assessment of consolidation and replaces SIC-12, *Consolidation – Special Purpose Entities*, and parts of IAS 27, *Consolidated and Separate Financial Statements*. The new Standard requires an entity to consolidate an investee when it has power over the investee, is exposed, or has rights, to variable returns from its involvements with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 is effective for annual periods beginning on or after January 1, 2013. The adoption of IFRS 10 did not result in any changes in the consolidation status of any of its subsidiaries.

IFRS 11, *Joint Arrangements*, redefines joint operations and joint ventures with a focus on the rights and obligations of an arrangement, rather than its legal form, and supersedes IAS 31, *Interests in Joint Ventures*, and SIC-13, *Jointly Controlled Entities – Non-monetary Contributions by Venturers*. The new Standard requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting, whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities had the choice to proportionately consolidate or equity account for interest in joint ventures. IFRS 11 is effective for annual periods beginning on or after January 1, 2013. The adoption of IFRS 11 did not have an impact on the Company's consolidated financial statements.

IFRS 12, *Disclosure of Interests in Other Entities*, establishes disclosure requirements for interests in other entities, such as subsidiaries, joint arrangements, associates, and unconsolidated structured entities. The Standard carries forward existing disclosures and also introduces significant additional disclosures that address the nature of, and risks associated with, an

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entity's interests in other entities. IFRS 12 is effective for annual periods beginning on or after January 1, 2013. The adoption of IFRS 12 did not have an impact on the Company's consolidated financial statements.

There have been amendments to existing standards, including IAS 27, *Separate Financial Statements*, and IAS 28, *Investments in Associates and Joint Ventures*. IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 sets out the equity accounting for joint ventures, as well as associates, once the assessment of the arrangement has been made under IFRS 11. The amendments to IAS 27 and IAS 28 did not have an impact on amounts recorded in the Company's consolidated financial statements.

Employee benefits

IAS 19, *Employee Benefits*, has been amended to make changes to the recognition and measurement of defined benefit pension expense and termination benefits and to enhance the disclosure of all employee benefits. Pension benefit cost will be split between (i) the cost of benefits accrued in the current period (service cost) and benefit changes (past-service costs (including plan amendments, settlements and curtailments)); and (ii) finance expense or income. Interest cost and expected return on plan assets, which previously reflected different rates, has been replaced with a net interest amount that is calculated by applying one discount rate to the net defined benefit liability (asset).

In addition, under the amended standard, the impact of plan amendments related to past service will no longer be recognized over a vesting period but instead will be recognized immediately in the period of a plan amendment. A number of other amendments have been made to recognition, measurement and classification including redefining short-term and other long-term benefits, guidance on the treatment of taxes related to benefit plans, guidance on risk/cost sharing features, and expanded disclosures. This amendment, effective for annual periods beginning on or after January 1, 2013, has not resulted in any changes in the accounting of employee benefits or amounts recorded in the Company's consolidated financial statements and related disclosures.

Other standards and amendments

IAS 7, *Financial Instruments: Disclosures*, has been amended to include additional disclosure requirements in the reporting of transfer transactions and risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitization of financial assets. The amendment is applicable for annual periods beginning on or after July 1, 2011, with earlier application permitted. Changes to IAS 7 did not have an impact on amounts recorded in the company's consolidated financial statements and related disclosures.

IFRS 9, *Financial Instruments*, addresses classification and measurement of financial assets and financial liabilities, and replaces the multiple category and measurement models in IAS 39, *Financial Instruments – Recognition and Measurement*. The new Standard limits the number of categories for classification of financial assets to two: amortized cost and fair value through profit or loss. The requirements for financial liabilities are largely in line with IAS 39. IFRS 9 also replaces the models for measuring equity instruments. Equity instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. The ability to recognize unquoted equity instruments at cost under IAS 39 is eliminated. The required adoption date for IFRS 9 has been deferred and is not expected until January 1, 2017, with early adoption permitted. IFRS 9 is not expected to have a material impact on amounts recorded in the consolidated financial statements of the Company.

IFRS 13, *Fair Value Measurement*, is a comprehensive standard for fair value measurement and disclosure for use across all IFRS standards and is effective for annual periods beginning on or after January 1, 2013 with earlier application permitted. The new standard clarifies that fair value is the price that would be received on sale of an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and does not always reflect a clear measurement basis or consistent disclosures. The adoption of IFRS 13 did not require any adjustments to the valuation techniques used by the Company to measure fair value and did not result in any measurement adjustments as at January 1, 2013.

IAS 1, *Presentation of Financial Statements*, has been amended to require entities to separate items presented in other comprehensive income ("OCI") into two groups, based on whether or not items may be recycled to net income in the future.

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Entities that choose to present OCI items before tax will be required to show the amount of tax related to the two groups separately. The amendment is effective for annual periods beginning on or after July 1, 2012. The adoption of IAS 1 did not result in adjustments to other comprehensive income in the Company's consolidated financial statements.

5 INVENTORIES

	December 31, 2013	December 31, 2012
Deferred crop costs	\$12,200	\$13,584
Purchased produce inventory	528	287
Biological asset adjustment (note 6)	(2,098)	(1,901)
	\$10,630	\$11,970

The cost of inventories recognized as expense and included in cost of sales for the year ended December 31, 2013 amounted to \$97,856 (2012 – \$107,217).

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

6 BIOLOGICAL ASSET

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

	December 31, 2013	December 31, 2012
Estimated sales value - biological asset	\$6,363	\$7,935
Less		
Estimated remaining costs to complete	2,216	2,648
Estimated selling costs	415	530
Fair value of biological asset less costs to sell	3,732	4,757
Less actual costs (note 5)	2,098	1,901
Increase in fair value of biological asset over cost	1,634	2,856
Fair value over cost of harvested and sold		
biological asset – beginning of year	2,856	3,396
Change in biological asset	(\$1,222)	(\$540)

7 HAIL DAMAGE

On May 31, 2012, the Company suffered a hail storm that closed three of the Texas facilities. The Company was insured and as at December 31, 2013, has received \$15,658 from its insurance carrier for business interruption and \$1,074 for property damage in 2013. In calendar year 2012, the Company received \$1,000 from its insurance carrier for business interruption and \$31,532 for property damage. Fees incurred associated with the recoveries for the year ended December 31, 2013 totaled \$784, resulting in net proceeds of \$15,948 for 2013. Fees incurred associated with recoveries for calendar year 2012 totaled \$1,301, resulting in net proceeds of \$31,231 in 2012. The Company's cumulative total proceeds received in 2012 and 2013 from its insurance carrier was \$49,264, total fees incurred of \$2,085, resulting in total net proceeds of \$47,179. The insurance claim was settled and complete in September 2013.

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8 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

	Land	Leasehold and land improve- ments	Green- house buildings	Green- house equipment	Machinery and Equipment	Construction in process	Total
Year ended December 31, 2012							
Opening net book value	\$5,027	\$1,911	\$51,195	\$31,488	\$1,435	\$6,545	\$97,601
Additions	-	314	10,352	6,238	738	3,883	21,525
Placed in service	-	-	-	-	-	(7,954)	(7,954)
Provision for property and equipment damaged	-	(157)	(3,418)	(777)	-	-	(4,352)
Depreciation expense	-	(156)	(3,517)	(3,310)	(465)	-	(7,448)
Closing net book value	<u>\$5,027</u>	<u>\$1,912</u>	<u>\$54,612</u>	<u>\$33,639</u>	<u>\$1,708</u>	<u>\$2,474</u>	<u>\$99,372</u>
At December 31, 2012							
Cost	5,027	3,471	73,201	49,080	4,688	2,474	137,941
Accumulated depreciation	-	(1,559)	(18,589)	(15,441)	(2,980)	-	(38,569)
Net book value	<u>\$5,027</u>	<u>\$1,912</u>	<u>\$54,612</u>	<u>\$33,639</u>	<u>\$1,708</u>	<u>\$2,474</u>	<u>\$99,372</u>
Year ended December 31, 2013							
Opening net book value	\$5,027	\$1,912	\$54,612	\$33,639	\$1,708	\$2,474	\$99,372
Additions	-	-	4	2,519	115	4,549	7,187
Placed in service	-	-	-	-	-	(2,572)	(2,572)
Asset disposal	-	-	-	(1,102)	-	-	(1,102)
Accum deprec disposal	-	-	-	1,035	-	-	1,035
Depreciation expense	-	(148)	(3,281)	(3,340)	(442)	-	(7,211)
Closing net book value	<u>\$5,027</u>	<u>\$1,764</u>	<u>\$51,335</u>	<u>\$32,751</u>	<u>\$1,381</u>	<u>\$4,451</u>	<u>\$96,709</u>
At December 31, 2013							
Cost	5,027	3,471	73,205	50,544	4,803	4,451	141,501
Accumulated depreciation	-	(1,707)	(21,870)	(17,793)	(3,422)	-	(44,792)
Net book value	<u>\$5,027</u>	<u>\$1,764</u>	<u>\$51,335</u>	<u>\$32,751</u>	<u>\$1,381</u>	<u>\$4,451</u>	<u>\$96,709</u>

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

9 INTANGIBLE ASSETS

VFCLP has an energy supply agreement with the operator of a cogeneration facility to purchase thermal energy required for one of VFCLP's greenhouses. The contract expires on July 31, 2023. VFCLP also has a right of first refusal with respect to any excess methane gas conveyed to the cogeneration plant from an adjacent landfill. The estimated fair value of the contract (discounted value of future after tax benefit) was recorded as an intangible asset and is being amortized on a straight-line basis over the life of the contract.

Year ended December 31, 2012

Opening book value	\$1,198
Amortization for the year	(104)
Closing net book value	<u>1,094</u>

At December 31, 2012

Cost	1,735
Accumulated amortization	(641)
Net book value	<u>1,094</u>

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Year ended December 31, 2013

Opening book value	1,094
Amortization for the year	(103)
Closing net book value	991

At December 31, 2013

Cost	1,735
Accumulated amortization	(744)
Net book value	\$991

10 OTHER ASSETS

The following table summarizes the components of other assets:

	December 31, 2013	December 31, 2012
Patronage stock	\$437	\$437
Note receivable (note 15)	325	352
Security deposits	116	146
Cash surrender value - insurance	649	479
Other	10	48
Total	\$1,537	\$1,462

11 DEBT

	December 31, 2013	December 31, 2012
Long-term debt:		
Opening balance	\$58,310	\$69,855
Proceeds from Credit Facilities	58,000	6,917
Repayment of debt	(60,741)	(18,462)
Closing balance	\$55,569	\$58,310
Current portion	4,168	\$3,413
Non-current portion	51,401	54,897
	\$55,569	\$58,310
Less:		
Unamortized deferred transaction costs	(709)	-
	\$54,860	\$58,310

Credit Facilities:

On March 28, 2013, the Company entered into an agreement for new Term Loan financing with an existing Canadian creditor (the "Credit Facilities"). As part of the agreement, all prior term debt was repaid upon issuance of the new term loan financing. The non-revolving variable rate term loan has a maturity date of April 1, 2018 ("FCC Loan") and a balance of \$55,569 as at December 31, 2013. The outstanding balance is repayable by way of monthly installments of principal and interest based on an amortization period of 14 years, with the balance and any accrued interest to be paid in full on April 1, 2018. Monthly principal payments are \$347. As at December 31, 2013, borrowings under the FCC Loan agreement are subject to an interest rate of 5.2378% (2012 – 5.96%). The Company's interest rate on the FCC Loan will be determined based on the Company's Debt to EBITDA ratio and the applicable LIBOR rate.

In addition, the Company entered into a new line of credit agreement with a new creditor on August 30, 2013. The revolving operating loan of up to CA\$10,000 is at variable interest rates with a maturity date on August 30, 2016 (the "Operating Loan"). The Operating Loan is subject to margin requirements stipulated by the bank; no amounts were drawn on this facility at December 31, 2013 (2012 – \$nil) which is available to a maximum of CA\$10,000, less an outstanding letter of credit totaling \$1,645.

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The borrowings are subject to certain positive and negative covenants. As at December 31, 2013 and December 31, 2012, the Company was in compliance with all covenants on all of its Credit Facilities.

Accrued interest payable on the credit facilities and loans as at December 31, 2013 was \$229 (2012 – \$40) and these amounts are included in accrued liabilities in the statement of financial position.

As security for the FCC Loan, the Company has provided promissory notes, a first mortgage on the greenhouse properties, and general security agreements over its assets. In addition, the Company has provided full recourse guarantees and has granted security therein. The carrying value of the assets and securities pledged as collateral as at December 31, 2013 was \$139,905 (2012 – \$130,134).

Transaction costs incurred in connection with these financing activities are deferred and amortized over the terms of the related financing agreement. Total deferred financing costs, net of accumulated amortization, are netted against long term debt on the statement of financial position, and total \$709 as at December 31, 2013 (2012 – \$nil).

The aggregate annual maturities of long-term debt as at December 31, 2013 are as follows:

2014	\$ 4,168
2015	4,168
2016	4,168
2017	4,168
2018	38,897
	<u>\$55,569</u>

12 DERIVATIVE

On January 25, 2013, the Company's interest rate swap agreement expired. The Company recognized a gain of \$106 for the year ended December 31, 2013 (2012 – \$1,180), which represented the mark-to-market adjustment of the interest rate swap agreement. The Company did not designate the swap agreement as a hedge for accounting purposes. The fair value of the interest rate swap agreement as at December 31, 2012 was a liability of \$106.

13 COMMITMENTS

Obligations Under Capital Leases

During 2012, the Company entered into a capital lease to purchase greenhouse equipment. Future minimum lease payments are as follows:

2014	\$29
2015	29
2016	29
2017	7
Total minimum lease payments	<u>94</u>
Less amount representing interest	<u>(8)</u>
	86
Less current portion	<u>(25)</u>
Long-term portion	<u>\$61</u>

The lease has an interest rate of 5.5%, with equipment having a carrying value of \$139. The Company made payments of \$29 during the year ended December 31, 2013 (2012 – \$30). Interest paid on capital leases amounted to \$6 during the year ended December 31, 2013 (2012 – \$4).

Operating Leases

The Company has entered into certain operating lease commitments for land, office space and equipment through 2022. The future minimum lease payments as at December 31, 2013 are as follows:

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	December 31, 2013
2014	\$1,607
2015	1,471
2016	1,224
2017	1,178
2018	1,147
Thereafter	1,805
	\$8,432

The Company made payments of \$2,464 during the year ended December 31, 2013 (2012 – \$1,574). Payments include common area amounts and fees paid to the lessors.

14 FINANCIAL INSTRUMENTS

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

	December 31, 2013	December 31, 2012
Cash and cash equivalents	\$18,668	\$2,801
Trade receivables	7,109	7,377
Other receivables	1,123	1,844
Other financial liabilities	66,835	71,536
Derivatives	-	106

Interest income, expense and gains and losses from loans, receivables and other financial liabilities are recognized in the statement of income. The following table summarizes interest income and expense for the years ended December 31:

	2013	2012
Interest income earned on cash and cash equivalents	\$3	\$2
Interest expense from other financial liabilities	\$3,675	\$4,331

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

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

	Financial instruments at fair value—December 31, 2012			
	Level 1	Level 2	Level 3	Total
Interest swap agreement	-	\$ (106)	-	\$ (106)
	-	\$ (106)	-	\$ (106)

Management of financial risks

The Company, through its financial assets and liabilities, is exposed to various risks. The following analysis provides a measurement of some of these risks as at December 31, 2013. The Company uses derivative 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.

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The Company's trade receivables had one customer that represented more than 10% of the balance of trade receivables, representing 12.8% of the balance of trade receivables as at December 31, 2013 (2012 – one customer represented 11.6%). The Company believes that its trade receivables risk is limited due to the high credit quality of its customers and the protection afforded to the Company by the *Perishable Agricultural Commodities Act* (the "PACA") for its sales in the United States, which represent approximately 80% of the Company's sales. The PACA protection gives a claim filed under the PACA first lien on all PACA assets (which include cash and trade receivables). The PACA fosters trading practices in the marketing of fresh and frozen fruits and vegetables in interstate and foreign commerce. It prohibits unfair and fraudulent practices and provides a means of enforcing contracts. Historical write-offs have represented less than one-half of one percent of sales. The maximum amount of credit risk exposure is limited to the carrying amount of the balances on the financial statements.

Trade receivables for each customer were evaluated for collectability and an allowance for doubtful accounts has been estimated. At December 31, 2013, the allowance for doubtful accounts balance was \$50 (2012 – \$254). In addition during 2013, the Company reduced the allowance for doubtful accounts and credited bad debt expense by \$204 and has not recorded a bad debt expense during the year ended December 31, 2013 (2012 – \$nil).

At December 31, 2013, 89.9% (2012 – 82.4%) of trade receivables were outstanding less than 30 days, 9.3% (2012 – 16.2%) were outstanding for between 30 and 90 days and the remaining 0.8% (2012 – 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. As noted above, aged receivables that are past due are not considered impaired unless customer specific information indicates otherwise.

ii) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Company is exposed to interest rate risk on its long-term debt, for which the interest rates charged fluctuate based on the 90-day LIBOR rate.

If interest rates had been 50 basis points higher (lower), the net income during the year ended December 31, 2013 would have been higher (lower) by (\$283). This represents \$283 in increased interest expense (2012 – (\$141); \$14 gain on derivative offset by \$155 in additional interest expense).

iii) Foreign exchange risk

At December 31, 2013, the Canadian/U.S. foreign exchange rate was CA\$1.00 = US\$0.9349 (2012 – US\$1.0031). 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 statement of financial position items at December 31, 2013 and December 31, 2012 with the net foreign exchange gain or loss directly impacting net income for the year.

	<u>December 31, 2013</u>	<u>December 31, 2012</u>
Financial assets		
Cash and cash equivalents	\$165	\$57
Trade receivables	76	124
Financial liabilities		
Trade payables and accrued liabilities	<u>(223)</u>	<u>(89)</u>
Net foreign exchange gain	<u>\$ 18</u>	<u>\$ 92</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 December 31, 2013:

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Financial liabilities	Total	Less than 1 year	1-3 years	4-5 years	More than 5 years
Long-term debt, net of fees	\$54,860	\$4,168	\$7,627	\$43,065	\$-
Trade payables	7,063	7,063	-	-	-
Accrued liabilities and taxes	4,142	4,142	-	-	-
Obligation under capital lease	86	25	54	7	-
Other liabilities	684	-	684	-	-
Total	\$66,835	\$15,398	\$8,365	\$43,072	\$-

It is the Company's intention to meet these obligations through the collection of current accounts receivable and cash from sales. If the current resources and cash generated from operations are insufficient to satisfy its obligations, the Company may seek to issue additional equity or to arrange debt or other financing. In addition, the Company has available an operating loan of up to CA\$10,000, less an outstanding letter of credit totaling \$1,645.

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 December 31, 2013. The fair value of derivatives held at December 31, 2012 was equal to their carrying value and was determined based on published interest rates and contractual terms of the interest rate swap agreement.

15 RELATED PARTY TRANSACTIONS AND BALANCES

Included in other assets as at December 31, 2013, is a \$325 (2012 – \$352) promissory note from an employee of the Company in connection with a relocation at the request of the Company. The note is secured by real property. It is a non-interest bearing note to be paid from proceeds on the sale of the real property that secures the note. The \$325 balance represents the unpaid amount the Company advanced on this employee's behalf in connection with the relocation.

16 COMPENSATION OF KEY MANAGEMENT

Key management includes the Company's officers and senior vice presidents:

	<u>Year Ended</u> <u>December 31, 2013</u>	<u>Year Ended</u> <u>December 31, 2012</u>
Salaries and other employee benefits	\$1,520	\$1,711
Share-based payments	89	129
	<u>\$1,609</u>	<u>\$1,840</u>

17 EXPENSES BY NATURE

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

<i>Cost of sales</i>	<u>Year Ended</u> <u>December 31, 2013</u>	<u>Year Ended</u> <u>December 31, 2012</u>
Purchased produce	\$ 21,446	\$ 30,250
Raw materials and consumables used	40,251	32,530
Depreciation and amortization	6,945	7,113
Transportation and storage	19,021	21,612
Employee compensation and benefits	31,700	34,460
	<u>\$119,363</u>	<u>\$125,965</u>

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<i>Selling, general and administrative expenses</i>	<u>Year Ended</u> <u>December 31, 2013</u>	<u>Year Ended</u> <u>December 31, 2012</u>
Employee compensation and benefits	\$ 7,634	\$ 8,044
Marketing	486	534
Professional services	1,199	1,738
Office expenses	1,977	2,078
Other	1,577	2,143
	<u>\$12,873</u>	<u>\$14,537</u>

<i>Employee compensation and benefits</i>	<u>Year Ended</u> <u>December 31, 2013</u>	<u>Year Ended</u> <u>December 31, 2012</u>
Salaries and short-term employee benefits	\$39,173	\$42,228
Share-based compensation	161	276
	<u>\$39,334</u>	<u>\$42,504</u>

18 INCOME TAX EXPENSE

The provision for income taxes consists of the following components:

	<u>Year Ended</u> <u>December 31, 2013</u>	<u>Year Ended</u> <u>December 31, 2012</u>
Current	\$1,280	(\$489)
Deferred	4,197	4,800
Income tax expense	<u>\$5,477</u>	<u>\$4,311</u>

The provision for income taxes reflected in the consolidated statements of income for the years ended December 31, 2013 and December 31, 2012 differs from the amounts computed at the federal statutory tax rates. The principal differences between the statutory income tax expense and the effective provision for income taxes are summarized as follows:

	<u>Year Ended</u> <u>December 31, 2013</u>	<u>Year Ended</u> <u>December 31, 2012</u>
Income before income taxes	\$15,965	\$12,213
Tax calculated at domestic tax rates applicable in the respective countries	4,974	3,824
Non-deductible items	198	320
True up of prior year deferred income taxes	1,307	391
Transfer pricing adjustment	-	120
Tax rate differences on deferred taxes	67	-
State tax adjustments	-	(110)
Foreign exchange on translation	(150)	(75)
Unrealized foreign exchange	(1,006)	201
Other	87	(360)
Provision for income taxes	<u>\$5,477</u>	<u>\$4,311</u>

The statutory tax rate in effect for the year ended December 31, 2013 was 25.75% (2012 – 25.0%) in Canada and 35% (2012 – 35%) in the United States. The weighted average applicable tax rate was 31.15% (2012 – 31.4%).

19 DEFERRED INCOME TAXES

The deferred tax assets and liabilities presented on the statement of financial position are net amounts corresponding to their reporting jurisdiction. The deferred tax assets and liabilities presented in the note disclosure are grouped based on asset and liability classification without consideration of their corresponding reporting jurisdiction.

The amounts per the statement of financial position reconcile to the amounts disclosed in this note as follows:

Statement of financial position	<u>December 31, 2013</u>	<u>December 31, 2012</u>
Deferred tax asset	\$ -	\$ -
Deferred tax liability	(\$11,970)	(\$8,041)
	<u>(\$11,970)</u>	<u>(\$8,041)</u>

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Deferred tax assets:	Tax losses	Provisions	Intangibles	Other	Total
At January 1, 2012	\$14,890	\$61	\$475	\$653	\$16,079
(Charged)/credited to statement of income	4,932	27	(19)	641	5,580
At December 31, 2012	\$19,822	\$88	\$456	\$1,294	\$21,660
(Charged)/credited to statement of income	(14,371)	132	(38)	1,062	(13,215)
At December 31, 2013	\$5,451	\$220	\$418	\$2,356	\$8,445

Deferred tax liabilities:	Accelerated tax depreciation	Long- term debt	Biological asset	Deferred gain	Total
At January 1, 2012	(\$18,048)	(\$85)	(\$1,188)	\$-	(\$19,321)
Charged/(credited) to statement of income	(1,313)	(77)	189	(9,179)	(10,380)
At December 31, 2012	(\$19,361)	(\$162)	(\$999)	(\$9,179)	(\$29,701)
Charged/(credited) to statement of income	397	653	427	7,809	9,286
At December 31, 2013	(\$18,964)	\$491	(\$572)	(\$1,370)	(\$20,415)

The analysis of deferred tax assets and deferred tax liabilities is as follows:

Deferred tax assets:	December 31, 2013		December 31, 2012	
	Canada	U.S.	Canada	U.S.
Expected to be recovered in more than 12 months	\$557	\$6,705	\$448	\$18,570
Expected to be recovered within 12 months	102	1,081	1,313	1,329
Deferred tax liabilities:				
Expected to be settled in more than 12 months	(2,766)	(16,150)	(3,098)	(24,963)
Expected to be settled within 12 months	(192)	(1,307)	(333)	(1,307)
Deferred tax liabilities, net of assets	(\$2,299)	(\$9,671)	(\$1,670)	(\$6,371)

Non-capital and farm losses expire as follows:

	Canada	U.S.	Total
2020	-	1,025	1,025
2023	-	207	207
2026	114	-	114
2027	5	-	5
2028	32	-	32
2029	-	64	64
2030	9	-	9
2031	6	-	6
2032	5	16,959	16,964
2033	5	-	5
	\$176	\$18,255	\$18,431

Deferred income tax assets are recognized for tax loss carry-forwards to the extent that the realization of the related tax benefit through future profits is probable.

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20 CHANGES IN NON-CASH WORKING CAPITAL

	For the Years Ended December 31,	
	2013	2012
Trade receivables	\$472	\$1,202
Inventories	1,340	(346)
Inventories reclassified to biological asset	(197)	274
Other receivables	191	(543)
Prepaid expenses and deposits	581	343
Trade payables	(2,948)	(430)
Accrued liabilities and taxes	1,526	(617)
	\$965	(\$117)

21 GEOGRAPHIC INFORMATION

The Company operates as one reporting segment as it produces, markets, and sells only one product group which consists of premium quality tomatoes, bell peppers and cucumbers. 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:

	For the Years Ended December 31,	
	2013	2012
United States	\$111,878	\$105,308
Canada	25,757	28,586
Other	-	48
	\$137,635	\$133,942

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

	December 31, 2013	December 31, 2012
United States	\$ 57,863	\$ 59,140
Canada	38,408	39,781
Dominican Republic	438	451
	\$ 96,709	\$ 99,372

22 CONTINGENCIES

In the normal course of business, the Company receives notice of potential legal proceedings or is named as a defendant in legal proceedings. Management is of the opinion that the outcome of these uncertainties will not have a material adverse effect on the Company's financial position.

23 SHARE CAPITAL AND EQUITY

The following is a summary of share capital:

	The VFF Common Shares	
	# of Shares	Amount
Share capital—January 1, 2012 and December 31, 2012	19,433,394	\$24,850
Conversion of special shares to common shares	19,273,951	\$ -
Share capital—December 31, 2013	38,707,345	\$24,850
	The VFF Special Shares	
	# of Shares	Amount
Share capital—January 1, 2012 and December 31, 2012	19,273,951	\$ -
Conversion of special shares to common shares	(19,273,951)	\$ -
Share capital—December 31, 2013	-	\$ -

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VFF is authorized to issue an unlimited number of common shares, special shares and preferred shares, issuable in series. These shares have no par value.

(i) Special shares:

The special shares were issued to VF U.S. Holdings Inc. (“U.S. Holdings”) for the benefit of the holders of the Participating Preferred Shares (“PPS”) of U.S. Holdings. The PPS were issued in connection with the business combination between U.S. Holdings and Hot House Growers Income Trust in October 2006. The special shares entitled the holder to exercise voting and other rights as a shareholder of VFF as though the holder held the number of shares that would be owned by the holders of the PPSs assuming the exercise in full of the PPS Exchange Rights; provided that in no event shall the votes attached to the special shares exceed 45% of the votes otherwise attached to the common shares and the special shares of VFF then outstanding. The combination of the PPS and special shares were the economic equivalent of common shares. For financial reporting purposes, the special shares have been treated as common shares and are included in the Company’s share capital and in the calculation of earnings per share. During 2013, the remaining Participating Preferred Shares (“PPS”) shareholders issued conversion notices to the Company to exchange 19,273,951 Special Shares for 19,273,951 Common Shares of the Company pursuant to the Securityholders’ Agreement. No Special Shares were outstanding at December 31, 2013, nor can any Special Shares be issued at a future date.

(ii) Common shares:

The common shares entitle the holders thereof to one vote per share at all shareholder meetings of VFF. The holders of the common shares are entitled to receive any dividend declared by VFF on the common shares.

Subject to the rights, privileges, restrictions and conditions attached to any other class of shares of VFF, the holders of the common shares are entitled to receive, pro rata, the remaining property or assets of VFF upon its dissolution, liquidation or winding-up.

(iii) Preferred shares:

The preferred shares may be issued in one or more series, with such rights and conditions as may be determined by resolution of the directors of VFF who shall determine the designation, rights, privileges, conditions and restrictions to be attached to the preferred shares of such series. There are no voting rights attached to the preferred shares except as prescribed by law. In the event of the liquidation, dissolution or winding-up of VFF, or any other distribution of assets of VFF among its shareholders for the purpose of winding-up its affairs, the holders of the preferred shares of each series are entitled to receive, among other things, with priority over the common shares and any other shares ranking junior to the preferred shares of VFF, an amount equal to any cumulative dividends, whether or not declared, or declared thereon but unpaid and no more. The preferred shares for each series are also entitled to such other preferences over the common shares and any other shares ranking junior to the preferred shares as may be determined as to their respective series authorized to be issued. The preferred shares of each series shall be on a parity basis with the preferred shares of every other series with respect to payment of dividends and return of capital. There are no preferred shares currently issued and outstanding.

24 EARNINGS PER SHARE

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

	<u>For the Years Ended December 31,</u>	
	<u>2013</u>	<u>2012</u>
Net income attributable to owners of the Company	\$10,488	\$7,902
Weighted average number of common shares and special shares outstanding (thousands)	38,707	38,707
Basic earnings per share	<u>\$0.27</u>	<u>\$0.20</u>

Diluted earnings per share is calculated by adjusting the weighted average number of common shares outstanding to assume conversion of all dilutive potential common shares. The Company’s share options are potentially dilutive to common shares. A calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the Company’s shares for the year) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated above is compared with the number of shares that would have

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been issued assuming the exercise of the share options. If dilutive effect is less than zero, then issuance is anti-dilutive and is excluded from dilutive earnings per share calculation.

	For the Years Ended December 31,	
	2013	2012
Net income attributable to owners of the Company	\$10,488	\$7,902
Weighted average number of common shares and special shares outstanding (thousands)	38,707	38,707
Adjustment for:		
Share options (thousands)	135	-
Weighted average number of common shares and special shares outstanding for diluted earnings per share (thousands)	38,842	38,707
Diluted earnings per share	\$0.27	\$0.20

25 CAPITAL DISCLOSURES

The Company's objectives when managing capital are to safeguard its assets and maintain a competitive cost structure, continue as a going concern and provide returns to its shareholders. In addition, the Company works with all relevant stakeholders to ensure the safety of its operations and employees and remain in compliance with all environmental regulations.

The Company's main objectives when managing capital are:

- to structure the repayment of obligations in line with the expected lives of the Company's principal revenue generating assets;
- to ensure the Company has access to capital to fund contractual obligations as they become due and to ensure adequate cash levels to withstand the impact of unfavorable economic conditions;
- to maintain the Company's credit ratings to facilitate access to capital markets at competitive interest rates; and
- to access capital markets to fund its growth initiatives.

The Company's capital comprises net debt and equity:

	December 31, 2013	December 31, 2012
Total bank debt	\$55,569	\$58,310
Less cash and cash equivalents	(18,668)	(2,801)
Net debt	36,901	55,509
Total equity	61,100	50,451
	\$98,001	\$105,960

It is the Company's intention to meet its obligations through the collection of current accounts receivable and cash. The Company has an available operating loan up to CA\$10,000 (as at December 31, 2013, \$nil was outstanding on the operating loan, and \$1,645 was utilized on a letter of credit). As at December 31, 2013, the operating loan borrowing base was \$3,592 based on a percentage of the Company's outstanding accounts receivable less the issued letter of credit. If the current resources and cash generated from operations are insufficient to satisfy its obligations, the Company may seek to issue additional equity or to arrange debt or other financing.

26 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 year ended December 31, 2013 of \$161 (2012 – \$276) 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:

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	<u>September 2013</u>	<u>March 2013</u>	<u>2012</u>	<u>2011</u>
Expected volatility	56.4%	46.4%	54.5%	66.1%
Dividend	\$nil	\$nil	\$nil	\$nil
Risk-free interest rate	1.52%	2.04%	2.14%	2.53%
Expected life	6.5 years	6.5 years	6.5 years	6.5 years
Fair value	\$0.606	\$0.410	\$0.694	\$0.7848

Expected volatility was based on three years of historical data.

The following table summarizes stock options granted during the year. There were 50,000 forfeitures of stock options for the year ended December 31, 2013.

	For the Years Ended December 31,			
	2013		2012	
	Stock options	Weighted average exercise price	Stock options	Weighted average exercise price
Beginning of year	1,164,999	CA\$1.08	1,014,999	CA\$1.05
Granted	100,000	CA\$0.85	150,000	CA\$1.27
Granted	240,000	CA\$1.10	-	-
Forfeitures	(50,000)	CA\$1.24	-	-
End of year	<u>1,454,999</u>	<u>CA\$1.06</u>	<u>1,164,999</u>	<u>CA\$1.08</u>

The following table summarizes stock options outstanding and granted as at December 31, 2013:

Exercise price	Number outstanding	Remaining contractual life (years)	Number of exercisable options
CA\$0.70	349,999	6.0	349,999
CA\$1.24	615,000	7.3	410,000
CA\$1.27	150,000	8.2	50,000
CA\$0.85	100,000	9.2	Nil
CA\$1.10	240,000	9.8	Nil
	<u>1,454,999</u>		

No options were exercised for the years ended December 31, 2013 and 2012. Share options outstanding at the end of the year have the following expiry dates and exercise prices:

	Exercise price in CA\$ per share	December 31, 2013	December 31, 2012
Expire date - January 13, 2020	0.70	349,999	349,999
Expire date - May 20, 2021	1.24	615,000	665,000
Expire date - March 13, 2022	1.27	150,000	150,000
Expire date - March 13, 2023	0.85	100,000	-
Expire date - September 26, 2023	1.10	240,000	-
		<u>1,454,999</u>	<u>1,164,999</u>