



## **Organto Foods Inc.**

1090 Hamilton Street  
Vancouver, B.C.  
V6B 2R9  
Canada

### **Management's Discussion and Analysis (Unaudited)**

**For the six months Ended  
June 30, 2018**

**(Stated in Canadian Dollars)**

**Dated August 27, 2018**

## TABLE OF CONTENTS

<b>Basis of Presentation</b> .....	<b>2</b>
<b>Forward-Looking Statements</b> .....	<b>2</b>
<b>Strategy</b> .....	<b>3</b>
<b>History and Operations</b> .....	<b>4</b>
<b>Legal Structure</b> .....	<b>5</b>
<b>Outstanding Share Data</b> .....	<b>5</b>
<b>Recent Developments</b> .....	<b>5</b>
<b>Financial Results</b> .....	<b>7</b>
Critical Accounting Estimates .....	7
Changes in Accounting Policies and Standards .....	7
Review of Financial Results – Current Quarter .....	8
Selected Quarterly Information .....	11
Liquidity and Capital Resources .....	11
Financial instruments .....	11
Related Party Transactions .....	13
Commitments .....	14
<b>Off-Balance Sheet Arrangements</b> .....	<b>14</b>
<b>Proposed Transactions</b> .....	<b>14</b>
<b>Risks and Uncertainties</b> .....	<b>15</b>
<b>Disclosure and Internal Controls</b> .....	<b>17</b>
<b>Additional information</b> .....	<b>18</b>
<b>Corporate information</b> .....	<b>19</b>

## **BASIS OF PRESENTATION**

The following Management's Discussion and Analysis ("MD&A") provides an overview of the business and operations of Organto Foods Inc. for the six months ended June 30, 2018. This report should be read in conjunction with the Company's June 30, 2018 unaudited condensed interim consolidated financial statements and its December 31, 2017 audited annual consolidated financial statements which have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

Except where the context otherwise requires, all references in this MD&A to the "Company", "we", "us", "our" and "Organto" or similar words and phrases relate to Organto Foods Inc. and its subsidiaries, taken together.

All currency amounts are expressed in Canadian dollars unless noted otherwise. In addition, "this quarter" or "current quarter" refers to the three-month period ended June 30, 2018.

This MD&A is dated August 27, 2018.

## **FORWARD-LOOKING STATEMENTS**

This document contains certain forward-looking information and forward-looking statements, as defined in applicable securities laws (collectively referred to as "forward-looking statements"). Often, but not always, forward-looking statements can be identified by the use of words such as "plans," "expects" or "does not expect," "is expected," "planned," "budget," "scheduled," "estimates," "continues," "forecasts," "projects," "predicts," "intends," "anticipates" or "does not anticipate," or "believes," or variations of such words and phrases, or statements that certain actions, events or results "may," "could," "would," "should," "might" or "will" be taken, occur or be achieved. Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any of our future results, performance or achievements expressed or implied by the forward-looking statements; consequently, undue reliance should not be placed on forward-looking statements.

Forward-looking statements are based on a number of assumptions that may prove to be incorrect, including, but not limited to, assumptions about our ability to carry out our plans and objectives; our ability to open up and sell through retail chains and other channels in Europe and North America; our ability to procure required volumes of organic produce from either our own operations and/or strategic third party suppliers; our ability to meet import and export requirements; general business and economic conditions; the availability of equity and other financing on reasonable terms; energy prices; our ability to procure equipment and operating supplies in sufficient quantities and on a timely basis; our ability to attract and retain skilled labour and staff; our ability to operate in The Netherlands, Europe, North America and elsewhere; the impact of changes in the Canadian/US dollar and other foreign exchange rates on costs and results; transportation and logistics costs; market competition; and ongoing relations with our employees and with our business partners.

We caution you that the foregoing list of important factors and assumptions is not exhaustive. Whether actual results and developments will agree with our expectations and predictions is subject to many risks and uncertainties. Accordingly, there are or will be important factors that could cause our actual results to differ materially from our expectations and predictions. We believe these factors include, but are not limited to, the following:

- we have a limited operating history and may incur further losses until our operating platform achieves scale;
- there is risk in our ability to continue as a going concern due to losses incurred as we build our operating platform, risk in our negative working capital position and our accumulated deficit, all of which could impact our ability to continue operations;
- we may not be able to secure financing required to meet future capital needs to continue operations;
- additional financing may dilute common shareholders or place restrictions on our operations;
- we operate in a competitive global industry and the actions of competitors could impact revenues and profitability;
- we must attract and retain key personnel to achieve our business objectives;
- our customers are generally not obligated to continue to purchase products from us;

- if we do not manage our supply chain effectively, our operating results may be adversely affected;
- our international operations expose us to risks inherent with the countries where we are doing business;
- our business is subject to numerous environmental and food safety regulations and policies;
- our stock price may be volatile, which may impact returns to our shareholders;
- our common shares are thinly traded and our shareholders may be unable to sell at or near ask prices, or at all;
- we do not anticipate paying any cash dividends to our common shareholders and as a result, shareholders may only realize a return when their shares are sold; and
- our business is subject to changing regulations related to corporate governance and public disclosure that may increase both our costs and risk of non-compliance.

Consequently, all forward-looking statements made herein are qualified by these cautionary statements and there can be no assurance that our actual results or the developments we anticipate will be realized. The foregoing factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements and the detailed risks and uncertainties that are included in this report.

## STRATEGY

Organto is a vertically integrated provider of value-added branded organic produce focused on serving a growing socially responsible and health conscious consumer around the globe. Our mission is “to be a leading vertically integrated provider of organic value-added vegetables, fruits and other products, serving a growing socially responsible and health conscious consumer around the globe”.

We believe that the demand for healthy and organic foods will continue to grow for many years and supply availability will be key to this growth being realized. According to the US Organic Trade Association (OTA) sales of organic products grew 10.9% in 2015 to over US\$43 billion and to US\$47 billion in 2016, much ahead of the growth in sales of conventional products, and now representing over 5% of total food sales. The OTA estimates that 82% of Americans buy organic food at least some of the time and fresh produce continues to be the primary gateway by which consumers enter the organic foods space. Furthermore, over half of all households in the US have purchased organic produce and the fresh produce segment is the fastest growing within the organic segment, now representing 15% of all the produce that Americans eat, and 36% of total US organic foods spend. And this is not just a US phenomenon. The organic market in Europe continues to grow. In 2015 the market increased by 13% and reached approximately Euro 30 billion and in 2016 it increased another 11.4%, reaching nearly Euro 33.5 billion in turnover. Globally European countries account for the highest share of organic food sales as a percentage of total food sales. According to an ABN AMRO report dated June 23, 2016, “by 2020 it is expected that global organic food consumption will reach US \$160 billion, to reach the expected growth there must be sufficient supply”.

It is our belief in these growing markets and consumer trends, combined with our efforts to build an efficient year-round organic supply platform for many of our products that underlies our strategic focus and our mission to be a leading vertically integrated provider of organic value-added vegetables, fruits and other products serving a growing socially responsible and health conscious consumer around the globe.

We employ a business model that is integrated from the “field to the table”. Driven by consumer and retailer demand for healthy and organic food products, we continue to build out a platform to deliver value-added branded and private label products to meet these needs via an integrated model with extensive sourcing, logistics, processing and distribution capabilities, with the objective of providing year-round product supply for many of our products and complete traceability from the table back to the field. Our model is rooted in our commitment to sustainable business practices focused on environmental responsibility and our commitment to the communities where we operate, our people and our shareholders.

Our strategic blueprint is centered on three key strategic pillars: *Supply, Brand and Infrastructure*.

- *Supply* – development of year-round vertically integrated organic supply chain capabilities;
- *Brand* – building the Organto brand as a leading brand in organic value-added vegetables and fruits with retailers; and
- *Infrastructure* – responsibly building-out the organization to allow the business to scale as required.

We have developed a branded go-to-market strategy under the Organto “I am Organic” brand. We believe our ability to drive a differentiated branded products strategy is based on our assessment of market demand combined with our intention to develop year-round supply capabilities for many of our value-added products. In hand with our branded products focus, we also work with retail partners to provide value-added private label offerings, with the objective of maximizing efficiencies while creating category demand for our brand. Our products are initially being rolled out to specific European customers and will be followed by introduction in the North American market.

As our strategy evolves, we have recently expanded our go-to-market channels beyond organic vegetables to include a variety of branded and private label organic soft fruit, exotic fruit and tropical fruit, and also a variety of organic produce to be sold on a bulk basis. This channel expansion is intended to increase our revenue streams and our presence in key markets, while at the same time significantly deepening our relationships with strategic third-party supply partners.

## **HISTORY AND OPERATIONS**

In March 2014 Agricola Nuova Terra S.A. (“Agricola”), a privately-owned business, commenced operations to build out a global year-round organic supply platform focused on the production and distribution of value-added branded organic vegetables.

On November 30, 2015, Agricola completed a reverse takeover (the “RTO”) of Columbus Exploration Corporation (“Columbus Exploration”). Columbus Exploration was incorporated on May 18, 2007 under the laws of the Province of British Columbia, Canada. Upon completion of the RTO, Columbus Exploration changed its name to Organto Foods Inc., and Agricola became a wholly-owned subsidiary of Organto Foods Inc. On March 21, 2016, Agricola changed its name to Organto Guatemala, Sociedad Anonima (“Organto Guatemala”).

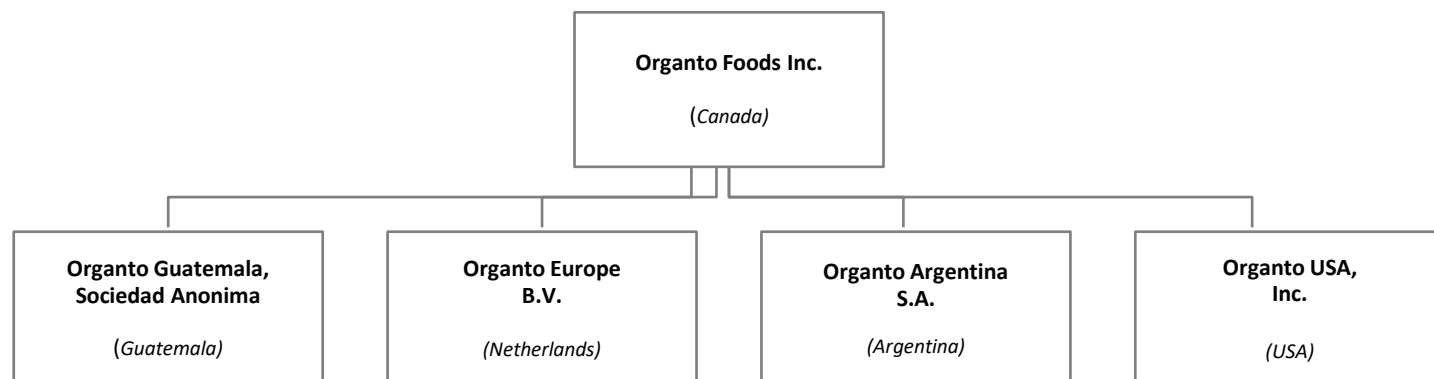
The name change to Organto Foods Inc. was completed to better reflect our focus on growing, processing, packaging, distribution and branding of organic foods along with our commitment to sustainable and socially conscious business practices. Currently we have processing operations in Guatemala and contract growing relationships with a number of third-party strategic supply partners in South America and Africa. We are working to further diversify our revenue streams and supply base via strategic third-party relationships as our platform is built out.

Our head office is located at 1090 Hamilton Street, Vancouver, British Columbia, Canada and we also have offices in Miami, Florida, Argentina and in the Netherlands.

We own a processing and packing operation in Guatemala and until recently operated our own packaging operation in the Netherlands for the repack of bulk product into consumer ready packaging. We suspended this packaging operation in the second quarter of 2018 and plan to deploy some of the packing equipment with strategic partners later in 2018. While we have operated our own growing operations in the past in both Guatemala and Argentina, our focus now is on working with strategic third-party growers and service providers in Mexico, Peru, Argentina, Thailand, Zimbabwe as well as other countries in order to grow our business and drive an asset light business model.

## LEGAL STRUCTURE

We have wholly owned subsidiaries operating in the jurisdictions listed below.



## OUTSTANDING SHARE DATA

Our common shares are listed for trading on the TSX Venture Exchange (“TSXV”) under the trading symbol “OGO” and are quoted on the OTC Markets under the symbol “OGOFF”.

We have authorized capital of an unlimited number of common shares without par value. We have the following capital structure as at the date of this MD&A and June 30, 2018:

	August 27, 2018	June 30, 2018
Common shares issued and outstanding	134,533,133	114,533,133
Share purchase options outstanding (\$0.065-\$0.20)	8,515,000	8,515,000
Warrants (\$0.15-\$0.25)	46,090,378	36,090,378

See “Liquidity and Capital Resources” for further information.

## RECENT DEVELOPMENTS

In August 2018 we completed a non-brokered private placement of 20 million units for proceeds of \$1,600,000 of which \$657,683 was received in the second quarter. Each unit consisted of one common share and one-half warrant, with each full warrant exercisable to purchase one additional Organto common share at a price of \$0.15 for a period of 12 months after the closing date.

We have entered into a strategic supply relationship with a supplier of organic fruits and vegetables based in Thailand, expanding our supply base and product offering. Under the terms of the five-year agreement, we will contract organic passion fruit and organic baby corn for exclusive supply to European markets from this supplier. Initial product supply of organic passion fruit has commenced and will expand throughout the year with this supplier, plus others, and supply of organic baby corn from this supplier is expected to commence late in the third quarter of 2018.

We have entered into a memorandum of understanding with an established organic supplier of organic fruits and vegetables in Mexico, including organic blackberries, organic blueberries, and other organic fruits and vegetables. In hand with this, this supplier participated in our recently completed private placement, aligning interests in the long-term success of this relationship. This agreement is key in developing supply from a region with significant presence and expertise in organic fruits and vegetables, and brings together our technical knowledge and go-to-market expertise with our supply partner's infrastructure, technical knowledge and growing expertise. In addition to supply of organic blackberries and blueberries, this strategic supply partner will begin commercial trials of value-added organic vegetables that are currently part of Organto's product portfolio, with the goal of expanding supply as growing processes are refined.

We also signed a second memorandum of understanding with a second supplier in Mexico. This supplier is an established producer of organic avocados and other organic fruits and vegetables from the region. Product shipments from this strategic supply partner are expected to commence late in the third quarter of 2018 and are expected to ramp up as the existing orchards mature and their growing capacity increases.

In addition to our efforts to transition from an asset heavy and single revenue stream business model to an asset light and multi revenue stream business model, we have also endeavoured to strengthen our balance sheet. We have entered into agreements which will result in the elimination of over \$3 million of debt and payables through the early conversion of convertible debentures, the settlement of a convertible loan and shares for debt settlements.

We have reached an agreement with the holders of our convertible debentures to convert the debentures, plus accrued interest and related conversion fees, into common shares of Organto. Under the terms of the agreement, Organto has agreed to issue a total of 13,330,273 common shares to the holders of the debentures, representing 11 million common shares issued to convert the face value of the debentures at a conversion price of \$0.185 per common share, and 2,330,262 common shares to convert accrued interest and related conversion fees at a conversion price of \$0.10 per common share. The debentures had a face value of \$2,035,000 and were issued on June 8, 2017 for a term of three years with interest at 8 per cent per annum, payable in arrears starting one year after the date of issuance. Holders originally had the option to convert the principal amount of their debentures into common shares of Organto at a conversion price of \$0.35 per share through June 20, 2020.

In June 2018 we issued 2,269,230 common shares to settle the US\$590,000 convertible loan. The loan provided for automatic conversion at a conversion price of \$0.33 per common share in the event the company completed an equity financing resulting in gross proceeds of at least \$5 million. The company completed such an equity financing in September 2017, for gross proceeds of \$5,163,531.

We have entered into debt settlement agreements with Columbus Gold Corp., a related party, and two of our directors to settle debts in the amount of \$352,000 arising from services provided to Organto during the period December, 2015, through May 2018. A total of 2,989,742 common shares will be issued upon acceptance by the TSX Venture Exchange.

We have also entered into a debt settlement agreement with a former officer as full and final settlement for amounts payable of US\$78,691 whereby we will issue him a total of 1,066,666 common shares. We will seek the required shareholder approval to issue these shares at our shareholders meeting to be held later in 2018.

We have entered into an amended agreement with Arturo Bickford, a former officer and director, to restructure liabilities totalling US\$298,248 owed to Mr. Bickford and his affiliated companies under the terms of a previous settlement agreement. Under the terms of the amended agreement, monthly amounts payable have been amended, the payment term extended and certain outstanding interest costs waived. We made a cash payment of US\$55,000 in August 2018 and will make monthly payments of US\$15,000 in September through December 2018, then monthly payments of US\$22,906 in January through August 2019.

We issued share purchase warrants as part of our private placement in 2017 and in August 2018 we adjusted the pricing of the following share purchase warrants:

- 12,699,634 share purchase warrants originally exercisable at a price of \$0.25 per warrant share until June 20, 2019. The new exercise price will be \$0.17 per warrant share;
- 2,165,208 share purchase warrants originally exercisable at a price of \$0.25 per warrant share until Aug. 3, 2019. The new exercise price will be \$0.17 per warrant share;
- 19,565,000 share purchase warrants originally exercisable at a price of \$0.25 per warrant share until Sept. 11, 2019. The new exercise price will be \$0.17 per warrant share.

Originally, if the closing price of the company's shares was \$0.35 or greater for a period of 10 consecutive trading days, then the warrant holders had 30 days to exercise their warrants. This acceleration clause has been changed to a closing price of \$0.21 or greater for 10 consecutive trading days, with the warrants then expiring after 30 days.

In June 2018 we announced the departure of Marcus Meurs from his position as President and Chief Operating Officer, effective June 18, 2018. Steve Bromley, Chair and Interim CEO also assumed the role of President effective immediately. There are no plans to fill the Chief Operating Officer role in the near term given the revised structure which has been implemented by the Company

From February through April 2018, we completed bridge financings whereby certain significant insider shareholders sold part of their shareholdings in private transactions and invested a portion of the proceeds as bridge loans to Organto. We received proceeds

of \$815,740 from these bridge loans with related parties. The bridge loans are unsecured and have a term of one year, with interest rates ranging from 0% to 8%, payable in equal monthly payments of \$5,000 per month.

In April 2018 we appointed Mr. Rients van der Wal to the position of Chief Executive Officer, Organto Europe BV. Mr. van der Wal brings extensive fresh fruits and vegetables experience to Organto, and has strong industry contacts at both customer and supply chain levels. Mr. van der Wal is based in the Netherlands and will lead Organto's vertically integrated value-added branded fresh vegetables business which operates from Amsterdam.

In hand with Mr. van der Wal's appointment, we also announced our intention to expand our branded value-added organic vegetables product offering and supply capabilities via the addition of expanded supply relationships focused on organic soft, tropical and exotic fresh fruits, deepening supply relationships with strategic growers in key supply markets, expanding market presence and developing opportunities for new value-added Organto "I am Organic" branded product offerings. Since April, we have signed agreements with two producers in Mexico and expanded our product offerings with organic blueberries, organic blackberries, organic avocado, organic passion fruit and organic ginger. These additional products are expected to expand our market presence and revenue streams.

In April 2018 we announced that Mr. Arnoud Maas, Chief Executive Officer had advised that he would not be renewing his Management Services Agreement and thus would be leaving Organto as both CEO and Director. Steve Bromley, Chair of the Board of Directors assumed the role of Interim CEO.

## **FINANCIAL RESULTS**

For the purposes of the information presented, the "Company" is defined as the consolidated entity.

### **Critical Accounting Estimates**

The preparation of financial statements in accordance with IFRS is the responsibility of management and requires management to make estimates and assumptions which affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Our management reviews these estimates and underlying assumptions on an ongoing basis, based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to estimates are adjusted for prospectively in the period in which the estimates are revised.

Estimates and assumptions where there is risk of material adjustments to assets and liabilities in future accounting periods include estimates of useful lives of depreciated and amortized assets, the valuation of inventory which includes estimates with regards to the allocation of overhead and determining the net realizable value, assumptions used in determination of the fair value of share-based payments, the recoverability and measurement of deferred tax assets, and the allocation of the purchase price associated with the acquisition of a business.

The preparation of financial statements in accordance with IFRS requires us to make judgments, apart from those involving estimates, in applying accounting policies. The most significant judgments in preparing our financial statements include the assumption that we will continue as a going concern, classification of expenditures and the classification of financial instruments.

### **Changes in Accounting Policies and Standards**

A number of new standards, and amendments to standards and interpretations, have been applied in preparing these condensed interim consolidated financial statements while other standards will come into effect in the future. Those that may be applicable to us are as follows:

- (a) IFRS 9 – *Financial Instruments* ("IFRS 9")

This new standard is a partial replacement of IAS 39 'Financial Instruments: Recognition and Measurement'. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its



business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 became effective January 1, 2018 and did not have a significant impact on our financial statements.

(b) IFRS 15 – *Revenue from Contracts with Customers* (“IFRS 15”)

IFRS 15 specifies how and when an IFRS reporter will recognize revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard supersedes IAS 18 'Revenue', IAS 11 'Construction Contracts' and a number of revenue-related interpretations. Application of the standard is mandatory for all IFRS reporters and it applies to nearly all contracts with customers: the main exceptions are leases, financial instruments and insurance contracts. IFRS 15 became effective January 1, 2018 and did not have a significant impact on our financial statements.

(c) IFRS 16 – *Leases* (“IFRS 16”)

IFRS 16 replaces IAS 17 “Leases” and the related interpretative guidance. IFRS 16 applies a control model to the identification of leases, distinguishing between a lease and a service contract on the basis of whether the customer controls the asset being leased. For those assets determined to meet the definition of a lease, IFRS 16 introduces significant changes to the accounting by lessees, introducing a single, on-balance sheet accounting model that is similar to current finance lease accounting, with limited exceptions for short-term leases or leases of low value assets. Lessor accounting is not substantially changed. The standard is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted for entities that have adopted IFRS 15. We have not yet assessed the future impact of this new standard on our financial statements.

(d) Other

Other accounting standards or amendments to existing accounting standards that have been issued but have future effective dates are either not applicable or are not expected to have a significant impact on the Company’s financial statements.

## Financial Performance

	Three months ended			Six months ended		
	June 30, 2018 (\$)	June 30, 2017 (\$)	% Change	June 30, 2018 (\$)	June 30, 2016 (\$)	% Change
Revenues	10,648	284,878	(96%)	24,043	320,452	(92%)
Gross (loss) profit	(18,226)	(260,796)	(93%)	(294,356)	(418,026)	(30%)
Net loss for the period	(1,060,868)	(1,260,983)	(16%)	(2,503,471)	(2,239,543)	12%
Cash used in operating activities	(647,189)	(868,348)	(25%)	(1,456,950)	(2,649,991)	(45%)
Loss per share, basic and diluted	(0.01)	(0.01)	-	(0.02)	(0.02)	-

## Review of Financial Results – Current Quarter

While we have made progress on each of our key strategic pillars during the quarter, our financial results for the second quarter of 2018 reflected low revenues and reduced costs versus prior periods and were not unexpected as we continued our transition from an asset heavy and single revenue stream business model to an asset light and multi revenue stream business model. We remain focused on growing organic foods markets and are confident in our year-round branded product proposition as retailers have shown interest and willingness to list the brand, although historic supply challenges limited our ability to service these accounts. As we exited our own growing operations, strategic third-party suppliers struggled in their first year of supply to consistently produce volumes required at acceptable quality levels and this has had a direct impact on our revenue generating ability. We have been addressing these supply challenges by further diversifying our grower base and growing regions aligned to key success elements including the availability of low-cost labor, existing infrastructure, logistics economics and routes to designated markets, as well as expanding and deepening grower relationships through the expansion of products handled. We are also reducing overheads throughout the organization, shifting from a fixed cost base structure to a combination of fixed and variable resources, intended to

reduce the overhead burden as our business grows. Looking forward we believe that revenue, margins and product diversification will ramp-up over the back half of 2018 and beyond, benefitting from improved supply dynamics and expansion into new product categories.

We incurred a net loss of \$1,060,868 during the current quarter, compared to \$1,260,983 during the same period in the prior year.

Revenues for the three months ended June 30, 2018 were \$10,648 as compared to \$284,878 during the same period in the prior year and we incurred a gross loss of \$18,226 in the second quarter of 2018 as compared to a gross loss of \$260,796 during the same period in the prior year. Revenues were impacted by our transition from certain third-party growers and shift to multiple revenue streams and expanded product supply which is expected to show favourable results over the second half of 2018.

Selling, general and administration expenses of \$367,455 this quarter were lower than the \$525,903 from the same quarter of the prior year and somewhat lower than the \$430,471 incurred in the first quarter of 2018. Beginning in the second quarter, the costs of our operations in Guatemala have been allocated to general and administration expenses while production has been suspended pending a review of our business objectives in that country. Two categories of costs that did see an increase in the second quarter were legal and regulatory fees incurred as the Company negotiated agreements to eliminate over \$3 million of debt and payables through the early conversion of convertible debentures, the settlement of a convertible loan, the shares for debt settlements, the bridge loan financing and the private placement.

Management fees in the current quarter decreased to \$119,304 as compared to \$301,354 in the same quarter of the prior year, and also decreased versus the first quarter of 2018. The decrease was a result of the Company's efforts to reduce its staffing to a level better supported by the Company's operations.

Salaries and benefits during the second quarter increased to \$380,161 as compared to \$90,529 in the prior year. In the third quarter of 2017, the Company began the build-out of the Amsterdam office, first including sales and marketing personnel and then finance and administration personnel. Staffing levels in the Amsterdam office have been scaled back beginning late in the first quarter of 2018 and associated staffing costs are lower in the second quarter of 2018 versus the first quarter of 2018, but are still larger than the same period in 2017 as these costs did not begin until the third quarter of 2017. Costs in the second quarter of 2018 also include severance and termination payments of approximately \$180,000 as staffing levels have been reduced.

We recognized \$11,777 for stock-based compensation in the second quarter of 2018. No stock-based compensation was recognized in the same quarter of 2017. Stock based compensation is calculated using the Black-Scholes option pricing model which requires the input of highly subjective assumptions including expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore does not necessarily provide a reliable single measure of the fair value of the Company's stock options granted and/or vested during the period. Stock based compensation in the second quarter of 2018 was based on a fair value of \$0.07 per share for the 600,000 options granted in June 2018 of which 125,000 vested, along with a fair value of \$0.09 for the options that were granted in 2017 and vested in the second quarter of 2018.

We have, or had during the quarter, a convertible loan payable, convertible debentures, and certain loans and accounts payable, which incur interest at various rates. Total interest expense and accretion recognized during the current quarter was \$212,095 as compared to \$71,776 for the same quarter of the prior year and relates to loans payable. The increase over the second quarter of 2017 is attributable to the interest on the convertible debentures which were only issued late in the second quarter of 2017, and additional accretion of the convertible loan payable to Omega S.A. which was settled with shares in June 2018. See "Liquidity and Capital Resources" for further information.

We realized other income of \$13,554 as compared to \$10,128 in first quarter of the prior year. The other income consists primarily of gains on debt settlement agreements. See "Related Party Transactions" for further information.

Foreign exchange gains and losses arise from transactions incurred in currencies other than the functional currency of the Company and its subsidiaries. We realized a foreign exchange gain of \$29,776 this quarter as compared to a loss of \$20,753 during the same quarter last year.

We recorded a gain of \$4,821 from the elimination of the derivative financial liability as a result of our settlement of the loan payable to Omega S.A. in June 2018.

During the second quarters of both 2018 and 2017 we realized a basic and diluted loss per share of \$0.01 per share.

## Review of Financial Results – Current Period

We incurred a net loss of \$2,503,471 during the first six months of 2018, compared to \$2,239,543 during the same period in the prior year.

Revenues for the six months ended June 30, 2018 were \$24,043 and we incurred a gross loss of \$270,313 as compared to revenues of \$320,452 and a gross loss of \$418,026 during the same period last year. Sales were lower year over year as we continued our transition from an asset heavy and single revenue stream business model to an asset light and multi revenue stream business model.

Selling, general and administration expenses were \$797,928 for the first six months of 2018 and were lower than the \$925,300 from the same period last year. Beginning in the second quarter of 2018, the costs of our operations in Guatemala have been allocated to general and administration expenses while production has been suspended pending a review of our business objectives in that country. Legal and regulatory fees were a large portion of these costs in 2018. These fees were incurred as the Company negotiated agreements to eliminate over \$3 million of debt and payables through the early conversion of convertible debentures, the settlement of a convertible loan, the shares for debt settlements, the bridge loan financing and the private placement, all of which are not expected to continue past the third quarter of 2018.

Management fees in the first six months of 2018 decreased to \$329,210 as compared to \$561,406 in the same period of the prior year. The decrease was a result of the Company's efforts to reduce its staffing to a level appropriate to the Company's operations as well as due to certain officers and advisors agreeing to waive their fees for services until such time as the Company's operations can better support the payment of such fees.

Salaries and benefits during the first six months of 2018 increased to \$747,525 as compared to \$199,954 in the same period last year. In the third quarter of 2017, the Company began the build-out of the Amsterdam office, first including sales and marketing personnel and then finance and administration personnel. Staffing levels in the Amsterdam office have been scaled back beginning late in the first quarter of 2018 and associated staffing costs are lower in the second quarter of 2018 versus the first quarter of 2018, but are still larger than the same period in 2017 as these costs did not begin until the third quarter of 2017. Costs in the second quarter of 2018 also include approximately \$180,000 for severance and termination payments as staffing levels have been reduced.

We recognized \$15,413 for stock-based compensation in the first six months of 2018. No stock-based compensation was recognized in the same period of 2017. Stock based compensation in 2018 was based on a fair value of \$0.07 per share for the 600,000 options granted in June 2018 of which 125,000 had vested, along with a fair value of \$0.09 for the options that were granted in 2017 but vested in the first and second quarters of 2018.

We have, or had during 2018, a convertible loan payable, convertible debentures, and certain loans and accounts payable, which incur interest at various rates. Total interest expense and accretion recognized during the first six months of 2018 relating to these liabilities is \$372,465 as compared to \$159,348 during the same period last year. The increase over 2017 is attributable to the interest on the convertible debentures which were only issued late in the second quarter of 2017, and additional accretion of the convertible loan payable to Omega S.A. which was settled with shares in June 2018. See "Liquidity and Capital Resources" for further information.

We realized other income of \$37,028 as compared to a loss of \$44,325 in the first six months of the prior year. The other income in 2018 consists of gains on debt settlement agreements while the loss in 2017 was from the settlement of certain commitments. See "Related Party Transactions" for further information.

Foreign exchange gains and losses arise from transactions incurred in currencies other than the functional currency of the Company and its subsidiaries. We realized a foreign exchange loss of \$25,594 in the first six months of 2018 as compared to a loss of \$545 during the same period last year.

We recorded gains totalling \$17,949 from the revaluation of the derivative financial liability at the end of the first quarter of 2018 and then the elimination of this derivative financial liability in June 2018.

During the first six months both 2018 and 2017 we realized a basic and diluted loss per share of \$0.02 per share.

## Selected Quarterly Information

	Q2 2018 (\$)	Q1 2018 (\$)	Q4 2017 (\$)	Q3 2017 (\$)	Q2 2017 (\$)	Q1 2017 (\$)	Q4 2016 (\$)	Q3 2016 (\$)
Revenues	10,648	13,395	136,459	135,623	284,878	35,574	25,969	209,350
Net loss for the period attributable to shareholders of the Company	(1,060,868)	(1,442,603)	(5,659,635)	(1,468,605)	(1,300,937)	(870,271)	(2,091,813)	(1,047,678)
Basic and diluted loss per share for the period	(0.01)	(0.01)	(0.05)	(0.01)	(0.01)	(0.01)	(0.03)	(0.01)

	Jun 30, 2018 (\$)	Mar 31, 2018 (\$)	Dec 31, 2017 (\$)	Sep 30, 2017 (\$)	Jun 30, 2017 (\$)	Mar 31, 2017 (\$)	Dec 31, 2016 (\$)	Sep 30, 2016 (\$)
Cash	189,454	28,567	172,025	2,257,086	1,142,413	201,663	26,230	129,077
Total assets	2,804,575	2,766,969	3,156,867	7,693,330	6,646,020	5,428,130	5,102,997	6,296,781
Total non-current financial liabilities	1,649,723	1,612,806	1,572,230	1,970,554	1,919,750	-	-	-

## Liquidity and Capital Resources

At June 30, 2018, we had cash of \$189,454 and a working capital deficiency of \$3,878,789 compared to \$172,025 and \$2,842,417, respectively, at December 31, 2017.

During the second quarter of 2018, we received \$121,033 as proceeds from bridge loans with related parties. The bridge loans are unsecured and have a term of one year, with interest rates ranging from 0% to 8%, payable in equal monthly installments of \$5,000 per month beginning in July 2018.

We also received \$657,683 as proceeds from a private placement that closed in August 2018. The non-brokered private placement was for 20 million units at a price of \$0.08 per unit for total proceeds of \$1,600,000 of which \$942,317 was received in the third quarter. Each unit consisted of one common share and one-half warrant, with each full warrant exercisable to purchase one additional common share at a price of \$0.15 for a period of 12 months after the closing date. The exercise date of the warrants issued is subject to acceleration in the event that the closing price of our common shares on the TSX Venture Exchange is greater than or equal to \$0.25 per share for a period of 10 consecutive trading days and such acceleration event occurs any time after the expiration of a four-month hold period applicable to the securities issued.

Cash used in operating activities for the second quarter of 2018 was \$618,734 (\$1,279,178 – 2017) and \$1,428,495 for the six months ended June 30, 2018 (\$2,159,285 – 2017). Cash used in operations consists of cash used to fund the loss for the period and the impact of non-cash items and changes in non-cash working capital.

At June 30, 2018, we had current liabilities of \$4,804,170 (December 2017 - \$4,148,815) and non-current liabilities of \$1,649,723 (December 2017 - \$1,572,230). The non-current liabilities were subsequently converted to equity in the third quarter.

We are reliant upon equity and/or debt financings to fund operations until such time as revenues are sufficient to sustain operations.

## Financial instruments

The fair value of our financial instruments, financial statement classification and associated risks are presented in the following table.

Financial instrument	Basis of measurement	Associated risks	Fair value at June 30, 2018 (\$)
Cash	Fair value through profit or loss	Credit, currency and concentration	189,454
Receivables	Amortized cost	Credit, currency and concentration	150,617
Accounts payable	Amortized cost	Currency	(2,858,588)
Loan due to Omega S.A.	Amortized cost	Currency	(392,733)
Loans payable	Amortized cost	n/a	(815,740)
Due to Columbus Gold	Amortized cost	n/a	(302,639)
Convertible debentures and accrued interest	Amortized cost	n/a	(1,822,447)
			(5,852,076)

The fair value of our financial instruments including cash, receivables, accounts payable, loan due to Omega, loans payable, convertible loan payable, and amounts due to Columbus Gold approximates their carrying value due to the immediate or short-term maturity of these financial instruments.

The fair value of the debt component of our convertible debentures is based on the effective interest rate method, with the residual balance allocated to the conversion component.

IFRS 7, *Financial Instruments: Disclosure* establishes a fair value hierarchy that prioritizes the input to valuation techniques used to measure fair value as follows:

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

Our financial instruments are exposed to certain financial risks. The risk exposures and the impact on our financial instruments at December 31, 2017 are summarized below. The Board of Directors reviews with management the principal risks affecting the Company and the systems that have been put in place to manage these risks.

(a) Credit risk

Credit risk is the risk that the Company will incur a loss due to a customer or third party failing to discharge their obligation due to the Company.

The credit risk exposure on cash is limited to their carrying amounts at the date of the statement of financial position. Cash is held as cash deposits with creditworthy banks in Canada, Europe, Guatemala and Argentina. The risk is assessed as low.

The credit risk exposure on receivables is limited to their carrying amounts at the date of the statement of financial position. Trade receivables are mainly from three customers in Europe. The risk is assessed as high due to the limited number of customers. Other receivables are primarily comprised of GST and VAT credits with a low risk assessment.

(b) Liquidity risk

Liquidity risk arises from the Company's general and capital financing needs. We manage liquidity risk by attempting to maintain sufficient cash balances. Liquidity requirements are managed based on expected cash flows to ensure that there is sufficient capital in order to meet short term obligations. As at June 30, 2018, we had a working capital deficiency of \$3,878,789 (December 31, 2017 – \$2,842,417). Liquidity risk is assessed as high.

To date, the Company has been able to address any shortfalls in meeting our short term financial demands by turning to equity and debt markets to raise the funding necessary continue operations. We will have to continue to raise funds on these markets until the Company is able to realize consistent profitable operating results.

(c) Market risks – interest rate

We do not have debt that is subject to interest rate risks, as the debts have fixed rates.

*Sensitivity Analysis*

A 1% change in interest rates does not have a material effect on our profit or loss and equity.

As our functional currency is the Canadian Dollar, where foreign currency transactions such as the US Dollar, European Euro, Argentine Peso and Guatemalan Quetzal are converted into Canadian Dollars, changes in exchange rates between these currencies may have an effect on our profit or loss and equity. A +/- 10% change in the exchange rate between those currencies and the Canadian Dollar can affect net income by approximately \$55,000.

*Capital Management*

When managing capital our objective is to ensure an optimal capital structure is maintained to reduce overall cost of capital and allowing flexibility to respond to changes in working capital requirements.

In the management of capital, we include the components of shareholders' equity as well as cash and receivables.

We manage the capital structure and make adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, we may attempt to issue new shares, acquire or dispose of assets or adjust the amount of cash and investments.

In order to facilitate the management of our capital requirements, we monitor working capital and cash flows regularly. There have been no changes to our capital management policies and procedures since the end of the most recent fiscal year.

**Related Party Transactions**

We had a services agreement with Columbus Gold, whereby Columbus Gold provided administration and management services for a fixed monthly fee. The agreement was effective until May 31, 2018. Currently, one of the Company's directors is a director of Columbus Gold. In the past, Columbus Gold had additional directors and officers in common with the Company.

As part of the June 2018 employment settlement agreement between the Company and Marcus Meurs, its President and COO, the Company forgave the \$99,998 owed to it by Fresh Organics LLC, a company controlled by Mr. Meurs and Mr. Meurs forgave the \$79,336 owed to himself by the Company.

The following related party transactions were made in the normal course of operations:

	Three months ended		Six months ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
	(\$)	(\$)	(\$)	(\$)
Management fees paid or accrued to:				
Peter Gianulis, Executive Vice President	47,405	47,901	92,934	95,498
Brandal B.V., a company controlled by Rients van der Wal, CEO of the Company's European subsidiary	69,255	88,704	69,255	173,346
Fresh Organics LLC, a company controlled by Marcus Meurs, former President and COO	-	66,504	61,654	140,281
MCC Holding B.V. a company controlled by Arnoud Maas, former CEO	-	53,120	94,853	53,120
Director fees paid or accrued	-	18,000	-	36,000
Administration fees paid or accrued to:				
SHARE Marketing & Management Services B.V., a company controlled by Rients van der Wal	12,573	-	12,573	-
Columbus Gold	20,000	76,800	50,000	153,000
	<b>149,233</b>	<b>351,029</b>	<b>381,269</b>	<b>651,245</b>

The following summarizes balances due to (from) each related party:

	June 30, 2018 (\$)	December 31, 2017 (\$)
Management fees advanced to Fresh Organics LLC	-	96,998
Management fees payable to:		
Brandal B.V.	(27,878)	-
Peter Gianulis	(126,413)	(30,108)
Due to Columbus Gold:		
to be settled in cash	(2,639)	(139)
to be settled in shares of Organto	(300,000)	(250,000)
Directors fees included in accrued liabilities	(52,000)	(48,864)
Administration fees payable to SHARE & Management Services B.V.	(12,573)	-
Expense reimbursements payable to:		
Steve Bromley, Director, Interim Chief Executive Officer & President	(28,364)	(7,814)
Robert Giustra, Director	(13,804)	-
Peter Gianulis	(54,232)	(45,488)
Loan due to Omega S.A. (note 9)	(392,733)	(372,148)
Loans payable to:		
Omega S.A.	(66,679)	-
Multitulli Sustainable Merchants, LLC, a company associated with Marcus Meurs	(70,187)	-
Stuyvesant et Compagnie, Inc., a company associated with Marcus Meurs	(287,268)	-
Naetturland, Inc., a company associated with Marcus Meurs	(286,947)	-
Grupo Tierra Nueva, LLC, a company associated with Arturo Bickford, former COO	(104,659)	-
	<b>(1,826,376)</b>	<b>(657,563)</b>

### **Commitments**

At June 30, 2018, we have the following commitments:

	Within 1 year (\$)	Between 1 and 5 years (\$)	After 5 years (\$)	Total (\$)
Lease payments for land use in Guatemala	23,867	37,529	58,474	119,870
Management fees to Peter Gianulis	189,619	126,413	-	316,032
Management fees to Brandal B.V.	276,480	483,840	-	760,320
Loan payable to Omega S.A.	362,571	30,162	-	392,733
Loans payable	865,740	-	-	865,740
	<b>1,718,277</b>	<b>677,944</b>	<b>58,474</b>	<b>2,454,695</b>

### **OFF-BALANCE SHEET ARRANGEMENTS**

During the six months ended June 30, 2018 and up to the date of this report, the Company had no off-balance sheet transactions.

### **PROPOSED TRANSACTIONS**

At present there are no transactions being contemplated by management or the board that would affect the financial condition, results of operations and cash flows of any asset of the Company.

## RISKS AND UNCERTAINTIES

### Risk factors

Our business, operations and financial condition are subject to various risks and uncertainties. Prior to making an investment decision, investors should consider the risks and uncertainties set out below and those described elsewhere in this document, which are in addition to the usual risks associated with an investment in a business engaged in the global production and distribution of organic produce. We believe the risks set out below to be the most significant to potential investors, but do not represent all of the risks associated with an investment in securities of our Company. If any of the identified risks materialize or other additional risks and uncertainties of which we are currently unaware materialize, our assets, liabilities, financial condition, results of operations (including future results of operations), business and business prospects are likely to be materially and adversely affected. These risk factors should be read in conjunction with other information in this report and in other documents that we file from time to time.

### Risks Related to Our Business

*We have a limited operating history and may incur further losses until our operating platform achieves scale.*

Agricola began carrying on business in 2014 and since that time we have built out our operating platform and generated approximately \$4.6 million in revenues and operating losses of approximately \$18.2 million. We are subject to many of the risks common to early-stage enterprises, including costs associated with building out an operating platform prior to volumes coming to scale, undercapitalization, cash shortages, and limitations with respect to personnel, financial, and other resources. There is no assurance that we will be successful in establishing a customer base, that consumers will purchase our products, or that we will begin generating revenues sufficient to cover our operating costs. Our ability to achieve a return on shareholders' investment and the likelihood of its success must be considered in light of the company's early stage of operations.

*There is risk in our ability to continue as a going concern due to losses incurred as we build out our operating platform, risk in our negative working capital position and our accumulated deficit, all of which could impact our ability to continue operations.*

Our independent auditors have added an explanatory paragraph to their audit opinion issued in connection with our financial statements for the years ended December 31, 2017, 2016 and 2015 with respect to our ability to continue as a going concern. As discussed in Note 1 to our financial statements for the current quarter, we have generated operating losses since inception, cash resources are currently insufficient to meet planned business objectives, and thus additional financing will be required to realize the carrying value of our assets and continue operations, which together raises doubt about our ability to continue as a going concern.

*We may not be able to secure financing required to meet future capital needs to continue operations.*

We will require additional capital to fulfill our contractual obligations and continue development of our product offerings and global operating platform, through either equity or debt financing. Due to business specific or general economic conditions, we may be unable to secure debt or equity financing on terms acceptable to the Company, or at all, at the time when we need such funding. Our inability to raise additional funds on a timely basis would make it difficult to achieve our business objectives and would have a negative impact on our business, financial condition and results of operations.

*Additional financing may dilute common shareholders or place restrictions on our operations.*

If we raise funds by issuing additional equity or convertible debt securities, the ownership percentages of existing stockholders would be reduced, and the securities that we issue may have rights, preferences or privileges senior to those of the holders of our common stock or may be issued at a discount to the market price of our common stock which would result in dilution to our existing stockholders. If we raise additional funds by issuing debt, the Company may be subject to debt covenants, which could place limitations on our operations including our ability to declare and pay dividends.

*We operate in a competitive global food industry and the actions of competitors could impact revenues and profitability.*

The agricultural produce industry is intensely competitive in all of its phases. We compete with other companies, some of whom have greater financial resources, larger facilities, more capacity, higher staffing levels, greater economies of scale, pricing advantages, longer operating histories and more established market presences. We may have little or no control over some or all of these competitive factors. If we are unable to effectively respond to these competitive factors, or if the competition in our product markets results in price reductions or decreased demand for our products, our business, results of operations and financial condition may be materially impacted.



We are focusing our business on the production, processing, packing and distribution of value-added and branded organic produce grown in strategic geographies that will provide us with year-round supply capabilities. As a result of changing consumer preferences and awareness, we believe there is increased demand for organic produce over conventional produce which we believe will be positive for us. Even so, we expect to face competition from new entrants to the organic produce market wanting to participate in this growing category. Our ability to remain competitive will depend to a great extent on our ability to grow our customer base, build our brand, maintain competitive pricing levels, manage transportation and delivery logistics and effectively market our products to our customers. There can be no assurance that we will have sufficient resources to compete successfully with our current or future competitors in these areas, which could have a material adverse effect on our business plan and results of operations.

*We must attract and retain key personnel to achieve our business objectives.*

Our success will be largely dependent upon the performance of our management and key employees. We must compete with other companies both within and outside the food industry to recruit and retain competent employees and contract resources. If we cannot attract and maintain qualified resources to meet our business needs, this could have a material adverse effect on our business. In addition, the Company does not have key man insurance policies and therefore there is a risk that the death or departure of any existing member of management or any key employee could also have a material adverse effect on the Company.

*Our customers generally are not obligated to continue purchasing products from us.*

Many of our customers buy from us under purchase orders, and we generally do not have long-term agreements with or commitments from these customers for the purchase of our products. We cannot provide assurance that our customers will maintain or increase their sales volumes or orders for the products supplied by us or that we will be able to maintain or add to our existing customer base. Decreases in our customers' sales volumes or orders for products supplied by us may have a material adverse effect on our business, financial condition or results of operations.

*If we do not manage our supply chain effectively, our operating results may be adversely affected.*

Our supply chain is complex and subject to a number of risks. We directly operate growing and processing operations but also rely on a number of third party suppliers for the growing, processing, packaging and distribution of certain of our products. Our inability to effectively manage our supply chain could cause our operating costs to rise and our margins to fall. In addition, potential adverse weather conditions and natural disasters add another layer of risk to our supply chain. We must continuously monitor our inventory and product mix against forecasted demand or risk having inadequate supplies to meet customer demand as well as having too much inventory that could reach its expiration date. If we are unable to manage our supply chain efficiently and ensure that our products are available to meet customer demand, our operating costs could increase and our margins could fall.

*Our international operations expose us to additional risks inherent with the countries where we are doing business.*

We operate in various foreign jurisdictions around the world. These international operations expose us to risks inherent in doing business abroad including exposure to local economic conditions, foreign exchange rate fluctuations and currency controls, investment restrictions or requirements, export and import restrictions, compliance with anti-corruption and anti-bribery laws, compliance with export controls and economic sanctions laws, and unforeseen events such as natural disasters, terrorism or political and civil unrest. As we continue to expand our business globally, we may have difficulty anticipating and effectively managing these and other risks, thus materially impacting our business, financial condition and results of operations.

*Our business is subject to numerous environmental and food safety regulations and policies.*

Our operations are subject to environmental and food safety regulations and policies in the areas where we operate. Changes in any government laws or regulations applicable to our operations could increase our compliance costs, negatively affect our ability to sell certain products or otherwise adversely affect our results of operations. While we believe we are in compliance with all laws and regulations applicable to our operations, we cannot assure you that we have been, or will at all times be, in compliance with all environmental and food safety requirements, or that we will not incur material costs or liabilities in connection with these requirements. Our failure to comply with any laws, regulations or policies applicable to our business could lead to penalties, loss of our ability to sell certain of our products, possible product recalls and others, any of which could have a material impact on our business, financial condition and results of operations.

## Risks Related to Ownership of Our Securities

*Our stock price may be volatile, which may impact returns to our shareholders.*

From time to time stock markets experience extreme price and volume fluctuations, which, when combined with general economic and political conditions, could adversely affect the market price for our securities. In addition, the trading price of our common stock may be volatile and could fluctuate widely in response to many factors, including the following, some of which are beyond our control:

- variations in our operating results;
- changes in expectations of our future financial performance, including financial estimates by securities analysts and investors;
- changes in operating and stock price performance of other companies in our industry;
- additions or departures of key personnel; and
- future sales of our common stock.

*Our common shares are thinly traded and our shareholders may be unable to sell at or near ask prices, or at all.*

We cannot predict the extent to which an active public market for trading our common stock will be sustained. Our shares have historically been thinly-traded meaning that the number of persons interested in purchasing our common shares at or near bid prices at a certain given time may be relatively small or non-existent.

This situation is attributable to a number of factors, including the fact that we are a smaller company in its development phase which is relatively unknown to stock analysts, stock brokers, institutional investors and others in the investment community who generate or influence sales volume. Even if we came to the attention of such persons, those persons may be reluctant to follow, purchase, or recommend the purchase of shares of an unproven company such as ours until such time as we become more seasoned and viable. As a consequence, there may be periods of several days or more when trading activity in our shares is minimal or non-existent, as compared to a seasoned issuer which has a large and steady volume of trading activity that will generally support continuous trades without an adverse effect on share price. We cannot be assured that a broader or more active public trading market for our common stock will develop or be sustained, or that current trading levels will be sustained.

*We do not anticipate paying any cash dividends to our common shareholders and as a result shareholders may only realize a return when their shares are sold.*

We presently do not anticipate that we will pay dividends on any of our common stock in the foreseeable future. If payment of dividends does occur at some point in the future, it would be contingent upon our revenues and earnings, if any, capital requirements, and general financial condition. The payment of any common stock dividends will be at the discretion of our Board of Directors. We presently intend to retain all earnings to implement our business plan; accordingly, we do not anticipate the declaration of any dividends for common stock in the foreseeable future.

*Our business is subject to changing regulations related to corporate governance and public disclosure that may increase both our costs and the risk of noncompliance.*

Because our common stock is publicly traded, we are subject to certain rules and regulations of federal, provincial and financial market exchange entities charged with the protection of investors and the oversight of companies whose securities are publicly traded. These entities have issued requirements and regulations and continue to develop additional regulations and requirements in response to public concerns. Our efforts to comply with these regulations have resulted in, and are likely to continue resulting in, increasing general and administrative expenses. Because new and modified laws, regulations and standards are subject to varying interpretations in many cases due to their lack of specificity, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies. This evolution may result in continuing uncertainty regarding compliance matters and additional costs necessitated by ongoing revisions to our disclosure and governance practices.

## DISCLOSURE AND INTERNAL CONTROLS

Disclosure controls and procedures have been established to provide reasonable assurance that material information relating to the Company is made known to management, particularly during the period in which annual filings are being prepared. Furthermore, internal controls over financial reporting have been established to ensure that the Company's assets are safeguarded and to provide

reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS.

During the year ending December 31, 2017, we worked to enhance our disclosure controls and procedures through the implementation of the *Internal Control – Integrated Framework (2013 Framework)* control framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission, and the *Control Objectives for Information and Related Technology 5.0* framework Issued by the Information Systems Audit and Control Association for the management and governance of information technology.

The Company's system of internal controls was impacted by two main factors in 2017: the relocation of its head office from Vancouver to Amsterdam and an unusually large rate of turnover of key personnel. In addition to internal reviews, the Company engaged an internal controls specialist to provide an independent review of its internal control system. One such internal review discovered a weakness which was confirmed by the review carried out by the independent internal controls specialist.

As part of the head office relocation, the Amsterdam office was expected to adopt the system of internal controls used by the Vancouver office, subject to any adjustments required to comply with local laws and regulations. However, the Amsterdam office did not implement the Vancouver system and instead implemented their own. While other controls already in place ensured that the quality and accuracy of financial reporting was not at risk, one control adopted by the Amsterdam office was not consistent with those implemented in the Vancouver office.

As a result, controls around the initiation and processing of payments by the Amsterdam office was deemed ineffective. Authorization levels established at the Company's bank in the Netherlands allowed payments to be made by only one employee, rather than the accepted North American model of two employees required. While there were several instances of payments being made with only one employee involved, all of the payments made by only one person were found to be legitimate. It was determined that the bank account was set up this way due to a difference in corporate culture rather than to allow malicious activity. Existing controls confirmed the legitimacy of the payments made and no adjustments to company transactions were required. During the first and second quarters of 2018, the Company has updated its procedures in the Amsterdam office to ensure that authorization by two employees is necessary to make payments.

Management has addressed the weakness discovered in the review of its internal controls and procedures and believes they are effective in providing reasonable assurance that financial information is recorded, processed, summarized and reported in a timely and accurate manner.

The Company intends to utilize independent internal controls specialists in the future to make sure that its systems are operating as efficiently and effectively as possible.

## **ADDITIONAL INFORMATION**

Additional information relating to the Company is available on SEDAR at [www.sedar.com](http://www.sedar.com).

## CORPORATE INFORMATION

Head Office:	1090 Hamilton Street Vancouver, BC, V6B 2R9
Directors:	Steve Bromley (Chair) Jeffrey Klenda (Chair, Audit Committee) Claudio Schreier Javier Reyes Robert Giustra
Officers:	Steve Bromley, Interim Chief Executive Officer & President Rients van der Wal, Chief Executive Officer, Organto Europe B.V. Peter Thibaudier, Interim Chief Financial Officer Peter Gianulis, Executive Vice President, Corporate Development Ralf Langner, Interim Corporate Secretary
Auditor:	DMCL LLP 1500 – 1140 West Pender Street Vancouver, BC, V6E 4G1
Legal Counsel:	McMillan LLP Suite 1500 - 1055 West Georgia Street Vancouver, BC, V6E 4N7
Transfer Agent:	Computershare Investor Services 2 <sup>nd</sup> Floor – 510 Burrard Street Vancouver, BC, V6C 3B9



**Organto Foods Inc.**

1090 Hamilton Street  
Vancouver, B.C.  
V6B 2R9  
Canada

**Condensed Interim Consolidated Financial Statements  
(Unaudited)**

**For the Six Months Ended  
June 30, 2018**

**(Stated in Canadian Dollars)**

## **NOTICE OF NO REVIEW BY AUDITOR**

In accordance with National Instrument 51-102 *Continuous Disclosure Obligations* of The Canadian Securities Administrators we hereby give notice that our condensed interim consolidated financial statements for the six months ended June 30, 2018, which follow this notice, have not been reviewed by an auditor.

**Organto Foods Inc.**

Condensed Interim Consolidated Statements of Financial Position (Unaudited)

(Expressed in Canadian Dollars)



	June 30, 2018 (\$)	December 31, 2017 (\$)
<b>Assets</b>		
Current assets		
Cash	189,454	172,025
Receivables (note 3)	150,617	442,257
Inventories (note 4)	148,770	157,541
Prepaid expenses (note 5)	436,540	442,693
	925,381	1,214,516
Non-current assets		
Property, plant and equipment (note 6)	1,870,200	1,932,836
Other non-current assets	8,994	9,515
	<b>2,804,575</b>	<b>3,156,867</b>
<b>Liabilities and equity (deficit)</b>		
Current liabilities		
Accounts payable	2,858,587	2,550,036
Accrued liabilities	261,746	241,512
Loan due to Omega S.A. (note 7)	392,733	372,148
Loans payable (note 8)	815,740	-
Convertible loan payable (note 9)	-	625,021
Embedded derivative financial liability (note 9)	-	18,077
Due to Columbus Gold Corp. (note 14)	302,639	250,139
Accrued interest on convertible debenture (note 10)	172,724	91,882
	4,804,169	4,148,815
Non-current liabilities		
Convertible debenture (note 10)	1,649,723	1,572,230
<b>Total liabilities</b>	<b>6,453,894</b>	<b>5,721,045</b>
Equity (deficit)		
Share capital (note 11)	11,702,054	10,953,208
Shares to be issued (note 17)	657,683	-
Reserves (note 11f)	2,172,073	2,160,270
Deficit	(18,181,127)	(15,677,656)
<b>Total deficit</b>	<b>(3,649,317)</b>	<b>(2,564,178)</b>
	<b>2,804,575</b>	<b>3,156,867</b>

Nature of operations and going concern (note 1)

Commitments (note 16)

Subsequent events (note 17)

**Approved by the Board of Directors***"Steve Bromley"*

Steve Bromley – Director

*"Jeff Klenda"*

Jeff Klenda – Director

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

**Organto Foods Inc.**

## Condensed Interim Consolidated Statements of Loss (Unaudited)

(Expressed in Canadian Dollars)

	Three months ended		Nine months ended	
	June 30, 2018 (\$)	June 30, 2017 (\$)	June 30, 2018 (\$)	June 30, 2017 (\$)
Sales (note 15)	10,648	284,878	24,043	320,452
Cost of sales (note 12)	(28,874)	(758,378)	(294,356)	(951,182)
Gain (loss) on remeasurement of biological assets	-	212,704	-	212,704
Gross loss	(18,226)	(260,796)	(270,313)	(418,026)
Selling, general and administration expenses (note 13)	367,455	525,903	797,928	925,300
Management fees	119,304	301,354	329,210	561,406
Salaries and benefits	380,161	90,529	747,525	199,954
Stock-based compensation	11,777	-	15,413	-
	(896,924)	(1,178,582)	(2,160,389)	(2,104,686)
Interest expense and accretion	(212,095)	(71,776)	(372,465)	(159,348)
Other income (expense)	13,554	10,128	37,028	(44,325)
Foreign exchange gain (loss)	29,776	(20,753)	(25,594)	(545)
Gain on embedded derivative financial liability (note 9)	4,821	-	17,949	69,361
<b>Net loss for the period</b>	<b>(1,060,868)</b>	<b>(1,260,983)</b>	<b>(2,503,471)</b>	<b>(2,239,543)</b>
<b>Net loss attributable to:</b>				
Shareholders of Organto Foods Inc.	(1,060,868)	(1,300,937)	(2,503,471)	(2,171,208)
Non-controlling interest	-	39,954	-	(68,335)
	<b>(1,060,868)</b>	<b>(1,260,983)</b>	<b>(2,503,471)</b>	<b>(2,239,543)</b>
Earnings (loss) per share (note 10d)				
Basic and diluted	(0.01)	(0.01)	(0.02)	(0.02)

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



**Organto Foods Inc.**

Condensed Interim Consolidated Statements of Comprehensive Loss (Unaudited)  
 (Expressed in Canadian Dollars)



	Three months ended		Nine months ended	
	June 30, 2018 (\$)	June 30, 2017 (\$)	June 30, 2018 (\$)	June 30, 2017 (\$)
Net loss for the period	(1,060,868)	(1,260,983)	(2,503,471)	(2,239,543)
Other comprehensive income (loss) for the period:				
Items that may subsequently be re-classified to income or loss:				
Foreign currency translation	(3,896)	172,065	(3,610)	182,791
<b>Comprehensive loss for the period</b>	<b>(1,064,764)</b>	<b>(1,088,918)</b>	<b>(2,507,081)</b>	<b>(2,056,752)</b>
<b>Comprehensive loss attributable to:</b>				
Shareholders of Organto Foods Inc.	(1,064,764)	(1,088,918)	(2,507,081)	(2,056,752)
Non-controlling interests	-	43,785	-	(66,446)
	(1,064,764)	(1,088,918)	(2,507,081)	(2,056,752)

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

**Organto Foods Inc.**

## Condensed Interim Consolidated Statements of Cash Flows (Unaudited)

(Expressed in Canadian Dollars)

	Three months ended		Nine months ended	
	June 30, 2018 (\$)	June 30, 2017 (\$)	June 30, 2018 (\$)	June 30, 2017 (\$)
<b>Operating activities</b>				
Net loss for the period	(1,060,868)	(1,260,983)	(2,503,471)	(2,239,543)
Items not involving cash:				
Amortization	55,589	100,835	110,760	189,777
Share-based payments	-	62,500	-	72,500
Accrued interest expense and accretion	164,568	48,570	315,612	136,142
Foreign currency translation loss (gain)	(2,796)	(17,396)	27,440	(36,096)
Loss (gain) on remeasurement of biological assets	-	(212,704)	-	(212,704)
Gain on embedded derivative financial liability	(4,821)	-	(17,949)	-
Stock-based compensation	11,777	-	15,413	-
Cash used in operating activities before changes in non-cash working capital	(836,551)	(1,279,178)	(2,052,195)	(2,159,285)
Changes in non-cash working capital:				
Receivables	70,796	(90,778)	291,640	(216,757)
Inventories	6,204	203,313	8,771	74,920
Prepaid expenses	(17,723)	(58,109)	6,674	(209,936)
Accounts payable	172,932	268,495	296,381	(195,834)
Accrued liabilities	(14,392)	87,909	20,234	56,901
Cash used in operating activities	(618,734)	(868,348)	(1,428,495)	(2,649,991)
<b>Investing activities</b>				
Property, plant and equipment	-	(7,919)	-	(21,306)
Cash used in investing activities	-	(7,919)	-	(21,306)
<b>Financing activities</b>				
Proceeds from private placements, net of issue costs	-	1,830,860	-	1,830,860
Proceeds from debentures issued	-	-	-	2,035,000
Proceeds from shares to be issued	657,683	40,000	657,683	40,000
Proceeds from loans payable	121,033	271,840	815,740	271,840
Repayments of convertible loan payable	-	-	(28,456)	-
Repayments of loans payable	-	(322,495)	-	(386,991)
Cash used in financing activities	778,716	1,820,205	1,444,967	3,790,709
Effect of foreign exchange on cash	904	(3,188)	956	(3,229)
Increase in cash	160,887	940,750	17,429	1,116,183
Cash, beginning of period	28,567	201,663	172,025	26,230
<b>Cash, end of period</b>	<b>189,454</b>	<b>1,142,413</b>	<b>189,454</b>	<b>1,142,413</b>

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

**Organto Foods Inc.**

## Condensed Interim Consolidated Statements of Changes in Shareholders' Equity

(Deficit) (Unaudited)

(Expressed in Canadian Dollars)

	Number of shares	Share capital (\$)	Shares to be issued (\$)	Reserves (\$)	Deficit (\$)	Non- controlling interests (\$)	Total (\$)
Balance at January 1, 2017	76,771,801	6,000,631	-	1,126,939	(6,328,684)	(146,466)	652,420
Proceeds from private placement	12,699,634	1,904,945	-	-	-	-	1,904,945
Proceeds from shares to be issued	-	-	40,000	-	-	-	40,000
Share issuance costs	-	(123,135)	-	49,050	-	-	(74,085)
Compensation shares	-	-	122,100	-	-	-	122,100
Share-based payments	44,386	72,500	-	-	-	-	72,500
Warrants	-	-	-	40,500	-	-	40,500
Comprehensive loss for the period	-	-	-	180,902	(2,171,208)	(66,446)	(2,056,752)
<b>Balance at June 30, 2017</b>	<b>89,765,821</b>	<b>7,854,941</b>	<b>162,100</b>	<b>1,397,391</b>	<b>(8,499,892)</b>	<b>(212,912)</b>	<b>701,628</b>
Balance at January 1, 2018	112,263,903	10,953,208	-	2,160,270	(15,677,656)	-	(2,564,178)
Proceeds from shares to be issued	-	-	657,683	-	-	-	657,683
Shares issued to settle loans payable	2,269,230	748,846	-	-	-	-	748,846
Stock-based compensation	-	-	-	15,413	-	-	15,413
Comprehensive loss for the period	-	-	-	(3,610)	(2,503,471)	-	(2,507,081)
<b>Balance at June 30, 2018</b>	<b>114,533,133</b>	<b>11,702,054</b>	<b>657,683</b>	<b>2,172,073</b>	<b>(18,181,127)</b>	<b>-</b>	<b>(3,649,317)</b>

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

**1. Nature of operations and going concern**

The Company was incorporated on May 18, 2007 under the laws of the Province of British Columbia, Canada as Columbus Exploration Corporation ("Columbus Exploration"). On November 30, 2015, Agricola Nuova Terra Guatemala S.A. ("Agricola") completed its reverse takeover (the "RTO") of Columbus Exploration, pursuant to which Columbus Exploration acquired all of the issued and outstanding common shares of Agricola in exchange for 46,228,882 common shares of Columbus Exploration, Columbus Exploration paid Agricola shareholders \$100,088 (US\$75,000) on or before September 11, 2015, a final payment of \$240,260 (US\$185,000) on or before December 31, 2016, and Columbus Exploration assuming \$315,382 (US\$242,844) in debt bearing interest at a rate of 8.5% per annum.

Upon completion of the RTO, Columbus Exploration changed its name to Organto Foods Inc. ("Organto"), and Agricola became a wholly-owned subsidiary of Organto. On March 21, 2016, Agricola changed its name to Organto Guatemala, Sociedad Anonima ("Organto Guatemala"). For the purposes of these consolidated financial statements, the "Company" is defined as the consolidated entity.

The Company's common shares are listed for trading on the TSX Venture Exchange ("TSXV") and are traded under the stock symbol "OGO". The Company's principal business activity is the sourcing, processing, packaging and distribution of organic and specialty food products with a focus on branded organic value-added vegetables and fruit products. The Company has processing operations in Guatemala, with office locations in Vancouver, British Columbia, Miami, Florida, Buenos Aires, Argentina and Amsterdam in the Netherlands.

These consolidated financial statements have been prepared on a going concern basis which implies that the Company will continue realizing its assets and discharging its liabilities in the normal course of business for the foreseeable future. Should the going concern assumption not continue to be appropriate, further adjustments to carrying values of assets and liabilities may be required. The operations of the Company were primarily funded by the issue of share capital, short-term loans and convertible loans. At June 30, 2018, the Company had a working capital deficiency of \$3,878,788 (December 31, 2017 - \$2,842,417) and an accumulated deficit of \$18,181,128 (December 31, 2017 - \$15,677,656). Accordingly, the ability of the Company to realize the carrying value of its assets and continue operations as a going concern is dependent upon its ability to obtain additional financing as needed, continued financial support from related parties, and ultimately on generating future profitable operations. The factors described may cast significant doubt about the Company's ability to continue as a going concern.

The Company's head office and principal address is located at 1090 Hamilton Street, Vancouver, British Columbia, V6B 2R9, Canada.

**2. Basis of presentation**

These consolidated financial statements have been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting* ("IAS 34") using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These condensed interim consolidated financial statements have been prepared using the same accounting policies and methods of computation as the most recent annual financial statements for the year ending December 31, 2017. Certain amounts in the prior period have been reclassified to conform to the presentation in the current period.

These consolidated financial statements were approved by the Board of Directors and authorized for issue on August 27, 2018.

**Organto Foods Inc.**

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

For the Six Months Ended June 30, 2018 and 2017

(Expressed in Canadian Dollars)

**3. Receivables**

	<b>June 30, 2018 (\$)</b>	<b>December 31, 2017 (\$)</b>
Trade receivables	14,346	103,909
Fresh Organics (note 14)	-	96,998
VAT recoverable	134,313	237,001
Other	1,958	4,349
	<b>150,617</b>	<b>442,257</b>

**4. Inventories**

	<b>June 30, 2018 (\$)</b>	<b>December 31, 2017 (\$)</b>
Packing material	124,804	121,295
Agricultural inputs	23,966	31,069
Finished goods	-	5,177
	<b>148,770</b>	<b>157,541</b>

**5. Prepaid expenses**

	<b>June 30, 2018 (\$)</b>	<b>December 31, 2017 (\$)</b>
Advances to third-party producers	389,577	358,507
Prepaid insurance	13,750	27,500
Other advances and retainers	33,213	56,686
	<b>436,540</b>	<b>442,693</b>

**6. Property, plant and equipment**

	Buildings (\$)	Machinery & equipment (\$)	Furniture and other (\$)	Land (\$)	Construction in progress (\$)	Total (\$)
<b>Cost</b>						
At January 1, 2017	2,143,948	2,881,939	117,499	110,382	116,088	5,369,856
Additions	58,375	290,362	26,388	-	(58,375)	316,750
Impairment	(1,211,260)	(1,764,918)	(389)	-	(3,765)	(2,980,332)
Foreign exchange	(13,345)	(14,254)	(1,959)	(1,460)	(1,599)	(32,617)
<b>At December 31, 2017</b>	<b>977,718</b>	<b>1,393,129</b>	<b>141,539</b>	<b>108,922</b>	<b>52,349</b>	<b>2,673,657</b>
Foreign exchange	25,312	18,553	15,307	4,359	4,431	67,962
<b>At June 30, 2018</b>	<b>1,003,030</b>	<b>1,411,682</b>	<b>156,846</b>	<b>113,281</b>	<b>56,780</b>	<b>2,741,619</b>
<b>Accumulated amortization</b>						
At January 1, 2017	<b>(194,571)</b>	<b>(449,796)</b>	<b>(12,658)</b>	-	-	<b>(657,025)</b>
Amortization for the year	(108,514)	(298,019)	(20,776)	-	-	(427,309)
Impairment	1,374	329,125	73	-	-	330,572
Foreign exchange	1,222	11,298	421	-	-	12,941
<b>At December 31, 2017</b>	<b>(300,489)</b>	<b>(407,392)</b>	<b>(32,940)</b>	-	-	<b>(740,821)</b>
Amortization for the period	(24,747)	(76,836)	(9,177)	-	-	(110,760)
Foreign exchange	(8,108)	(803)	(10,927)	-	-	19,838
<b>At June 30, 2018</b>	<b>(333,344)</b>	<b>(485,031)</b>	<b>(53,044)</b>	-	-	<b>(871,419)</b>
<b>Net book value</b>						
<b>At December 31, 2017</b>	<b>677,229</b>	<b>985,737</b>	<b>108,599</b>	<b>108,922</b>	<b>52,349</b>	<b>1,932,836</b>
<b>At June 30, 2018</b>	<b>669,686</b>	<b>926,651</b>	<b>103,802</b>	<b>113,281</b>	<b>56,780</b>	<b>1,870,200</b>

The Company's buildings are situated on land owned by a third party, which is subject to a lease agreement (note 16).

**7. Loan due to Omega S.A.**

The Company had a loan payable to Omega S.A. ("Omega"), a company owned by Arturo Bickford, one of the founding shareholders of Organto Guatemala, S.A., a subsidiary of the Company, in the amount of \$326,067 (US\$242,844), which accrued interest at 8.5% per annum and was due on October 31, 2016. During 2015, Omega advanced an additional \$63,973 (Guatemalan Quetzals ("Q") Q400,050), with an interest rate of 42% per annum, and another advance of \$38,698 (US\$28,821), interest free. A payment of \$37,391 (US\$28,821) was made to Omega on July 4, 2017.

On July 27, 2017, the Company reached a settlement agreement with Omega, to settle all amounts owing to Omega and \$262,492 (US\$202,328) owing to a 3<sup>rd</sup> party, on the following payment terms:

- \$109,341 (US\$87,500) on July 28, 2017 (paid);
- \$34,648 (\$US27,500) per month, from August 2017 to October 2018 (2017 amounts paid); and
- \$28,953 (US\$23,248) on November 15, 2018.

The Company did not pay any amounts due in 2018 and in June 2018 Omega and the Company agreed to amend the terms of the settlement agreement by fixing the amount due to the then current amount of US\$298,248 and waiving further interest charges. The agreed payment plan calls for payments of US\$55,000 in July 2018, payments of US\$15,000 per month for August through November 2018, and then payments of US\$22,906 per month for December 2018 through July 2019.

**7. Loan due to Omega S.A.- continued**

A continuity of the balances is shown below:

	(\$)
Balance at January 1, 2017	500,419
Other 3 <sup>rd</sup> party liability included in settlement agreement	168,169
Payments	(319,972)
Loss on settlement	17,573
Foreign exchange	5,959
<b>Balance at December 31, 2017</b>	<b>372,148</b>
Accrued interest	23,074
Foreign exchange	(2,489)
<b>Balance at June 30, 2018</b>	<b>392,733</b>

**8. Loans payable**

During the first quarter of 2018 the Company received \$694,707 and a further \$121,033 during the second quarter in bridge loans from insiders and certain shareholders. The bridge loans are unsecured and have a term of one year. Interest rates range from 0% to 8% with interest paid in equal monthly payments of \$5,000 per month.

Maturity date	Interest rate	June 30, 2018 (\$)	December 31, 2017 (\$)
February 1, 2019	8%	140,000	-
February 21, 2019	8%	322,093	-
March 13, 2019	8%	107,348	-
March 27, 2019	0%	66,679	-
April 3, 2019	4%	65,961	-
April 5, 2019	0%	104,659	-
April 25, 2019	4%	9,000	-
		<b>815,740</b>	<b>-</b>

**9. Convertible loan payable**

On March 30, 2016, the Company received \$784,641 (US\$590,000) by issuing a secured convertible promissory note to SG Strategic Income Limited (“SGSI”). The note was restructured in July 2017 with a new maturity date of June 30, 2018 and is secured by a first charge on certain of the Company’s assets in Guatemala and bears interest at 5% annually. The note and any interest accrued to date thereon are convertible into common shares of the Company at a price of \$0.33 per share at SGSI’s election or automatically if the Company completes a financing of at least \$5 million.

As a result of the restructuring, the Company recognized a gain of \$18,416 in 2017. The restructured loan has been recognized at fair value of \$684,986 (US\$505,975), and the conversion option recognized at a fair value of \$56,129 (US\$44,196), which was classified as an embedded derivative financial liability. The embedded derivative financial liability was subject to revaluation at each balance sheet date with the change in fair value recorded in the Statement of Loss. The debt component was being accreted to the face value of the loan over the one year term using the effective interest rate method.

As a result of the Company’s private placement in 2017 for gross proceeds greater than \$5 million, the loan was converted in June 2018 into 2,269,230 common shares.

**9. Convertible loan payable - continued**

A continuity of the balance is shown below:

	<b>(\$)</b>
Balance at January 1, 2017	787,110
Deemed settlement of promissory note	(787,110)
Convertible promissory note restructured at fair value	684,986
Payments	(37,232)
Accretion and interest expense	27,339
Foreign exchange	(50,072)
<b>Balance at December 31, 2017</b>	<b>625,021</b>
Payments	(28,456)
Accretion and interest expense	149,146
Foreign exchange	3,135
Shares issued to settle	(748,846)
<b>Balance at June 30, 2018</b>	<b>-</b>

A continuity of the embedded derivative financial liability is shown below:

	<b>(\$)</b>
Balance at January 1, 2017	69,361
Expiry of conversion option of original promissory note	(69,361)
Recognition of embedded derivative financial liability on restructuring of promissory note	56,129
Gain on embedded derivative financial liability on restructuring of promissory note	(18,416)
Foreign exchange	(19,636)
<b>Balance at December 31, 2017</b>	<b>18,077</b>
Gain on revaluation of embedded derivative financial liability	(17,949)
Foreign exchange	(128)
<b>Balance at June 30, 2018</b>	<b>-</b>

**10. Convertible debentures**

In June 2017 the Company issued convertible debentures (“the Debentures”) for gross proceeds of \$2,035,000. The Debentures are unsecured, have a term of three years beginning on June 8, 2017, and bear interest at 8%, payable annually in arrears. Holders may elect to convert the principal amount of their Debentures into common shares at a price of \$0.35 per share until June 8, 2020. The Company issued common shares equivalent to \$122,100 (738,570 shares) as compensation pursuant to the placement of these debentures.

The Company initially recorded \$1,592,000 as the fair value of the debt component of the debentures, with the residual amount of \$443,000 (\$416,420 net of issue costs) allocated to the equity component of the debentures. The debt component of the debentures is being accreted to the face value of the loan over the three year term.



**10. Convertible debentures - continued**

A continuity of the balance is shown below:

	<b>(\$)</b>
Balance at January 1, 2017	-
Convertible debenture proceeds	1,592,000
Issuance costs	(95,520)
Interest expense	91,882
Accretion	75,750
<b>Balance at December 31, 2017</b>	<b>1,664,112</b>
Interest expense	80,842
Accretion	77,493
<b>Balance at June 30, 2018</b>	<b>1,822,447</b>

The short and long-term portion of the convertible debenture balance at June 30, 2018 are as follows:

	<b>June 30, 2018 (\$)</b>	<b>December 31, 2017 (\$)</b>
Accrued Interest on convertible debenture	172,724	91,882
Convertible debenture	1,649,723	1,572,230
	<b>1,822,447</b>	<b>1,664,112</b>

See also note 17 – Subsequent events.

**11. Share capital**

(a) Common shares

Authorized – unlimited common shares without par value.

At June 30, 2018 the Company had 114,533,133 common shares issued and outstanding (December 31, 2017 – 112,263,903).

See also note 17 – Subsequent events.

(b) Share options

The Company has adopted a rolling stock option plan whereby the Board of Directors, may from time to time, grant options to directors, officers, employees or non-employee service providers to a maximum of 10% of the outstanding common shares of the Company at any point in time, less any share options already reserved for issuance under share options granted under previous stock option plans of the Company or granted under any other employee incentive purchase plan that the Company may adopt. Options granted must be exercised no later than five years from date of grant or such lesser period as determined by the Company's Board of Directors.

**11. Share capital - continued**

The continuity of the Company's share options is as follows:

	Number of options	Weighted average exercise price (\$)
Balance, January 1, 2017	2,420,000	0.20
Granted	7,470,000	0.18
Expired	(175,000)	0.20
<b>Balance at December 31, 2017</b>	<b>9,715,000</b>	<b>0.18</b>
Granted	600,000	0.15
Forfeited	(1,500,000)	0.18
Expired	(300,000)	0.18
<b>Balance at June 30, 2018</b>	<b>8,515,000</b>	<b>0.18</b>

A summary of the Company's share options outstanding and exercisable at June 30, 2018 is as follows:

Exercise price (\$)	Number of options outstanding	Expiry date	Number of options exercisable
0.15	600,000	June 29, 2023	120,000
0.18	5,470,000	October 10, 2022	4,470,000
0.20	2,175,000	October 10, 2022	2,175,000
0.13	200,000	November 28, 2022	40,000
0.15	35,000	November 07, 2019	35,000
0.065	35,000	December 19, 2018	35,000
<b>0.065-0.20</b>	<b>8,515,000</b>		<b>6,875,000</b>

The Company recognizes stock based compensation over the vesting period of the underlying options using the Black-Scholes option pricing method for those options with set vesting dates and the Binomial Method for those options which vest based on market conditions. Option pricing methods require the input of highly subjective assumptions including expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore the existing models do not necessarily provide a reliable single measure of the fair value of the Company's stock options granted and/or vested during the period. The fair value of the options granted in June 2018 was \$40,705 and was calculated using the Black-Scholes model with the following inputs: expected price volatility of 140%, risk free interest rate of 1.90%, expected life of 5 years and no dividend yield.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)  
For the Six Months Ended June 30, 2018 and 2017  
(Expressed in Canadian Dollars)

**11. Share capital - continued**

## (c) Warrants

Warrants are exercisable as follows:

Grant date	Number of warrants	Exercise price (\$)	Expiration date	Fair value per warrant (\$)	Total fair value (\$)
June 20, 2017	12,699,634	0.25	June 20, 2019 *	-	-
June 20, 2017	457,869	0.15	June 20, 2019	0.10	49,059
August 3, 2017	2,165,208	0.25	August 3, 2019 *	-	-
August 3, 2017	8,000	0.15	August 3, 2019	0.08	629
September 8, 2017	13,500,000	0.25	September 8, 2019 *	-	-
September 11, 2017	6,065,000	0.25	September 11, 2019 *	-	-
September 11, 2017	1,194,667	0.15	September 11, 2019	0.08	106,731
	<b>36,090,378</b>				<b>203,612</b>

\* In the event the Company's common shares trade on the TSXV at a price of \$0.21 or more for a period of 10 consecutive trading days then the Company will have the right to accelerate the expiry date of the warrants to the earlier of (i) the 30th day after the date on which such notice is given; and (ii) the actual expiry date of the warrants.

The continuity of the Company's warrants is as follows:

	Number of warrants	Weighted average exercise price (\$)
Balance at January 1, 2017	445,475	0.30
Exercised	(29,304)	0.15
Cancelled	(300,000)	-
Granted	37,119,682	0.24
Expired	(20,250)	0.35
<b>Balance at December 31, 2017</b>	<b>37,215,603</b>	<b>0.24</b>
Expired	(1,125,225)	0.21
<b>Balance at June 30, 2018</b>	<b>36,090,378</b>	<b>0.25</b>

See also note 17 – Subsequent events.

## (d) Loss per share

	Three months ended		Six months ended	
	June 30, 2018 (\$)	June 30, 2017 (\$)	June 30, 2018 (\$)	June 30, 2017 (\$)
Basic and diluted loss per share	(0.01)	(0.01)	(0.02)	(0.02)
<b>Net loss for the period</b>	<b>(1,060,868)</b>	<b>(1,260,983)</b>	<b>(2,503,471)</b>	<b>(2,239,543)</b>

**11. Share capital - continued**

For the six months ended June 30, 2018 there were 10,015,000 (2017 – 2,245,000) share options and 37,155,073 warrants (2017 – 14,632,282) that are potentially dilutive but not included in the diluted loss per share calculation as the effect would be anti-dilutive.

## (e) Escrow shares

As at June 30, 2017, 18,992,881 (December 31, 2017 - 30,339,212) shares originally issued to Organto Guatemala shareholders are still subject to escrow provisions.

## (f) Reserves

	Options (\$)	Warrants (\$)	Conversion feature of debentures (\$)	Promissory Note (\$)	Other reserves (\$)	Cumulative translation (\$)	Total (\$)
Balance, January 1, 2017	-	38,552	-	239,187	176,093	673,107	1,126,939
Accumulated fair value of:							
Warrants issued	-	196,919	-	-	-	-	196,919
Conversion option of convertible debt issued	-	-	416,420	-	-	-	416,420
Stock-based compensation	671,417	-	-	-	-	-	671,417
Reclassify to deficit upon dissolution of subsidiary	-	-	-	(239,187)	-	(178,847)	(418,034)
Accumulated comprehensive income	-	-	-	-	-	166,609	166,609
<b>Balance at December 31, 2017</b>	<b>671,417</b>	<b>235,471</b>	<b>416,420</b>	<b>-</b>	<b>176,093</b>	<b>660,869</b>	<b>2,160,270</b>
Stock-based compensation	15,413	-	-	-	-	-	15,413
Accumulated comprehensive income	-	-	-	-	-	(3,610)	(3,610)
<b>Balance at June 30, 2018</b>	<b>686,830</b>	<b>235,471</b>	<b>416,420</b>	<b>-</b>	<b>176,093</b>	<b>657,259</b>	<b>2,172,073</b>

**12. Cost of sales**

	Three months ended		Six months ended	
	June 30, 2018 (\$)	June 30, 2017 (\$)	June 30, 2018 (\$)	June 30, 2017 (\$)
Materials and transportation	2,469	316,912	27,206	318,345
Produce purchases	5,503	115,283	80,212	144,991
Salaries and benefits	-	105,335	56,054	158,499
Amortization (note 5)	15,030	100,835	70,200	189,777
Plant overhead	5,872	120,013	60,684	139,570
	<b>28,874</b>	<b>758,378</b>	<b>294,356</b>	<b>951,182</b>

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)  
For the Six Months Ended June 30, 2018 and 2017  
(Expressed in Canadian Dollars)

**13. Selling, general and administration expenses**

	Three months ended		Six months ended	
	June 30, 2018 (\$)	June 30, 2017 (\$)	June 30, 2018 (\$)	June 30, 2017 (\$)
Administration and office	178,643	205,561	461,020	470,597
Professional fees	123,356	105,534	256,889	153,183
Overhead and operating	65,456	214,808	80,019	301,520
	<b>367,455</b>	<b>525,903</b>	<b>797,928</b>	<b>925,300</b>

**14. Related party transactions**

Pursuant to management services agreements, Columbus Gold provided certain management and administration services to the Company during the period December 1, 2015 through May 31, 2018 for fixed monthly fees, a portion of which is payable in common shares of the Company. Columbus Gold has or had certain directors and officers in common with the Company.

As part of the June 2018 employment settlement agreement between the Company and Marcus Meurs, its President and COO, the Company forgave the \$99,998 owed to it by Fresh Organics LLC, a company controlled by Mr. Meurs and Mr. Meurs forgave the \$79,336 owed to himself by the Company.

The related party transactions are as follows:

	Three months ended		Six months ended	
	June 30, 2018 (\$)	June 30, 2017 (\$)	June 30, 2018 (\$)	June 30, 2017 (\$)
Management fees paid or accrued to:				
Peter Gianulis, Executive Vice President	47,405	47,901	92,934	95,498
Brandal B.V., a company controlled by Rients van der Wal, CEO of the Company's European subsidiary	69,255	88,704	69,255	173,346
Fresh Organics LLC, a company controlled by Marcus Meurs, former President and COO	-	66,504	61,654	140,281
MCC Holding B.V. a company controlled by Arnoud Maas, former CEO	-	53,120	94,853	53,120
Director fees paid or accrued	-	18,000	-	36,000
Administration fees paid or accrued to:				
SHARE Marketing & Management Services B.V., a company controlled by Rients van der Wal	12,573	-	12,573	-
Columbus Gold	20,000	76,800	50,000	153,000
	<b>149,233</b>	<b>351,029</b>	<b>381,269</b>	<b>651,245</b>

**14. Related party transactions - continued**

At the period end, the Company had the following outstanding balances receivable from (payable to) related parties:

	<b>June 30, 2018 (\$)</b>	<b>December 31, 2017 (\$)</b>
Management fees advanced to Fresh Organics LLC	-	96,998
Management fees payable to:		
Brandal B.V.	(27,878)	-
Peter Gianulis	(126,413)	(30,108)
Due to Columbus Gold:		
to be settled in cash	(2,639)	(139)
to be settled in shares of Organto	(300,000)	(250,000)
Directors fees included in accrued liabilities	(52,000)	(48,864)
Administration fees payable to SHARE & Management Services B.V.	(12,573)	-
Expense reimbursements payable to:		
Steve Bromley, Director, Interim Chief Executive Officer & President	(28,364)	(7,814)
Robert Giustra, Director	(13,804)	-
Peter Gianulis	(54,232)	(45,488)
Loan due to Omega S.A. (note 9)	(392,733)	(372,148)
Loans payable to:		
Omega S.A.	(66,679)	-
Multitulli Sustainable Merchants, LLC, a company associated with Marcus Meurs	(70,187)	-
Stuyvesant et Compagnie, Inc., a company associated with Marcus Meurs	(287,268)	-
Naetturland, Inc., a company associated with Marcus Meurs	(286,947)	-
Grupo Tierra Nueva, LLC, a company associated with Arturo Bickford, former COO	(104,659)	-
	<b>(1,826,376)</b>	<b>(657,563)</b>

**15. Segmented information**

The Company has one reportable business segment, being the sourcing, processing, packaging and distribution of organic and specialty food products.

The majority of sales were made to 3 customers during the three months period ended June 30, 2018, and 4 customers during the six months ended June 30, 2017.

**Organto Foods Inc.**

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

For the Six Months Ended June 30, 2018 and 2017

(Expressed in Canadian Dollars)


**15. Segmented information - continued**

Customer	Location of Customer	Three months ended				Six months ended			
		June 30, 2018 (\$)	%	June 30, 2017 (\$)	%	June 30, 2018 (\$)	%	June 30, 2017 (\$)	%
Customer A	Europe	9,257	57%	-	-	9,257	39%	-	-
Customer B	Europe	5,256	33%	-	-	5,256	22%	-	-
Customer C	Europe	1,645	10%	-	-	8,873	37%	-	-
Customer D	Europe	(5,510)	-	-	-	657	3%	-	-
Customer E	Europe	-	-	120,706	42%	-	-	156,280	49%
Customer F	Europe	-	-	156,670	55%	-	-	156,670	49%
Customer I (others)	Europe	-	-	7,502	3%	-	-	7,502	2%
		<b>10,648</b>	<b>100%</b>	<b>284,878</b>	<b>100%</b>	<b>24,043</b>	<b>100%</b>	<b>320,452</b>	<b>100%</b>

Information by geographical areas is as follows:

	June 30, 2018 (\$)	December 31, 2017 (\$)
<b>Current assets</b>		
Canada	519,868	502,892
Guatemala	24,060	58,528
Argentina	36,830	41,219
Netherlands	344,623	611,877
	<b>925,381</b>	<b>1,214,516</b>
<b>Non-current assets</b>		
Guatemala	1,695,525	1,692,635
Netherlands	248,057	249,716
	<b>1,879,194</b>	<b>1,942,351</b>
<b>Total assets</b>		
Canada	520,023	502,892
Guatemala	1,677,968	1,751,163
Netherlands	569,754	861,593
Argentina	36,830	41,219
	<b>2,804,575</b>	<b>3,156,867</b>

**16. Commitments**

At June 30, 2018, the Company has the following commitments:

	Within 1 year (\$)	Between 1 and 5 years (\$)	After 5 years (\$)	Total (\$)
Lease payments for land use in Guatemala	23,867	37,529	58,474	119,870
Management fees to Peter Gianulis	189,619	126,413	-	316,032
Management fees to Brandal B.V.	276,480	483,840	-	760,320
Loan payable to Omega S.A.	362,571	30,162	-	392,733
Loans payable	865,740	-	-	865,740
	<b>1,718,277</b>	<b>677,944</b>	<b>58,474</b>	<b>2,454,695</b>

**17. Subsequent events**

Convertible debentures

In July 2018 the Company reached an agreement with the holders of the convertible debentures to convert the debentures, plus accrued interest and related conversion fees, into common shares of the Company. Organto issued a total of 13,330,262 common shares to the holders of the debentures, comprising 11 million common shares issued to convert the face value of the debentures at a conversion price of \$0.185 per common share, and 2,330,262 common shares to convert accrued interest and related conversion fees at a conversion price of \$0.10 per common share.

Private placement

In August 2018 the Company completed a non-brokered private placement of 20 million units at a price of \$0.08 per unit. Total proceeds of \$1,600,000 were received: \$657,683 in June 2018 and \$942,317 in July and August 2018. Each unit consisted of one common share and one-half warrant, with each full warrant exercisable to purchase one additional common share at a price of \$0.15 for a period of 12 months after the closing date. The exercise date of the warrants issued is subject to acceleration in the event that the closing price of common shares on the TSX Venture Exchange is greater than or equal to \$0.25 per share for a period of 10 consecutive trading days and such acceleration event occurs any time after the expiration of a four-month hold period applicable to the securities issued.