

**Village Farms International, Inc.**  
**Condensed Consolidated Interim Financial Statements**  
**Three and Six Months Ended**  
**June 30, 2013 and 2012**

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

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

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

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

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

	June 30, 2013 (Unaudited)	December 31, 2012 (Audited)
<b>ASSETS</b>		
<i>Current assets</i>		
Cash and cash equivalents	\$ 2,227	\$ 2,801
Trade receivables	14,410	7,377
Other receivables	241	552
Inventories (note 4)	7,956	11,970
Income taxes receivable	247	503
Prepaid expenses and deposits	626	246
Biological asset (note 5)	8,311	4,757
Total current assets	34,018	28,206
<i>Non-current assets</i>		
Property, plant and equipment (note 7)	96,705	99,372
Intangible assets (note 8)	1,042	1,094
Other assets (note 9)	2,207	1,462
Total assets	\$ 133,972	\$ 130,134
<b>LIABILITIES</b>		
<i>Current liabilities</i>		
Trade payables	\$ 7,734	\$ 10,011
Accrued liabilities	3,557	2,609
Income taxes payable	-	7
Current maturities of long-term debt (note 10)	4,168	3,413
Current maturities of capital lease obligations (note 12)	24	23
Current portion of derivative (note 11)	-	106
Total current liabilities	15,483	16,169
<i>Non-current liabilities</i>		
Long-term debt (note 10)	53,485	54,897
Long-term maturities of capital lease obligations (note 12)	74	86
Deferred tax liability	9,771	8,041
Deferred compensation	561	490
Total liabilities	79,374	79,683
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (note 21)	24,850	24,850
Contributed surplus	679	588
Accumulated other comprehensive income	55	55
Retained earnings	29,014	24,958
Total shareholders' equity	54,598	50,451
Total liabilities and shareholders' equity	\$ 133,972	\$ 130,134

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

**Village Farms International, Inc.**  
**Condensed Consolidated Interim Statement of Changes in Shareholders' Equity**  
**For the Six Months Ended June 30, 2013 and 2012**  
**(In thousands of United States dollars, except for shares outstanding, unaudited)**

	Number of Common Shares	Share Capital	Contributed Surplus	Accumulated Other Comprehensive Income	Retained Earnings	Total Shareholders' Equity
Balance at January 1, 2012	19,433,394	\$ 24,850	\$ 312	\$ 55	\$ 17,056	\$ 42,273
Share-based compensation (note 24)	-	-	123	-	-	123
Net income and comprehensive income for the period ended June 30, 2012	-	-	-	-	7,051	7,051
Balance at June 30, 2012	<u>19,433,394</u>	<u>24,850</u>	<u>435</u>	<u>55</u>	<u>24,107</u>	<u>\$ 49,447</u>
Balance at January 1, 2013	19,433,394	24,850	588	55	24,958	50,451
Share-based compensation (note 24)	-	-	91	-	-	91
Net income and comprehensive income for the period ended June 30, 2013	-	-	-	-	4,056	4,056
Balance at June 30, 2013	<u>19,433,394</u>	<u>\$ 24,850</u>	<u>\$ 679</u>	<u>\$ 55</u>	<u>\$ 29,014</u>	<u>\$ 54,598</u>

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

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

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
Net sales	\$ 40,866	\$ 39,483	\$ 66,251	\$ 67,675
Cost of sales (note 16)	(34,801)	(41,819)	(57,826)	(65,503)
Insurance proceeds, net (note 6)	(43)	18,720	5,221	18,720
Provision for property and equipment damaged	-	(2,789)	-	(2,789)
Provision for inventory-damaged crop, growing materials, supplies	-	(3,923)	-	(3,923)
Change in biological asset (note 5)	425	(965)	723	(2,179)
Selling, general and administrative expenses (note 16)	(3,547)	(3,781)	(6,666)	(7,366)
Income from operations	<u>2,900</u>	<u>4,926</u>	<u>7,703</u>	<u>4,635</u>
Interest expense	873	1,125	2,090	2,085
Interest income	-	-	(1)	(2)
Foreign exchange (gain)/loss	(50)	55	(57)	62
Amortization of intangible assets (note 8)	26	26	52	52
Gain on derivatives (note 11)	-	(288)	(106)	(511)
Other income, net	(20)	(47)	(66)	(171)
(Gain)/loss on sale of assets	<u>3</u>	<u>-</u>	<u>(3)</u>	<u>-</u>
Income before income taxes	2,068	4,055	5,794	3,120
Provision for (Recovery of) income taxes	<u>620</u>	<u>(3,688)</u>	<u>1,738</u>	<u>(3,931)</u>
Net income and comprehensive income	<u>\$ 1,448</u>	<u>\$ 7,743</u>	<u>\$ 4,056</u>	<u>\$ 7,051</u>
Basic and diluted earnings per share (note 22)	<u>\$ 0.04</u>	<u>\$ 0.20</u>	<u>\$ 0.10</u>	<u>\$ 0.18</u>

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

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

	<b>Three Months Ended June 30</b>		<b>Six Months Ended June 30</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
<b>Cash flows from operating activities:</b>				
Net income	\$ 1,448	\$ 7,743	\$ 4,056	\$ 7,051
Adjustments to reconcile net income to net cash provided by/(used in) operating activities:				
Depreciation and amortization	1,829	2,022	3,667	3,915
Loss/(gain) on sale of assets	3	2,789	(3)	2,789
Gain on derivative (note 11)	-	(288)	(106)	(511)
Foreign exchange (gain)/loss	(50)	(5)	(57)	42
Net interest expense	670	1,125	1,886	2,083
Share-based compensation	43	64	91	123
Deferred income taxes	614	(3,661)	1,729	(3,931)
Change in biological asset	(425)	965	(723)	2,179
Changes in non-cash working capital items (note 18)	79	(9,757)	(6,997)	(15,038)
Net cash provided by/(used in) operating activities	<u>4,211</u>	<u>997</u>	<u>3,543</u>	<u>(1,298)</u>
<b>Cash flows from investing activities:</b>				
Purchases of property, plant and equipment	(537)	(3,006)	(965)	(9,114)
Proceeds from sale of property, plant, and equipment, net	13	-	19	-
Other noncurrent assets and liabilities, net	(171)	17	(674)	200
Net cash used in investing activities	<u>(695)</u>	<u>(2,989)</u>	<u>(1,620)</u>	<u>(8,914)</u>
<b>Cash flows from financing activities:</b>				
Proceeds from operating loan, net	(3,028)	3,160	-	6,038
(Payments on) proceeds from long-term debt, net	(347)	443	(657)	4,761
Interest paid on long-term debt	(670)	(1,125)	(1,887)	(2,085)
Interest received	-	-	1	2
Payments on capital lease obligation	(6)	-	(11)	-
Net cash (used in)/provided by financing activities	<u>(4,051)</u>	<u>2,478</u>	<u>(2,554)</u>	<u>8,716</u>
Effect of exchange rate changes on cash and cash equivalents	<u>50</u>	<u>5</u>	<u>57</u>	<u>(42)</u>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(485)</b>	<b>491</b>	<b>(574)</b>	<b>(1,538)</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>2,712</b>	<b>836</b>	<b>2,801</b>	<b>2,865</b>
<b>Cash and cash equivalents, end of period</b>	<b><u>\$ 2,227</u></b>	<b><u>\$ 1,327</u></b>	<b><u>\$ 2,227</u></b>	<b><u>\$ 1,327</u></b>
Supplemental cash flow information:				
Income taxes paid	<u>\$ 8</u>	<u>\$ -</u>	<u>\$ 9</u>	<u>\$ 27</u>

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

**VILLAGE FARMS INTERNATIONAL, INC.**  
**Notes to Condensed Consolidated Interim Financial Statements for the**  
**Three and Six Months Ended June 30, 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 June 30, 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 80<sup>th</sup> 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**

**Statement of compliance**

These unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standards 34, *Interim Financial Reporting* (“IAS 34”) as issued by the International Accounting Standards Board (“IASB”). 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 Consolidated Financial Statements for the year ended December 31, 2012.

**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. Certain reclassifications have been made, where appropriate, to prior period financial statements to conform to the current period presentation.

**Basis of Measurement**

The consolidated 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 condensed consolidated interim 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 CHANGES IN ACCOUNTING POLICIES**

The Company has adopted the following new and revised standards, along with any consequential amendments, effective January 1, 2013. These changes were made in accordance with the applicable transitional provisions.

- The Company has assessed its consolidation conclusion on January 1, 2013 and determined that the adoption of IFRS 10, Consolidated Financial Statements, did not result in any changes in the consolidation status of any of its subsidiaries.
- The Company has adopted IFRS 13, Fair Value Measurement, on January 1, 2013 on a prospective basis. 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.
- The Company has adopted the amendments to IAS 1, Presentation of Financial Statements. These amendments required the Company to group other comprehensive income items by those that may be recycled through net income and those

# VILLAGE FARMS INTERNATIONAL, INC.

## Notes to Condensed Consolidated Interim Financial Statements for the Three and Six Months Ended June 30, 2013 and 2012

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

that will not be recycled through net income. These changes did not result in adjustments to other comprehensive income.

- The Company adopted IFRS 11, Joint Arrangements, which redefines joint operations and joint ventures with a focus on the rights and obligations of an arrangement, rather than its legal form. The adoption of IFRS 11 has not resulted in any changes in the accounting for joint arrangements.
- The Company adopted the amended IAS 19R, Employee Benefits, which changes the recognition and measurement of defined benefit pension expense and termination benefits and enhances the disclosure of all employee benefits. The adoption of IAS 19R has not resulted in any changes in the accounting of employee benefits.

### Accounting Standards Issued and Not Applied

In May 2011, the International Accounting Standards Board (“IASB”) issued IFRS 9, Financial Instruments, which is effective for annual periods beginning on or after January 1, 2015, with early adoption permitted. IFRS 9 is not expected to have a material impact on amounts recorded in the Company's consolidated financial statements.

Further details of the new accounting Standards and potential impact on the Company can be found in the Company's Consolidated Financial Statements for the year ended December 31, 2012.

### 4 INVENTORIES

	June 30, 2013 (unaudited)	December 31, 2012 (audited)
Deferred crop costs	\$12,390	\$13,584
Purchased produce inventory	298	287
Biological asset adjustment (note 5)	(4,732)	(1,901)
	\$7,956	\$11,970

The cost of inventories recognized as expense and included in cost of sales for the three months ended June 30, 2013 amounted to \$29,759 (2012 - \$35,177) and \$48,284 for the six months ended June 30, 2013 (2012 - \$53,504).

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

### 5 BIOLOGICAL ASSET

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

	June 30, 2013 (unaudited)	December 31, 2012 (audited)	June 30, 2012 (unaudited)
Estimated sales value-biological asset	\$15,287	\$7,935	\$11,528
Less			
Estimated remaining costs to complete	6,053	2,648	5,586
Estimated selling costs	923	530	594
Fair value of biological asset less costs to sell	8,311	4,757	5,348
Less actual costs (note 4)	4,732	1,901	4,131
Increase in fair value of biological asset over cost	3,579	2,856	1,217
Fair value over cost of harvested and sold biological asset	2,856	3,396	3,396
Change in biological asset	\$723	(\$540)	(\$2,179)
Change in biological asset three months ended March 31,	\$298		(\$1,214)
Change in biological asset three months ended June 30,	\$425		(\$965)

# VILLAGE FARMS INTERNATIONAL, INC.

## Notes to Condensed Consolidated Interim Financial Statements for the Three and Six Months Ended June 30, 2013 and 2012

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

### 6 HAIL DAMAGE

On May 31, 2012, the Company suffered a hail storm that closed three of the Texas facilities. The Company is insured and as at June 30, 2013, has received \$5,483 from its insurance carrier for business interruption. Fees incurred associated with these recoveries for the six months ending June 30, 2013 total \$262, resulting in net proceeds of \$5,221 as at June 30, 2013.

### 7 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

	<u>Land</u>	<u>Leasehold and land improve- ments</u>	<u>Green- house building</u>	<u>Green- house equipment</u>	<u>Machinery and Equipment</u>	<u>Construction in process</u>	<u>Total</u>
<b>Year ended December 31, 2012 (audited)</b>							
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>
<b>At December 31, 2012 (audited)</b>							
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>
<b>Six months ended June 30, 2013 (unaudited)</b>							
Opening net book value	\$5,027	\$1,912	\$54,612	\$33,639	\$1,708	\$2,474	\$99,372
Additions	-	-	-	724	50	897	1,671
Placed in service	-	-	-	-	-	(706)	(706)
Asset Disposal	-	-	-	(131)	-	-	(131)
Accum Deprec Disposal	-	-	-	114	-	-	114
Depreciation expense	-	(74)	(1,643)	(1,669)	(229)	-	(3,615)
Closing net book value	<u>\$5,027</u>	<u>\$1,838</u>	<u>\$52,969</u>	<u>\$32,677</u>	<u>\$1,529</u>	<u>\$2,665</u>	<u>\$96,705</u>
<b>At June 30, 2013 (unaudited)</b>							
Cost	5,027	3,471	73,201	49,720	4,738	2,665	138,822
Accumulated depreciation	-	(1,633)	(20,232)	(17,043)	(3,209)	-	(42,117)
Net book value	<u>\$5,027</u>	<u>\$1,838</u>	<u>\$52,969</u>	<u>\$32,677</u>	<u>\$1,529</u>	<u>\$2,665</u>	<u>\$96,705</u>

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

### 8 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.

# VILLAGE FARMS INTERNATIONAL, INC.

## Notes to Condensed Consolidated Interim Financial Statements for the Three and Six Months Ended June 30, 2013 and 2012

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

### Year ended December 31, 2012 (audited)

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

### At December 31, 2012 (audited)

Cost	1,735
Accumulated amortization	(641)
Net book value	1,094

### Six months ended June 30, 2013 (unaudited)

Opening book value	1,094
Amortization for the period	(52)
Closing net book value	1,042

### At June 30, 2013 (unaudited)

Cost	1,735
Accumulated amortization	(693)
Net book value	\$1,042

## 9 OTHER ASSETS

The following table summarizes the components of other assets:

	June 30, 2013 (unaudited)	December 31, 2012 (audited)
Patronage stock	\$437	\$437
Note receivable (note 15)	339	352
Security deposits	141	146
Cash surrender value - insurance	543	479
Deferred financing costs	722	-
Other	25	48
Total	\$2,207	\$1,462

As further described in note 10, the Company entered into an agreement for new term loan financing with an existing Canadian creditor on March 28, 2013. Costs incurred in connection with financing activities are deferred and amortized over the terms of the related debt agreement for a term of five years. Total deferred financing costs, net of accumulated amortization, are included in other noncurrent assets in the statement of financial positions, and total \$722 as at June 30, 2013 and \$nil at December 31, 2012. Amortization of these costs are charged to interest expense in the Company's consolidated statement of income and total \$38 for the three and six months ended June 30, 2013 (2012 \$nil).

## 10 DEBT

	June 30, 2013 (unaudited)	December 31, 2012 (audited)
<b>Long-term debt:</b>		
Opening balance	\$58,310	\$69,855
Proceeds from credit facilities	58,000	6,917
Repayment of debt	(58,657)	(18,462)
Closing balance	\$57,653	\$58,310
Current portion	4,168	3,413
Non-current portion	53,485	54,897
	\$57,653	\$58,310

**VILLAGE FARMS INTERNATIONAL, INC.**  
**Notes to Condensed Consolidated Interim Financial Statements for the**  
**Three and Six Months Ended June 30, 2013 and 2012**

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

**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 debt for Term Loan 1 and Term Loan 2 was repaid upon issuance of the new term loan financing. The details of the Company's Credit Facilities are as follows:

- Revolving operating loan of up to CA\$4,000 at 8% interest rate with a maturity date on September 30, 2013 (the "Operating Loan");
- Non-revolving variable rate term loan with a balance of \$57,653 with a maturity date on April 1, 2018 ("FCC Loan").

The Operating Loan is subject to margin requirements stipulated by the bank; no amounts were drawn on this facility at June 30, 2013 (December 31, 2012 – \$nil) which is available to a maximum of CA\$4,000, less an outstanding letter of credit totaling \$1,145.

The FCC Loan was \$57,653 as at June 30, 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 June 30, 2013, borrowings under the FCC Loan agreement are subject to interest rate of 5.275%.

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.

The borrowings are subject to certain positive and negative covenants. As at June 30, 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 June 30, 2013 was \$243 (December 31, 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 June 30, 2013 was \$133,972 (December 31, 2012 - \$130,134).

The aggregate annual maturities of long-term debt as at June 30, 2013 are as follows:

Remaining 2013	\$2,084
2014	4,168
2015	4,168
2016	4,168
2017	4,168
Thereafter	38,897
	<u>\$57,653</u>

**11 DERIVATIVES**

On January 25, 2013, the Company's interest rate swap agreement expired. The Company recognized a gain of \$nil for the three months ended June 30, 2013 (2012 – \$288) and \$106 for the six months ended June 30, 2013 (2012 - \$511), which represented the mark-to-market adjustment of the interest rate swap agreement. The Company could not designate the swap agreement as a hedge for accounting purposes.

**VILLAGE FARMS INTERNATIONAL, INC.**  
**Notes to Condensed Consolidated Interim Financial Statements for the**  
**Three and Six Months Ended June 30, 2013 and 2012**

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

**12 COMMITMENTS**

**Obligations Under Capital Leases**

The Company has a capital lease to purchase equipment. Future minimum lease payments are as follows:

Remaining 2013	\$14
2014	29
2015	29
2016	29
2017	7
Total minimum lease payments	<u>108</u>
Less amount representing interest	<u>(10)</u>
	98
Less current portion	<u>(24)</u>
Long-term portion	<u><u>\$74</u></u>

The lease has an interest rate of 5.5%, with equipment having a carrying value of \$139. The Company made principal payments of \$6 and \$11 during the three months and six months ended June 30, 2013, respectively (2012 - \$nil). Interest expense was \$1 and \$2 for the three months and six months ended June 30, 2013, respectively (2012 - \$nil).

**Operating Leases**

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

	<u>June 30, 2013</u>
Remaining 2013	\$789
2014	1,574
2015	1,444
2016	1,219
2017	1,183
Thereafter	2,966
	<u><u>\$9,175</u></u>

**13 FINANCIAL INSTRUMENTS**

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

	<u>June 30, 2013</u>	<u>December 31, 2012</u>
	(unaudited)	(audited)
Cash and cash equivalents	\$2,227	\$2,801
Trade receivables	14,410	7,377
Other receivables	1,499	1,844
Other financial liabilities	69,603	71,536
Derivatives	-	106

Interest income, expense and gains and losses from loans, receivables and other financial liabilities are recognized in income, (gain) loss on derivatives and other income. The following table summarizes interest income and expense for the three and six months ended June 30, 2013 and 2012:

	<u>Three months ended</u>		<u>Six months ended</u>	
	June 30,		June 30,	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Interest income from held-for-trading assets	\$-	\$-	\$1	\$2
Interest expense from other financial liabilities	\$873	\$1,125	\$2,090	\$2,085

# VILLAGE FARMS INTERNATIONAL, INC.

## Notes to Condensed Consolidated Interim Financial Statements for the Three and Six Months Ended June 30, 2013 and 2012

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

The following table classifies financial assets and liabilities that are recognized on the balance sheet 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).

<b>Financial instruments at fair value—June 30, 2013</b>				
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Interest swap agreements	-	-	-	-
	-	-	-	-
<b>Financial instruments at fair value—December 31, 2012</b>				
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Interest swap agreements	-	\$ (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 June 30, 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.

The Company's trade receivables had three customers that represent more than 10% of the balance of trade receivables as at June 30, 2013 (represented 10%, 10.3% and 12.2%, respectively). 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 83% 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 1% of sales. The maximum amount of credit risk exposure is limited to the carrying amount of the balances on the financial statements.

Given the current economic environment, trade receivables for each customer were evaluated for collectability and an allowance for doubtful accounts has been estimated. A general provision is also taken based on the Company's historic exposure to bad debts based on revenue. At June 30, 2013, the allowance for doubtful accounts balance was \$254 (December 31, 2012 - \$254). In addition, the Company recorded a bad debt expense of \$nil during the three and six months ended June 30, 2013 (2012 - \$nil).

At June 30, 2013, 87.9% (December 31, 2012 - 82.4%) of trade receivables were outstanding less than 30 days, 11.6% (December 31, 2012 - 16.2%) were outstanding for between 30 and 90 days and the remaining 0.5% (December 31, 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.

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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.

iii) Foreign exchange risk

At June 30, 2013, the Canadian/U.S. foreign exchange rate was CA\$1.00 = US\$0.9500 (December 31, 2012 – CA\$1.00 = \$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 June 30, 2013 and December 31, 2012 with the net foreign exchange gain or loss directly impacting net income for the period.

	June 30, 2013	December 31, 2012
<b>Financial assets</b>		
Cash and cash equivalents	\$ 18	\$ 57
Trade receivables	421	124
<b>Financial liabilities</b>		
Trade payables and accrued liabilities	(121)	(89)
Operating Loan	-	-
<b>Net foreign exchange gain (loss)</b>	\$ 318	\$ 92

iv) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they fall due. The following are the contractual maturities of financial liabilities as at June 30, 2013:

	Total	Less than 1 year	2-3 years	4-5 years	More than 5 years
Financial liabilities					
Long-term debt	\$57,653	\$4,168	\$8,335	\$45,150	\$-
Operating Loan	-	-	-	-	-
Trade payables	7,734	7,734	-	-	-
Accrued liabilities and taxes	3,557	3,557	-	-	-
Obligation under capital lease	98	12	51	35	-
Other Liabilities	561	-	561	-	-
<b>Total</b>	\$69,603	\$15,471	\$8,947	\$45,185	\$-

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\$4,000, less an outstanding letter of credit totaling \$1,145.

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 term debt bears a variable interest rate and therefore its carrying value approximates its fair value. The fair value of derivatives is equal to their carrying value and is determined based on published interest rates and contractual terms of the interest rate swap agreement.

#### 14 RELATED PARTY TRANSACTIONS AND BALANCES

Included in other assets as at June 30, 2013 is a \$339 (December 31, 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 partially non-interest bearing note to be paid from the proceeds of the sale of the real property that secures the note. The \$339 balance represents the unpaid amount the Company advanced on this employee's behalf in connection with the relocation.

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## Notes to Condensed Consolidated Interim Financial Statements for the Three and Six Months Ended June 30, 2013 and 2012

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

### 15 COMPENSATION OF KEY MANAGEMENT

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

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Salaries and other employee benefits	\$373	\$411	\$733	\$842
Share-based payments	32	64	48	123
	<u>\$405</u>	<u>\$475</u>	<u>\$781</u>	<u>\$965</u>

### 16 EXPENSES BY NATURE

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

#### *Cost of sales*

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Purchased produce	\$3,792	\$7,894	\$9,593	\$14,772
Raw materials and consumables used	15,123	15,629	19,853	18,718
Depreciation and amortization	1,734	1,896	3,474	3,666
Transportation and storage	5,143	6,847	9,015	11,442
Employee compensation and benefits	9,009	9,553	15,891	16,905
	<u>\$34,801</u>	<u>\$41,819</u>	<u>\$57,826</u>	<u>\$65,503</u>

#### *Selling, general and administrative expenses*

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Employee compensation and benefits	\$2,100	\$2,350	\$3,904	\$4,391
Marketing	158	161	223	310
Professional services	196	374	293	799
Office expenses	522	423	995	849
Other	571	473	1,251	1,017
	<u>\$3,547</u>	<u>\$3,781</u>	<u>\$6,666</u>	<u>\$7,366</u>

#### *Employee compensation and benefits*

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Salaries and other employee benefits	\$11,066	\$11,903	\$19,704	\$21,296
Share-based payments	43	64	91	123
	<u>\$11,109</u>	<u>\$11,967</u>	<u>\$19,795</u>	<u>\$21,419</u>

### 17 DEFERRED INCOME TAXES

Income tax expense is recognized based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual rate used for the six months ended June 30, 2013 was 30% and the six months ended June 30, 2012 was 26%.

## VILLAGE FARMS INTERNATIONAL, INC.

### Notes to Condensed Consolidated Interim Financial Statements for the Three and Six Months Ended June 30, 2013 and 2012

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

#### 18 CHANGES IN NON-CASH WORKING CAPITAL

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Trade receivables	(\$5,702)	(\$4,751)	(\$7,032)	(\$4,587)
Inventories	4,780	9,412	4,013	5,270
Inventories reclassified to biological asset	(238)	364	(2,830)	(1,955)
Other receivables	3,573	(14,091)	567	(13,998)
Prepays and deposits	306	286	(\$380)	(349)
Trade payables	(2,670)	(2,571)	(2,277)	(934)
Accrued liabilities and taxes payable	30	1,594	942	1,515
	<u>\$ 79</u>	<u>(\$9,757)</u>	<u>(\$6,997)</u>	<u>(\$15,038)</u>

#### 19 GEOGRAPHIC INFORMATION

The Company operates in one 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:

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Net Sales				
United States	\$31,546	\$31,018	\$54,918	\$55,024
Canada	9,320	8,465	11,283	12,603
Other	-	-	50	48
	<u>\$40,866</u>	<u>\$39,483</u>	<u>\$66,251</u>	<u>\$67,675</u>

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

	June 30, 2013 (unaudited)	December 31, 2012 (audited)
United States	\$ 57,145	\$ 59,140
Canada	39,125	39,781
Dominican Republic	435	451
	<u>\$ 96,705</u>	<u>\$ 99,372</u>

#### 20 CONTINGENCIES

In the normal course of business, the Company may receive notices of potential legal proceedings or be 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.

#### 21 SHARE CAPITAL AND EQUITY

The following is a summary of share capital:

	The VFF Common Shares	
	# of Shares	Amount
Share capital—January 1, 2012	19,433,394	\$24,850
Issued in financing	-	-
Issued on exercise of employee stock options	-	-
Share capital—June 30, 2013 and December 31, 2012	<u>19,433,394</u>	<u>\$24,850</u>

# VILLAGE FARMS INTERNATIONAL, INC.

## Notes to Condensed Consolidated Interim Financial Statements for the Three and Six Months Ended June 30, 2013 and 2012

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

	The VFF Special Shares	
	# of Shares	Amount
Share capital– January 1, 2012, December 31, 2012, and June 30, 2013	19,273,951	\$-

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 PPSs of U.S. Holdings. The PPSs were issued in connection with the business combination between U.S. Holdings and Hot House Growers Income Trust. The special shares entitle 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 PPSs and special shares are 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.

(ii) Common shares:

The common shares entitle the holders thereof to one vote per share at all shareholder meetings of VFF (subject to certain exceptions). 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.

## 22 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 period excluding common shares purchased by the Company and held as treasury shares.

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Net income attributable to owners of the Company	\$1,448	\$7,743	\$4,056	\$7,051
Weighted average number of common shares and special shares outstanding	38,707	38,707	38,707	38,707
Basic earnings per share	\$0.04	\$0.20	\$0.10	\$0.18

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

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 period) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated above is compared with the number of shares that would have been issued assuming the exercise of the share options. If dilutive effect is less than zero, then issuance is anti-dilutive and is excluded from dilutive earnings per share calculation.

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Net income attributable to owners of the Company	\$1,448	\$7,743	\$4,056	\$7,051
Weighted average number of common shares and special shares outstanding (thousands)	38,707	38,707	38,707	38,707
Adjustment for:				
Share options (thousands)	60	22	63	132
Weighted average number of common shares and special shares outstanding for diluted earnings per share (thousands)	38,767	38,729	38,770	38,839
Diluted earnings per share	\$0.04	\$0.20	\$0.10	\$0.18

### 23 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 repayment 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:

	June 30, 2013 (unaudited)	December 31, 2012 (audited)
Total bank debt	\$57,653	\$58,310
Less cash and cash equivalents	(2,227)	(2,801)
Net debt	55,426	55,509
Total equity	54,598	50,451
	<u>\$110,024</u>	<u>\$105,960</u>

It is the Company's intention to meet these obligations through the collection of current accounts receivable and cash. The Company has an available operating loan up to CA\$4,000 (as at June 30, 2013, \$nil was outstanding on the operating loan, and \$1,145 was outstanding on a letter of credit). As at June 30, 2013, the operating loan borrowing base was \$9,595 based on a percentage of the Company's outstanding accounts receivable. If the current resources and cash generated from operations are insufficient to satisfy its obligations, the Company may seek to issue additional equity or to arrange debt or other financing.

# VILLAGE FARMS INTERNATIONAL, INC.

## Notes to Condensed Consolidated Interim Financial Statements for the Three and Six Months Ended June 30, 2013 and 2012

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### 24 SHARE-BASED COMPENSATION PLAN

The Company has a share-based compensation plan. The maximum number of common shares that can be issued upon the exercise of options granted is equal to 10% of the aggregate number of common shares issued and outstanding from time to time. The term during which an option may be exercised is 10 years from the date of the grant. Options vest at a rate of 33% per year, beginning one year following the grant date of the options. Share-based compensation expense for the three months ended June 30, 2013 of \$43 (2012 - \$64) and for the six months ended June 30, 2013 of \$91 (2012 - \$123) 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:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Expected volatility	46.4%	54.5%	66.1%
Dividend	\$nil	\$nil	\$nil
Risk-free interest rate	2.04%	2.14%	2.53%
Expected life	6.5 years	6.5 years	6.5 years
Fair value	\$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 period. There were no forfeitures of stock options for the six months ended June 30, 2013.

	Six months ended June 30,			
	2013		2012	
	Stock options	Weighted average exercise price	Stock options	Weighted average exercise price
Beginning of period	1,164,999	CA\$1.08	1,014,999	CA\$1.05
Granted	100,000	CA\$0.85	150,000	CA\$1.27
End of period	1,264,999	CA\$1.06	1,164,999	CA\$1.08

The following table summarizes stock options outstanding and granted as at June 30, 2013:

Exercise price	Number outstanding	Remaining contractual life (years)	Number of exercisable options
CA\$0.70	349,999	6.5	349,999
CA\$1.24	665,000	7.8	443,333
CA\$1.27	150,000	8.7	50,000
CA\$0.85	100,000	9.7	Nil
	<u>1,264,999</u>		

No options were exercised in the six months ended June 30, 2013 and 2012.

Share options outstanding at the end of the period have the following expiry dates and exercise prices:

	Exercise price in CA\$ per share	June 30, 2013	December 31, 2012
Expire date - January 13, 2020	0.70	349,999	349,999
Expire date - May 20, 2021	1.24	665,000	665,000
Expire date - March 13, 2022	1.27	150,000	150,000
Expire date - March 13, 2023	0.85	100,000	-
		<u>1,264,999</u>	<u>1,164,999</u>

# **VILLAGE FARMS INTERNATIONAL, INC.**

## **Notes to Condensed Consolidated Interim Financial Statements for the Three and Six Months Ended June 30, 2013 and 2012**

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### **25 SUBSEQUENT EVENT**

In August 2013, one of the Participating Preferred Shares (“PPS”) shareholders issued a conversion notice to the Company to exchange 9,886,949 Special Shares for 9,886,949 Common Shares of the Company pursuant to the Securityholders’ Agreement.