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Organto Announces Record First Quarter 2023 Financial Results

Largest Quarterly Sales and Gross Profit in Company's History

Vancouver, BC, Canada and Breda, the Netherlands, May 30, 2023 – Organto Foods Inc. (TSX-V: OGO, OTCQB: OGOFF, FSE: OGF) ("Organto" or "the Company"), an integrated provider of organic and non-GMO fruit and vegetable products today announced financial results for the quarter ended March 31, 2023. All amounts are expressed in Canadian dollars and in accordance with International Financial Reporting Standards (IFRS), except where specifically noted.

Highlights:

First Quarter 2023 Operating Highlights

- Sales of $7,503,529 versus sales of $6,999,864 in the prior year, an increase of approximately 7.2% and approximately 4% on a currency adjusted basis.
    - Sales in the first quarter represent the largest quarterly sales in the history of Organto.
    - Sales in the first quarter represent the fifteenth consecutive quarter of record sales growth, currency adjusted, versus the same quarter in the prior year.
    - Sales at the top end of previously provided first quarter sales guidance of $7.4 million to $7.5 million.
- Gross profit of $731,244 or 9.7% of sales versus $670,602 or 9.6% of sales in the prior year. When adjusted for the realized gain on derivative assets and liabilities which is from currency hedging directly related to product purchases, adjusted gross profit(1) was $736,627 or approximately 9.8% of sales versus 9.7% in the prior year.
    - Gross profit for the quarter represents the largest quarterly gross profit in the history of Organto.
    - First quarter adjusted gross profit(1) as a percentage of sales increased 380 basis points versus the fourth quarter of 2022 as actions taken by the Company to address significant macro-economic challenges realized in 2022 began to contribute positively.
    - Adjusted gross profit(1) for the first quarter of 9.8% exceeded previously provided quarterly gross profit guidance of 9.4% to 9.6%.
- Cash overhead costs for the quarter were 27.1% of sales, 23.5% on an adjusted basis, versus 25.7% in the prior year. Costs include investments in infrastructure and resources required to support growth initiatives. These costs include

expenditures not related to day-to-day operations of $271,226 including retail branded product development and on-line digital transformation activities, acquisition activities and corporate development costs.

Balance Sheet Highlights as March 31, 2023

- Cash of $2,159,885 including $113,902 of restricted cash related to currency hedging facilities.
- Working capital of $1,080,060.
- Non-current liabilities of $9,035,126.

“We are pleased with our progress in the first quarter as we have realized the largest quarterly sales in our history, and most importantly, started to realize the benefits of initiatives we continue to implement to improve our gross profit profile following the macro-economic challenges we faced in 2022. We continue to implement initiatives to profitably build our business, and we believe we have good momentum as we exit the first quarter. We believe that demand from healthy, sustainable, and transparent foods continues to grow, and we are looking forward to continued growth in our business as we execute on our strategic plans. The integration of the New Fruit Group acquisition has been a key focus for us, and we are pleased with our progress so far. We remain confident that this acquisition will help us achieve our long-term growth objectives and enhance our business profile." commented Steve Bromley, Chair and Co-CEO of Organto Foods Inc. and Rients van der Wal, Co-CEO of Organto Foods Inc. and CEO of Organto Europe BV.

Detailed Operating Results Commentary

Sales for the three months ended March 31, 2023 were $7,503,529 as compared to $6,999,864 during the same period in the prior year, an increase of approximately 7.2%, and approximately 4% when adjusted for changes in currency rates year over year. First quarter sales are the largest quarterly sales in our history. These results were driven by the acquisition of the New Fruit Group early in the year and offset somewhat by challenges in certain core categories in the quarter due to political unrest and weather-related factors which impacted supply. This quarter is our fifteenth consecutive quarter of currency adjusted revenue growth versus the same quarter in the prior year.

We realized a quarterly gross profit of $731,244 or approximately 9.7% of sales in the first quarter of 2023 as compared to a gross profit of $670,602 and 9.6% during the same quarter in the prior year. We hedge currencies for certain product categories where both the supply and sales commitments are fixed in foreign currencies. In the first quarter, we realized a gain on derivative assets and liabilities from our hedging program of $5,383, which while related to product purchases, is reported separately. Including this gain, adjusted gross profit was $736,627 or approximately 9.8% of sales versus 9.7% in the first quarter of 2022, and 6.0% in the fourth quarter of 2022. The improvement in adjusted gross profit in the first quarter versus the second, third and fourth quarters of 2022 is the result of actions we have implemented to address macroeconomic factors experienced in 2022 including supply chain challenges, a rapid increase in inflation, currency fluctuations and the Russia/Ukraine war.

Selling, general and administration expenses were $813,949 or 10.8% of sales this quarter as compared to $721,894 or 10.3% of sales in the same quarter in the prior year. Included in 2023 are costs associated with our acquisition program of $42,187 and $62,787 related to the development of our retail branded and on-line product platforms.

Management fees in the current quarter were $250,070 compared to the $270,646 recorded in the same quarter of the prior year and reflect reduced fees charged by certain officers. These reduced fees will remain until operating economics improve.

Labour costs and benefits during the first quarter were $1,032,293, a significant increase versus the same quarter of the prior year, but within expectations. Operating personnel have been added, not only from the acquisition of New Fruit Group, but also to support increased commercial activities and to develop new products and sales opportunities. Included in 2023 first quarter labour costs and benefits are costs associated with our acquisition program of $17,021 and $149,230 for costs related to the development of our retail branded and on-line product platforms.

As detailed above, during the first quarter of 2023 we incurred costs of $212,017 of which $119,537 were related to the development of our retail branded product offering and on-line go-to-market capabilities and $59,208 of costs associated with our acquisition program. While the benefits of these activities have yet to translate into significant bottom-line contributions, we believe these are prudent investments for the future of our Company.

We recognized $185,452 in stock-based compensation in the first quarter of 2023 which consists of $62,292 for restricted share units and $123,161 for stock options. Stock-based compensation for the first quarter of 2022 totaled $215,338 and consisted of $13,307 for restricted share units and $208,541 for stock options.

Net interest and accretion expense for the first quarter of 2023 was $347,201 as compared to $589,248 for the prior year. Interest consists of interest on our convertible debentures and accounts receivable factoring costs. Accretion in 2023 consists of accretion on the convertible debentures and the New Fruit Group earn-out liability while 2022 also included accretion on the earn-out payments accrued in relation to the Fresh Organic Choice and Beeorganic acquisitions. Interest expense in the first quarter of 2023 was offset by $12,009 of interest income.

At March 31, 2023 we revalued the shares of Xebra Brands Ltd. ("Xebra") that we own and recorded an unrealized gain of $27,463 for the first quarter of 2023. The valuation acknowledges that a portion of the Xebra shares we own are subject to trading restrictions which expire in September 2023. The carrying value of the Xebra shares of $120,004 at March 31, 2023 represents a discount to their market value of $121,407 to reflect these trading restrictions. In the first quarter of 2022 we recognized an unrealized valuation loss of $419,597.

In order to hedge our exposure to fluctuations in the US dollar vs Euro exchange rate, we maintain a hedging facility 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 and liabilities in the first quarter of 2023 of

$5,383 (2022 – $11,572). 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 designed to offset our reported cost of sales.

The carrying value of the derivative assets and liabilities represent the difference between the cost to acquire US dollars on the spot market and through the forward currency exchange contracts. At March 31, 2023 these contracts require us to purchase US dollars for more than by acquiring them on the spot market, resulting in the recognition of a derivative liability and an unrealized loss of $146,614 for the current quarter. At the end of the first quarter in 2022, these contracts enabled us to purchase US dollars for less than by acquiring them on the spot market and were recorded as an unrealized gain of $10,910 for the first quarter.

Foreign exchange gains and losses may arise from transactions incurred in currencies other than the functional currency of the Company and its subsidiaries. We reported a foreign exchange loss of $30,709 this quarter as compared to a gain of $4,077 during the same quarter last year. A portion of our cash balance is held in Euros and US dollars, and some of our accounts payable are denominated in currencies other than the currency used to pay these accounts and fluctuations in the exchange rates of these currencies will result in gains or losses.

We reported a net loss of $2,047,776 during the first quarter of 2023, compared to a net loss of $2,328,787 during the same period in the prior year. Sales increased 7.2%, or approximately 4% when measured in Euros, versus the first quarter in the prior year. Gross profit increased to 9.7% of sales versus 9.6% in the same quarter in the prior year, and 4.0% in the fourth quarter of 2022, before the impact of our currency hedging programs. Costs increased as we invested in our business, expanded our workforce and built out our internal infrastructure to accommodate expected growth in our business in 2023 and beyond. In addition to $146,614 in unrealized losses on the revaluation of our derivative assets and liabilities, first quarter 2023 results include $271,226 of costs not related to day-to-day operations including on-line platform and retail branded product development costs and costs incurred as we evaluated acquisition opportunities.

Interested parties may access the Company's filings at www.SEDAR.com or at the Company's website at www.organto.com under the Investors tab.

ON BEHALF OF THE BOARD,

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 demand for healthy food including fresh organic fruits and vegetable products produced in a sustainable and transparent manner continues to grow; Organto's belief that first quarter results reflect the benefits of initiatives to improve the Company's gross profit profile after the challenges of 2022; Organto's belief that there is good momentum in the business as it exits the first quarter of 2023 and it is well positioned to capture growth opportunities; Organto's belief that it will experience continued growth as it executes initiatives to profitably grow its business; Organto's belief that the acquisition of the New Fruit Group completed in 2023 is a positive addition to the Company's portfolio and it will play a part in helping the Company achieve its long-term growth objectives and enhance its business profile; 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.