

Village Farms International, Inc.

Condensed Consolidated Interim Financial Statements

Three and Six Months Ended

June 30, 2014 and 2013

(Unaudited)

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the 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 Statements of Financial Position
(In thousands of United States dollars)

	June 30, 2014 (Unaudited)	December 31, 2013 (Audited)
ASSETS		
<i>Current assets</i>		
Cash and cash equivalents	\$ 8,080	\$ 18,668
Trade receivables	12,932	7,109
Other receivables	609	325
Inventories (note 4)	9,820	10,630
Income taxes receivable	36	36
Prepaid expenses and deposits	658	168
Biological asset (note 5)	7,885	3,732
Total current assets	40,020	40,668
<i>Non-current assets</i>		
Property, plant and equipment (note 7)	99,140	96,709
Intangible assets	939	991
Other assets (note 8)	1,621	1,537
Total assets	\$ 141,720	\$ 139,905
LIABILITIES		
<i>Current liabilities</i>		
Trade payables	\$ 8,893	\$ 7,063
Accrued liabilities	3,758	3,225
Income taxes payable	-	917
Operating loan (note 9)	4,000	-
Current maturities of long-term debt (note 9)	4,168	4,168
Current maturities of capital lease obligations	25	25
Total current liabilities	20,844	15,398
<i>Non-current liabilities</i>		
Long-term debt (note 9)	48,693	50,692
Long-term maturities of capital lease obligations	48	61
Deferred tax liability	10,900	11,970
Deferred compensation	770	684
Total liabilities	81,255	78,805
SHAREHOLDERS' EQUITY		
Share capital	24,850	24,850
Contributed surplus	888	749
Accumulated other comprehensive income	55	55
Retained earnings	34,672	35,446
Total shareholders' equity	60,465	61,100
Total liabilities and shareholders' equity	\$ 141,720	\$ 139,905

Subsequent Events (note 18)

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

Village Farms International, Inc.
Condensed Consolidated Interim Statements of Changes in Shareholders' Equity
For the Six Months Ended June 30, 2014 and 2013
(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, 2013	19,433,394	\$ 24,850	\$ 588	\$ 55	\$ 24,958	\$ 50,451
Share-based compensation (note 17)	-	-	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>
Balance at January 1, 2014	38,707,345	24,850	749	55	35,446	61,100
Share-based compensation (note 17)	-	-	139	-	-	139
Net income and comprehensive income for the period ended June 30, 2014	-	-	-	-	(774)	(774)
Balance at June 30, 2014	<u>38,707,345</u>	<u>\$ 24,850</u>	<u>\$ 888</u>	<u>\$ 55</u>	<u>\$ 34,672</u>	<u>\$ 60,465</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)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net sales	\$ 41,267	\$ 40,866	\$ 65,271	\$ 66,251
Cost of sales (note 11)	(36,799)	(34,801)	(58,516)	(57,826)
Insurance proceeds, net (note 6)	-	(43)	-	5,221
Change in biological asset (note 5)	(1,170)	425	(57)	723
Selling, general and administrative expenses (note 11)	(3,328)	(3,547)	(6,455)	(6,666)
Income from operations	(30)	2,900	243	7,703
Interest expense, net	636	873	1,324	2,089
Foreign exchange gain	(43)	(50)	(5)	(57)
Amortization of intangible assets	26	26	52	52
Gain on derivatives	-	-	-	(106)
Other income, net	(6)	(20)	(23)	(66)
Loss/(gain) on sale of assets	1	3	1	(3)
Income before income taxes	(644)	2,068	(1,106)	5,794
(Recovery of) provision for income taxes	(194)	620	(332)	1,738
Net (loss) income and comprehensive (loss) income	<u>\$ (450)</u>	<u>\$ 1,448</u>	<u>\$ (774)</u>	<u>\$ 4,056</u>
Basic (loss) earnings per share (note 15)	<u>\$ (0.01)</u>	<u>\$ 0.04</u>	<u>\$ (0.02)</u>	<u>\$ 0.10</u>
Diluted (loss) earnings per share (note 15)	<u>\$ (0.01)</u>	<u>\$ 0.04</u>	<u>\$ (0.02)</u>	<u>\$ 0.10</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)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Cash flows from operating activities:				
Net (loss) income	\$ (450)	\$ 1,448	\$ (774)	\$ 4,056
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities:				
Depreciation and amortization	1,910	1,829	3,736	3,667
Loss/(gain) on disposal of assets	1	3	1	(3)
Gain on derivatives	-	-	-	(106)
Foreign exchange gain	(43)	(50)	(5)	(57)
Net interest expense	702	670	1,400	1,886
Share-based compensation	85	43	139	91
Deferred income taxes	(909)	614	(1,070)	1,729
Change in biological asset	1,170	(425)	57	(723)
Changes in non-cash working capital items (note 13)	(647)	79	(8,551)	(6,997)
Net cash provided by (used in) operating activities	<u>1,819</u>	<u>4,211</u>	<u>(5,067)</u>	<u>3,543</u>
Cash flows from investing activities:				
Purchases of property, plant and equipment	(1,413)	(537)	(6,117)	(965)
Proceeds from sale of property, plant, and equipment, net	1	13	1	19
Other non-current assets and liabilities, net	31	(171)	87	(674)
Net cash used in investing activities	<u>(1,381)</u>	<u>(695)</u>	<u>(6,029)</u>	<u>(1,620)</u>
Cash flows from financing activities:				
(Payments on)/Proceeds from operating loan, net	3,000	(3,028)	4,000	-
Payments on long-term debt, net	(1,042)	(347)	(2,084)	(657)
Interest paid on long-term debt, net	(702)	(670)	(1,400)	(1,886)
Payments on capital lease obligation	(7)	(6)	(13)	(11)
Net cash provided by (used in) financing activities	<u>1,249</u>	<u>(4,051)</u>	<u>503</u>	<u>(2,554)</u>
Effect of exchange rate changes on cash and cash equivalents	<u>43</u>	<u>50</u>	<u>5</u>	<u>57</u>
Net increase (decrease) in cash and cash equivalents	<u>1,730</u>	<u>(485)</u>	<u>(10,588)</u>	<u>(574)</u>
Cash and cash equivalents, beginning of period	<u>6,350</u>	<u>2,712</u>	<u>18,668</u>	<u>2,801</u>
Cash and cash equivalents, end of period	<u>\$ 8,080</u>	<u>\$ 2,227</u>	<u>\$ 8,080</u>	<u>\$ 2,227</u>
Supplemental cash flow information:				
Income taxes paid	<u>\$ 455</u>	<u>\$ 8</u>	<u>\$ 1,464</u>	<u>\$ 9</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, 2014 and 2013

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

1 NATURE OF OPERATIONS

Village Farms International, Inc. (“VFF” the parent company and, together with its subsidiaries, the “Company”) is incorporated under the *Canada Business Corporations Act*. VFF’s principal operating subsidiaries at June 30, 2014 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 publicly traded and 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

The Company’s unaudited condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) and its interpretations, as issued by the International Accounting Standards Board (“IASB”). These condensed consolidated interim financial statements are prepared in accordance with International Accounting Standard (“IAS”) 34, *Interim Financial Reporting*. They do not include all of the information required for full annual financial statement disclosures, and should be read in conjunction with the Company’s audited annual Consolidated Financial Statements for the year ended December 31, 2013, which were prepared in accordance with IFRS.

Basis of Presentation

The condensed consolidated interim financial statements are prepared on a going concern basis. The accounting policies have been applied consistently in all material respects. These condensed consolidated interim financial statements have been prepared by applying the same accounting policies, assessments of estimates and judgments, and methods of computation as compared with the most recent annual consolidated financial statements.

Basis of Measurement

The condensed consolidated interim financial statements (“interim financial statements”) have been prepared on the historical cost basis except for the following material items in the condensed consolidated interim statements of financial position (“interim statements of financial position”) and in the condensed consolidated interim statements of income and comprehensive income (“interim statements of income and comprehensive income”):

- 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 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 thousand.

3 CHANGES IN ACCOUNTING POLICIES

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

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

VILLAGE FARMS INTERNATIONAL, INC.

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(In thousands of United States dollars, except per share amounts and unless otherwise noted)
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- The Company 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 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 redefined 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 did not have an impact on the Company's consolidated financial statements.
- The Company adopted the amended IAS 19R, *Employee Benefits*, which changed the recognition and measurement of defined benefit pension expense and termination benefits and enhanced the disclosure of all employee benefits. The adoption of IAS 19R did not result in any changes in the accounting of employee benefits.

Accounting Standards Issued and Not Applied

In May 2011, the IASB issued IFRS 9, *Financial Instruments*, which addresses classification and measurement of financial assets and financial liabilities, and replaces the multiple category and measurement models in IAS 39, *Financial Instruments: Recognition and Measurement*. The required adoption date for IFRS 9 has been extended to annual periods beginning on or after January 1, 2018, with early adoption permitted. IFRS 9 is not expected to have a material impact on amounts recorded in the Company's consolidated financial statements.

In May 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers*, which replaces IAS 18, *Revenue*, and IAS 11, *Construction Contracts*, and the related Interpretations on revenue recognition. IFRS 15 establishes the requirements for recognizing revenue that apply to all contracts with customers, except for contracts that are within the scope of the Standards on leases, insurance contracts, and financial instruments. IFRS 15 is effective for annual periods beginning on or after January 1, 2017, with early adoption permitted. IFRS 15 is not expected to have a material impact on amounts recorded in the Company's consolidated financial statements.

Further details of new accounting standards and potential impact on the Company can be found in the Company's Consolidated Financial Statements for the year ended December 31, 2013.

4 INVENTORIES

	<u>June 30, 2014</u>	<u>December 31, 2013</u>
Deferred crop costs	\$15,853	\$12,200
Purchased produce inventory	275	528
Biological asset adjustment (note 5)	<u>(6,308)</u>	<u>(2,098)</u>
	<u>\$9,820</u>	<u>\$10,630</u>

The cost of inventories recognized as expense and included in cost of sales amounted to \$31,750 for the three months ended June 30, 2014 (2013 - \$29,759) and \$49,170 for the six months ended June 30, 2014 (2013 - \$48,284). The biological asset adjustment reclassifies actual costs incurred for the biological asset from inventories to biological asset on the interim statements of financial position.

5 BIOLOGICAL ASSET

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

	<u>June 30, 2014</u>	<u>December 31, 2013</u>	<u>June 30, 2013</u>
Estimated sales value - biological asset	\$16,094	\$6,363	\$15,287
Less			
Estimated remaining costs to complete	7,332	2,216	6,053
Estimated selling costs	877	415	923
Fair value of biological asset less costs to sell	<u>7,885</u>	<u>3,732</u>	<u>8,311</u>
Less actual costs (note 4)	<u>6,308</u>	<u>2,098</u>	<u>4,732</u>
Increase in fair value of biological asset over cost	1,577	1,634	3,579

VILLAGE FARMS INTERNATIONAL, INC.

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

Fair value over cost of harvested and sold biological asset – beginning of year	1,634	2,856	2,856
Change in biological asset	<u>(\$57)</u>	<u>(\$1,222)</u>	<u>\$723</u>
Change in biological asset three months ended March 31,	\$1,113		\$298
Change in biological asset three months ended June 30,	(\$1,170)		\$425

6 HAIL DAMAGE/INSURANCE PROCEEDS

On May 31, 2012, the Company suffered a hail storm that closed three of the Texas facilities. The Company was insured and as at June 30, 2013, \$5,221 was received for business interruption, net of fees. The insurance claim was settled and complete in September 2013. The Company received \$15,658 from its insurance carrier for business interruption and \$1,074 for property damage in 2013. Fees incurred associated with the recoveries for the year ended December 31, 2013 totaled \$784, resulting in net proceeds of \$15,948 for 2013. The Company's cumulative total received in 2012 and 2013 from its insurance carrier was \$49,264, less total fees incurred of \$2,085, resulting in total net proceeds of \$47,179.

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>
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>
Six months ended June 30, 2014							
Opening net book value	\$5,027	\$1,764	\$51,335	\$32,751	\$1,381	\$4,451	\$96,709
Additions/(transfers)	-	-	-	170	(170)	6,117	6,117
Placed in service	-	-	6,045	2,513	51	(8,609)	-
Disposals	-	-	-	(42)	(20)	-	(62)
Accum deprec on disposal	-	-	-	40	20	-	60
Depreciation expense	-	(75)	(1,728)	(1,719)	(162)	-	(3,684)
Closing net book value	<u>\$5,027</u>	<u>\$1,689</u>	<u>\$55,652</u>	<u>\$33,713</u>	<u>\$1,100</u>	<u>\$1,959</u>	<u>\$99,140</u>
At June 30, 2014							
Cost	5,027	3,471	79,250	53,185	4,664	1,959	147,556
Accumulated depreciation	-	(1,782)	(23,598)	(19,472)	(3,564)	-	(48,416)
Net book value	<u>\$5,027</u>	<u>\$1,689</u>	<u>\$55,652</u>	<u>\$33,713</u>	<u>\$1,100</u>	<u>\$1,959</u>	<u>\$99,140</u>

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

VILLAGE FARMS INTERNATIONAL, INC.

Notes to Condensed Consolidated Interim Financial Statements for the Three and Six Months Ended June 30, 2014 and 2013

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

8 OTHER ASSETS

The following table summarizes the components of other assets:

	June 30, 2014	December 31, 2013
Patronage stock	\$437	\$437
Note receivable	319	325
Security deposits	116	116
Cash surrender value - insurance	724	649
Other	25	10
Total	\$1,621	\$1,537

9 DEBT

	June 30, 2014	December 31, 2013
Long-term debt:		
Opening balance	\$55,569	\$58,310
Proceeds from Credit Facilities	-	58,000
Repayment of debt	(2,084)	(60,741)
Closing balance	\$53,485	\$55,569
Current portion	4,168	4,168
Non-current portion	49,317	51,401
Less Unamortized deferred transaction costs	(624)	(709)
	\$52,861	\$54,860

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 \$53,485 as at June 30, 2014. 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, 2014, borrowings under the FCC Loan agreement are subject to an interest rate of 3.73% (December 31, 2013 – 5.2378%). The Company's interest rate on the FCC Loan is determined based on the Company's Debt to EBITDA ratio and the applicable LIBOR rate.

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. As at June 30, 2014, \$4,000 was drawn on this facility (December 31, 2013 – \$nil), which is available to a maximum of CA\$10,000, less an outstanding letter of credit totaling \$845.

The borrowings are subject to certain positive and negative covenants. As at June 30, 2014 and December 31, 2013, 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, 2014 was \$153 (December 31, 2013 – \$229) and these amounts are included in accrued liabilities in the interim statements 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, 2014 was \$141,720 (December 31, 2013 – \$139,905).

VILLAGE FARMS INTERNATIONAL, INC.

Notes to Condensed Consolidated Interim Financial Statements for the Three and Six Months Ended June 30, 2014 and 2013

(In thousands of United States dollars, except per share amounts and unless otherwise noted)
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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 interim statements of financial position, and total \$624 as at June 30, 2014 (December 31, 2013 – \$709).

10 FINANCIAL INSTRUMENTS

The following table summarizes the carrying value, which approximates the fair value, of the Company's financial instruments:

	<u>June 30, 2014</u>	<u>December 31, 2013</u>
Cash and cash equivalents	\$8,080	\$18,668
Trade receivables	\$12,932	\$7,109
Other receivables	\$1,401	\$1,123
Other financial liabilities	\$70,355	\$66,835

Interest income and expense are recognized in the interim statements of income and comprehensive income. The following table summarizes interest income and expense:

	<u>Three months ended June 30,</u>		<u>Six months ended June 30,</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Interest income from held-for-trading assets	\$1	\$-	\$1	\$1
Interest expense from other financial liabilities	\$637	\$873	\$1,325	\$2,090

The Company classifies financial assets and liabilities that are recognized on the interim statements of financial position at fair value in a hierarchy that is based on significance of the inputs used in making the measurements. The hierarchy levels 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).

Management of Financial Risks

The Company, through its financial assets and liabilities, is exposed to various risks. The following information provides a measurement of some of these risks as at June 30, 2014.

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 had one customer that represented more than 10% of the balance of trade receivables, representing 11.8% as at June 30, 2014 (2013 – three customers, 10.0%, 10.3%, and 12.2%). 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 annual sales. The PACA protection gives a claim filed under the PACA first lien on all PACA assets (which include cash and trade receivables). The PACA fosters trading practices in the marketing of fresh and frozen fruits and vegetables in interstate and foreign commerce. It prohibits unfair and fraudulent practices and provides a means of enforcing contracts. Historical write-offs have represented less than one-half of 1% of sales. The maximum amount of credit risk exposure is limited to the carrying amount of the balances on the interim financial statements.

VILLAGE FARMS INTERNATIONAL, INC.

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

Trade receivables for each customer were evaluated for collectability and an allowance for doubtful accounts has been estimated. At June 30, 2014, the allowance for doubtful accounts balance was \$50 (December 31, 2013 – \$50). The Company has not recorded a bad debt expense during the three and six months ended June 30, 2014 (2013 – \$nil).

At June 30, 2014, 94.7% (December 31, 2013 – 89.9%) of trade receivables were outstanding less than 30 days, 5.0% (December 31, 2013 – 9.3%) were outstanding for between 30 and 90 days and the remaining 0.3% (December 31, 2013 – 0.8%) were outstanding for more than 90 days. Trade receivables are considered past due based on the contract terms agreed to with a customer. Aged receivables that are past due are not considered impaired unless customer specific information indicates otherwise.

ii) Interest rate risk

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

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

If interest rates had been 50 basis points higher (lower), the net income during the six months ended June 30, 2014 would have been higher (lower) by (\$273). This represents \$273 in increased interest expense (2013 – (\$288)).

iii) Foreign exchange risk

At June 30, 2014, the Canadian/U.S. foreign exchange rate was CA\$1.00 = US\$0.9371 (December 31, 2013 – US\$0.9349). 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, 2014 and December 31, 2013 with the net foreign exchange gain or loss directly impacting net income for the period.

	June 30, 2014	December 31, 2013
Financial assets		
Cash and cash equivalents	\$131	\$165
Trade receivables	366	76
Financial liabilities		
Trade payables and accrued liabilities	(271)	(223)
Net foreign exchange gain	\$226	\$ 18

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, 2014:

	Total	Less than 1 year	2-3 years	4-5 years	More than 5 years
Financial liabilities					
Long-term debt, net of fees	\$52,861	\$4,168	\$8,335	\$40,358	\$-
Operating loan	4,000	4,000	-	-	-
Trade payables	8,893	8,893	-	-	-
Accrued liabilities	3,758	3,758	-	-	-
Obligations under capital lease	73	25	48	-	-
Other liabilities	770	-	770	-	-
Total	\$70,355	\$20,844	\$9,153	\$40,358	\$-

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 balance of \$4,000 and an outstanding letter of credit totaling \$845.

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v) Fair values

The carrying amount of short-term financial instruments, less provisions for impairment if applicable, is consistent with the fair value of such instruments. The Company's debt bears a variable interest rate and therefore its carrying value approximates its fair value. There were no derivatives held at June 30, 2014 (December 31, 2013 - \$nil).

11 EXPENSES BY NATURE

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

<i>Cost of sales</i>	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Purchased produce	\$6,834	\$3,792	\$13,492	\$9,593
Raw materials and consumables used	14,044	15,123	17,193	19,853
Depreciation and amortization	1,829	1,734	3,575	3,474
Transportation and storage	5,062	5,143	8,698	9,015
Employee compensation and benefits	9,030	9,009	15,558	15,891
	<u>\$36,799</u>	<u>\$34,801</u>	<u>\$58,516</u>	<u>\$57,826</u>

<i>Selling, general and administrative</i>	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Employee compensation and benefits	\$1,993	\$2,100	\$3,824	\$3,904
Marketing	106	158	197	223
Professional services	401	302	796	565
Office expenses	491	522	973	995
Other	337	465	665	979
	<u>\$3,328</u>	<u>\$3,547</u>	<u>\$6,455</u>	<u>\$6,666</u>

<i>Employee compensation and benefits</i>	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Salaries and other employee benefits	\$10,938	\$11,066	\$19,243	\$19,704
Share-based payments	85	43	139	91
	<u>\$11,023</u>	<u>\$11,109</u>	<u>\$19,382</u>	<u>\$19,795</u>

12 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, 2014 was 30% and the six months ended June 30, 2013 was 30%.

13 CHANGES IN NON-CASH WORKING CAPITAL

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Trade receivables	(\$4,974)	(\$5,702)	(\$5,823)	(\$7,032)
Inventories	3,685	4,780	810	4,013
Inventories reclassified to biological asset	(1,574)	(238)	(4,210)	(2,830)
Other receivables	(304)	3,573	(284)	567
Prepays and deposits	(170)	306	(490)	(380)
Trade payables	2,681	(2,670)	1,830	(2,277)
Accrued liabilities and taxes payable	9	30	(384)	942
	<u>(\$647)</u>	<u>\$ 79</u>	<u>(\$8,551)</u>	<u>(\$6,997)</u>

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14 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,	
	2014	2013	2014	2013
Net Sales				
United States	\$33,012	\$31,546	\$55,552	\$54,918
Canada	8,248	9,320	9,703	11,283
Other	7	-	16	50
	\$41,267	\$40,866	\$65,271	\$66,251

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

	June 30, 2014	December 31, 2013
United States	\$ 61,099	\$ 57,863
Canada	37,632	38,408
Dominican Republic	409	438
	\$ 99,140	\$ 96,709

15 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net income attributable to shareholders 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,	
	2014	2013	2014	2013
Net income/(loss) attributable to shareholders	(\$450)	\$1,448	(\$774)	\$4,056
Weighted average number of common shares and special shares outstanding (thousands)	38,707	38,707	38,707	38,707
Basic earnings/(loss) per share	(\$0.01)	\$0.04	(\$0.02)	\$0.10

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 the dilutive effect is less than zero, then issuance is anti-dilutive and is excluded from the diluted earnings per share calculation.

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Net income/(loss) attributable to shareholders	(\$450)	\$1,448	(\$774)	\$4,056
Weighted average number of common shares and special shares outstanding (thousands)	38,707	38,707	38,707	38,707
Adjustment for:				
Share options (thousands)	466	60	426	63
Weighted average number of common shares and special shares outstanding for diluted earnings per share (thousands)	39,173	38,767	39,133	38,770
Diluted earnings/(loss) per share	(\$0.01)	\$0.04	(\$0.02)	\$0.10

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16 CAPITAL DISCLOSURES

The Company's capital comprises of net debt and equity:

	June 30, 2014	December 31, 2013
Total bank debt	\$57,485	\$55,569
Less cash and cash equivalents	(8,080)	(18,668)
Net debt	49,405	36,901
Total equity	60,465	61,100
	\$109,870	\$98,001

It is the Company's intention to meet its obligations through the collection of current accounts receivable and cash. As at June 30, 2014, the Company has an available operating loan up to CA\$10,000, less \$4,000 drawn on the loan and \$845 outstanding on the letter of credit (December 31, 2013 - \$nil was outstanding on the operating loan, and \$1,645 was utilized on a letter of credit). As at June 30, 2014, the operating loan borrowing base was \$9,935 based on a percentage of the Company's outstanding accounts receivable less the current advance and 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.

17 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, 2014 of \$85 (2013 - \$43) and for the six months ended June 30, 2014 of \$139 (2013 - \$91) 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:

	March 2014	September 2013	March 2013	2012
Expected volatility	57.0%	56.4%	46.4%	54.5%
Dividend	\$nil	\$nil	\$nil	\$nil
Risk-free interest rate	1.52%	1.52%	2.04%	2.14%
Expected life	6.5 years	6.5 years	6.5 years	6.5 years
Fair value	\$0.822	\$0.606	\$0.410	\$0.694

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, 2014.

	Six months Ended June 30,			
	2014		2013	
	Stock options	Weighted average exercise price	Stock options	Weighted average exercise price
Beginning of period	1,454,999	CA\$1.06	1,164,999	CA\$1.08
Granted	410,000	CA\$1.48	100,000	CA\$0.85
End of period	1,864,999	CA\$1.15	1,264,999	CA\$1.06

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The following table summarizes stock options outstanding and granted as at June 30, 2014:

Exercise price	Number outstanding	Remaining contractual life (years)	Number of exercisable options
CA\$0.70	349,999	5.5	349,999
CA\$1.24	615,000	6.9	615,000
CA\$1.27	150,000	7.7	100,000
CA\$0.85	100,000	8.7	33,333
CA\$1.10	240,000	9.3	Nil
CA\$1.48	410,000	9.7	Nil
	<u>1,864,999</u>		

No options were exercised in the six months ended June 30, 2014 and 2013. 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, 2014	December 31, 2013
Expiry date - January 13, 2020	0.70	349,999	349,999
Expiry date - May 20, 2021	1.24	615,000	615,000
Expiry date - March 13, 2022	1.27	150,000	150,000
Expiry date - March 13, 2023	0.85	100,000	100,000
Expiry date - September 26, 2023	1.10	240,000	240,000
Expiry date - March 18, 2024	1.48	410,000	-
		<u>1,864,999</u>	<u>1,454,999</u>

18 SUBSEQUENT EVENTS

Business Acquisition

On July 17, 2014, the Company acquired Maxim Power (B.C.), Inc., a wholly-owned subsidiary of Maxim Power Corp., for approximately CAD \$5.2 million, which includes a closing adjustment of CAD \$0.7 million for working capital. The new name of the acquired company will be VF Clean Energy, Inc. The facility that Village Farms acquired as part of the acquisition will continue generating power under an existing long term power purchase agreement with BC Hydro as well as focus on improving the sustainability profile of Village Farms' greenhouse operations in Delta, B.C. The Company satisfied the purchase price with cash.

Closure of Operations in the Dominican Republic

On July 1, 2014, the Company ceased operations in the Dominican Republic. The operations in the Dominican Republic consisted of purchasing bell peppers from third party growers and packing them for shipment to the United States. The Company is in the process of relocating equipment from the Dominican Republic to the United States.