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Organto Announces Second Quarter 2022 Financial Results

Vancouver, BC, Canada and Breda, the Netherlands, August 29, 2022 – Organto Foods Inc. (TSX-V: OGO, OTCQB: OGOFF, FSE: OGF) ("Organto" or "the Company"), an integrated provider of organic and value-added organic fruit and vegetable products today announced its financial results for the three and six month periods ended June 30, 2022. All amounts are expressed in Canadian dollars and in accordance with International Financial Reporting Standards (IFRS), except as noted.

Highlights:

Second Quarter 2022 Operating Results

- Second quarter sales of $5,109,949 versus sales of $5,372,162 in the prior year. Adjusting for the decline in the Euro versus the Canadian dollar, when measured in Euros sales increased by approximately 4% and represents the twelfth consecutive quarter of record sales growth versus the same quarter in the prior year.
- Gross profit of $208,084 or 4.1% of sales versus $648,987 or 12.1% of sales in the prior year. When adjusted for the realized gain on derivative assets of $70,467 which is from currency hedging related to product purchases, adjusted gross profit(1) was $278,551 or 5.5% of sales.
- Cash overhead costs for the quarter were 35.2% of sales, or 27.1% after adjusting for non-recurring and investment spending, versus costs of 26.3% in the prior year. The increase in costs reflects investments in infrastructure and resources to support current and future growth initiatives which are expected to position the Company for future growth. These costs include expenditures of $409,662 related to retail branded product development and digital transformation activities, acquisition activities and corporate development costs, all of which are expected to generate positive future benefits.

Year-to-Date 2022 Operating Results

- Six month sales of $12,109,813 versus sales of $10,145,224 in the prior year, an increase of 19.4%. Adjusting for the year over year decline in the Euro versus the Canadian dollar of approximately 10% for the six-month period, sales increased by approximately 29% when measured in Euros.
- Gross profit of $878,668 or 7.3% of sales versus $1,106,802 or 10.9% of sales in the prior year. When adjusted for the realized gain on derivative assets of $82,039 which is from currency hedging and directly impacts the effective cost of products sold, adjusted gross profit(1) was $960,707 or 7.9% of sales.
- Cash overhead costs for the first six months of the year were 29.7% of sales, or 22.6% after adjusting for non-recurring and investment spending, versus costs of 25.3% in the prior year. The increase in costs reflects investments in infrastructure and resources to support current and future growth initiatives which are expected to position the Company for future growth. These costs include expenditures of $866,288 related to retail branded product development and digital transformation activities, acquisition activities and corporate development costs, all of which are expected to generate positive future benefits.

Balance Sheet as at June 30, 2022

- Balance sheet significantly improved versus the prior year, providing resources for the Company to continue to pursue its growth strategy.
  - Cash on hand of $8,422,166 versus $2,760,506 in the prior year.
  - Working capital of $5,572,694 versus $1,996,710 in the prior year.
  - Non-current debt of $5,954,140 versus $4,070,323 in the prior year.

"Our second quarter results were directly impacted by an extremely challenging macroeconomic environment including the effects of the Russia/Ukraine war which directly impacted our customer mix and also led to market disruption and short-term supply dislocation, combined with cost increases due to rising inflation, the rapid decline of the Euro versus foreign currencies and continued global supply chain challenges. While our results were directly impacted in the quarter, our team acted swiftly to address and mitigate these challenges, and we are confident that we are well positioned for growth as we head into the remainder of 2022 and beyond." commented Steve Bromley, Chair and Co-CEO of Organto and Rients van der Wal, Co-CEO of Organto and CEO of Organto Europe B.V. "Despite these challenges, the second quarter of 2022 represents our twelfth consecutive quarter of record sales versus the same quarter in the prior year in base Euro currency. We continue to invest responsibly in our platform as we add key operating personnel and expand our product portfolio and branded product capabilities. When combined with our strong balance sheet and continued demand for healthy foods that are produced in a sustainable and transparent manner, we believe Organto is well-positioned to capitalize on this demand and drive continued growth."

Second Quarter 2022 Results Commentary

Sales for the three months ended June 30, 2022 were $5,109,949 as compared to $5,372,162 during the same period in the prior year, a decrease of 4.9%. When measured in Euros, sales increased 3.9% versus the same period in the prior year, representing our twelfth consecutive quarter of revenue growth versus the same quarter in the prior year. While volumes of many product categories continued to grow, sales were impacted in the quarter by i) the impact of the Russia/Ukraine war which eliminated our sales into the Russian market; ii) supply chain challenges which impacted the timing, cost and availability of freight and the shipping containers required to deliver raw materials to Europe; iii) and our decision to take a "risk-off" approach to longer lead time supply chains such as avocado and ginger in order to mitigate significant risks caused by a combination of increased transit times, potential product quality issues and price volatility resulting from supply dislocation driven for the most part by the Russia/Ukraine war.

Gross profit of $208,084 or approximately 4.1% of sales was realized in the second quarter of 2022 as compared to a gross profit of $648,987 and 12.1% during the same quarter of the prior year. The Company hedges currencies for certain product categories where both the supply and sales commitments are fixed in foreign currencies. As a result, the Company realized a gain on derivative assets from its hedging program of $70,467, which while directly related to product purchases, is reported separately. When adjusted for this gain, gross profit(1) was $278,551, or approximately 5.5% of sales. Increased supply chain costs due in part to the effects of the COVID-19 pandemic and the Russia/Ukraine war, plus the rapid increase in inflation and decline in the Euro versus a number of global currencies, negatively impacted gross profit in the quarter.

Selling, general and administration expenses were $686,075 or 13.4% of sales in the quarter as compared to $586,515 or 10.9% of sales in the same quarter of the prior year. Included in 2022 are costs associated with

the Company's acquisition program of $71,324 and $114,096 related to the development of our retail branded and on-line product platforms.
Management fees in the current quarter were $263,127 and while higher than the $235,077 recorded in the same quarter of the prior year, they were in line with expectations.

Labour costs and benefits during the second quarter were $847,604, a significant increase versus the same quarter of the prior year, but within expectations. With commercial activities growing and expected to accelerate, operating personnel have been added to support this growth, develop new products and sales opportunities and support the organization for expected future growth. Included in 2022 second quarter labour costs and benefits are costs incurred by Beeorganic which are new for the Company in 2022. Also included are costs related to the development or the Company's retail branded and on-line product platforms of $207,431, and $16,811 for costs associated with the Company's acquisition program.

As detailed above, during the second quarter of 2022 the Company incurred costs of $409,662, of which $321,527 were related to the development of its retail branded product offering and digital transformation activities and $88,135 of costs associated with its acquisition program. While the benefits of these activities have yet to translate into significant bottom-line contribution, it is believed that these are prudent investments for the future of the Company.

Stock-based compensation in the second quarter of 2022 of $240,974 consists of $56,662 for restricted share units and $184,312 for stock options. Stock-based compensation for the second quarter of 2021 totaled $308,781 and consisted of $159,216 for restricted share units and $149,565 for stock options.

Net interest and accretion expense for the second quarter of 2022 was $559,744 as compared to $227,512 in the prior year. Interest in 2022 consists of interest on convertible debentures and accounts receivable factoring costs. Accretion in 2022 consists of accretion on convertible debentures and earn-out payments accrued in relation to the Fresh Organic Choice and Beeorganic acquisitions. The additional convertible debentures issued in November 2021, together with factoring costs resulting from increased commercial activity, led to the higher expense in 2022. Interest expense in the second quarter of 2022 was offset by $14,440 of interest income.

At the end of each quarter the Company revalues its investment securities. At June 30, 2022 the Company revalued the shares of Xebra Brands that is owns and recorded an unrealized loss of $370,972 for the second quarter of 2022. The valuation acknowledges that a portion of the Xebra Brands shares owned are subject to trading restrictions which expire between September 2022 and September 2023. The carrying value of the Xebra Brands shares of $261,046 at June 30, 2022 represents a discount to their market value of $295,315 to reflect these trading restrictions. No gain or loss was recorded in the second quarter of 2021.

In order to hedge exposure to fluctuations in the US dollar versus Euro exchange rate, one of the Company's European subsidiaries established a hedging facility in the first quarter of 2022 with a European financial services company for forward currency exchange contracts. The difference between the cost to acquire US dollars through the forward currency exchange contracts and the spot market at the time of purchase has been recorded as a realized gain on derivative assets of $70,467 in the second quarter. These forward currency exchange contracts were used exclusively for product purchases and the gains realized, while reported separately as realized gains on derivative assets, are related to cost of sales.

The carrying value of the derivative asset represents the difference between the cost to acquire US dollars on the spot market and through the forward currency exchange contracts at June 30, 2022. These contracts allowed the Company to purchase US dollars for less than by acquiring them on the spot market, resulting in the recognition of a derivative asset and an unrealized gain on derivative assets of $38,809 for the current quarter.

Foreign exchange gains and losses arise from transactions incurred in currencies other than the functional currency of the Company and its subsidiaries. The Company reported a foreign exchange loss of $27,489 this quarter as compared to a gain of $8,492 during the same quarter last year.

The Company reported a net loss of $2,678,625 during the second quarter of 2022, compared to a net loss of $1,155,758 during the same period in the prior year. While positive momentum continued across the business, operations were impacted by a number of macroeconomic challenges in the second quarter including the impact of the Russia/Ukraine war, the rapid decline of the Euro versus a number of global currencies, global supply chain challenges and rapidly rising inflation. Second quarter results include costs of $409,662 not related to day-to-day operations including investments in retail and digital transformation activities and costs incurred related to the Company's acquisition program. In addition, the Company recorded an unrealized loss on the revaluation of investment securities of $370,972.

Year-to-Date 2022 Results Commentary

Sales for the six months ended June 30, 2022 were $12,109,813 as compared to $10,145,224 during the same period in the prior year, an increase of 19.4%. When measured in Euros, sales increased 28.9% versus the same period in the prior year. While volumes of many product categories continued to grow, sales were impacted in the first six months of the year by i) the impact of the Russia/Ukraine war which eliminated our sales into the Russian market; ii) supply chain challenges which impacted the timing, cost and availability of freight and the shipping containers required to deliver raw materials to Europe; and iii) our decision to take a "risk-off" approach to longer lead time supply chains such as avocado and ginger, in an attempt to mitigate significant risks caused by a combination of increased transit times, potential product quality issues and price volatility resulting from supply dislocation driven for the most part by the Russia/Ukraine war.

The Company realized gross profit of $878,686 or 7.3% of revenues in the first six months of 2022 as compared to a gross profit of $1,106,802 or 10.9% during the same period of the prior year. In early 2022, the Company implemented a foreign currency hedging program for certain product categories where both the supply and sales commitments are fixed in foreign currencies. As a result, the Company realized a gain on derivative assets from its hedging program of $82,039, which while directly related to product purchases, is reported separately. When adjusted for this gain, gross profit [(1)] was $960,725 or approximately 7.9 % of sales. Increased supply chain costs due in part to the effects of the COVID-19 pandemic and the Russia/Ukraine war, plus the rapid increase in inflation and decline of the Euro versus a number of global currencies impacted gross margin in the first six months of the year.

Selling, general and administration expenses were $1,407,969 or 11.6% of sales for the first six months of 2022 as compared to $950,420 or 9.4% of sales in the same period of the prior year. Included in 2022 are costs associated with the Company's acquisition program of $140,726 and $274,867 related to the development of retail branded and on-line product platforms.

Management fees in the first six months of 2022 were $533,773 and while higher than the $467,545 recorded in the same period of the prior year, they were in line with expectations.

Labour costs and benefits during the first six months of 2022 were $1,656,829, a significant increase versus the same period of the prior year but within expectations given the increased volume of commercial activity and recent acquisitions. With commercial activities growing and expected to accelerate, operating personnel have been added to support this growth, develop new products and sales opportunities and support the organization for expected future growth. Included in 2022 labour costs and benefits are costs incurred by Beeorganic which are new for in 2022. Also included are $422,439 of costs related to the development of the Company's branded product offering and digital transformation activities and $28,256 for costs associated with its acquisition program.

As detailed above, during the first six months of 2022 the Company incurred costs of $866,288, of which $697,306 were related to the development of its retail branded product offering and digital transformation activities and $168,982 of costs associated with its acquisition program. While the benefits of these activities have yet to translate into significant bottom-line contribution, it is believed these are prudent investments for the future of the Company.

Stock-based compensation of $456,312 in the first six months of 2022 consists of $69,969 for restricted share units and $386,343 for stock options. Stock-based compensation for the first six months of 2021 totaled $605,478 and consisted of $247,372 for restricted share units and $358,106 for stock options.

Net interest and accretion expense for the first six months of 2022 was $1,148,992 as compared to $443,853 for the prior year. Interest in 2022 consists of interest on convertible debentures and accounts receivable factoring costs. Accretion in 2022 consists of accretion on convertible debentures and earn-out payments accrued in relation to the Fresh Organic Choice and Beeorganic acquisitions. The additional convertible debentures issued in November 2021, together with factoring costs resulting from increased commercial activity, led to the higher expense in 2022. Interest expense in 2022 was offset by $14,440 of interest income.

At June 30, 2022 the Company revalued the shares of Xebra Brands that it owns and recorded an unrealized loss of $760,569 for the first six months of 2022. The valuation acknowledges that a portion of the Xebra Brands shares owned are subject to trading restrictions which expire between September 2022 and September 2023. The carrying value of the Xebra Brands shares of $261,046 at June 30, 2022 represents a discount to their market value of $295,315 to reflect these trading restrictions. No gain or loss was recorded in the first six months of 2021.

The difference between the cost to acquire US dollars through forward currency exchange contracts and the spot market at the time of purchase has been recorded as a realized gain on derivative assets of $82,039 in the six months ended June 30, 2022. These forward currency exchange contracts were used exclusively for product purchases and the gains realized, while reported separately as realized gains on derivative assets, are related to cost of sales.

The carrying value of the derivative asset represents the difference between the cost to acquire US dollars on the spot market and through the forward currency exchange contracts at June 30, 2022. These contracts allowed the Company to purchase US dollars for less than by acquiring them on the spot market, resulting in the recognition of a derivative asset and an unrealized gain on derivative assets of $49,719 for the six months ended June 30, 2022.

Foreign exchange gains and losses arise from transactions incurred in currencies other than the functional currency of the Company and its subsidiaries. The Company reported a foreign exchange loss of $23,412 for the first six months of 2022 as compared to a loss of $33,307 during the same period last year.

The Company reported a net loss of $5,007,412 during the six months ended June 30, 2022, compared to a net loss of $2,403,522 during the same period in the prior year. While positive momentum continued across the business, operations were impacted by a number of macroeconomic challenges in the first six months of 2022 including the impact of the Russia/Ukraine war, the decline of the Euro versus a number of global currencies, global supply chain challenges and rapidly rising inflation. Six month results include costs of $866,288 not related to day-to-day operations including investments in retail and digital transformation activities and costs incurred related to the Company's acquisition program. In addition, the Company recorded an unrealized loss on the revaluation of investment securities of $790,569.

Interested parties may access the Company's June 30, 2022 financial statements and other filings at www.SEDAR.com or at the Company's website at www.organto.com under the Investors tab.

ON BEHALF OF ORGANTO FOODS INC.,

Steve Bromley
Chair and Co-Chief Executive Officer

Neither the TSX Venture Exchange nor its Regulation Services Provider (as that term is defined in the policies of the TSX Venture Exchange) accepts responsibility for the adequacy or accuracy of this news release.

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(1) The information presented herein refers to the non-IFRS financial measure of adjusted gross profit. This measure is not a recognized measure under IFRS and does not have a standardized meaning prescribed by IFRS. Non-IFRS financial measures should not be considered in isolation nor as a substitute for analysis of the Company's financial information reported under IFRS and are unlikely to be comparable to similar measures presented by other issuers. Rather, these measures are provided as additional information to complement those IFRS measures by providing further understanding of the Company's results of operations from management's perspective and thus highlight trends in its business that may not otherwise be apparent when relying solely on IFRS measures. The Company believes that securities analysts, investors and other interested parties frequently use non-IFRS financial measures in the evaluation of the Company. The Company's management also uses non-IFRS financial measures to facilitate operating performance comparisons from period to period and to prepare annual operating budgets and forecasts.

ABOUT ORGANTO

Organto is an integrated provider of branded, private label and distributed organic and non-GMO fruit and vegetable products using a strategic asset-light business model to serve a growing socially responsible and health-conscious consumer around the globe. Organto's business model is rooted in its commitment to sustainable business practices focused on environmental responsibility and a commitment to the communities where it operates, its people and its shareholders.

FORWARD LOOKING STATEMENTS

This news release may include certain forward-looking information and statements, as defined by law including without limitation Canadian securities laws and the "safe harbor" provisions of the US Private Securities Litigation Reform Act of 1995 ("forward-looking statements"). In particular, and without limitation, this news release contains forward-looking statements respecting Organto's business model and markets; Organto's belief that second quarter result were impacted by an extremely challenging macroeconomic environment and belief that the Company acted swiftly to address and mitigate these challenges; Organto's belief that the Company is well-positioned for growth in the back half of 2002 and beyond; Organto's belief that demand for fresh organic fruits and vegetables produced in a sustainable and transparent manner continues to grow; Organto's belief that as a result of its strong balance sheet combined with strong consumer demand, its business is well-positioned to capitalize and drive continued growth; management's beliefs, assumptions and expectations; and general business and economic conditions. Forward-looking statements are based on a number of assumptions that may prove to be incorrect, including without limitation assumptions about the following: the ability and time frame within which Organto's business model will be implemented and product supply will be increased; cost increases; dependence on suppliers, partners and contractual counter-parties; changes in the business or prospects of Organto; unforeseen circumstances; risks associated with the organic produce business generally, including inclement weather, unfavorable growing conditions, low crop yields, variations in crop quality, spoilage, import and export laws and similar risks; transportation costs and risks; general business and economic conditions; and ongoing relations with distributors, customers, employees, suppliers, consultants, contractors and partners. The foregoing list is not exhaustive and Organto undertakes no obligation to update any of the foregoing except as required by law.