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Organto Announces Third Quarter 2022 Financial Results

Vancouver, BC, Canada and Breda, the Netherlands, November 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 nine month periods ended September 30, 2022. All amounts are expressed in Canadian dollars and in accordance with International Financial Reporting Standards (IFRS), except as noted.

Highlights:

Third Quarter 2022 Operating Results

- Third quarter sales of $4,574,574 versus sales of $4,298,282 in the prior year. Adjusting for the decline in the Euro versus the Canadian dollar, when measured in Euros sales increased by approximately 17%, representing the largest third quarter sales in the history of the Company and thirteenth consecutive quarter of record sales growth versus the same quarter in the prior year.
- Gross profit of $166,126 or 3.7% of sales versus $529,018 or 12.3% of sales in the prior year. When adjusted for the realized gain on derivative assets of $107,038 which is from currency hedging directly related to product purchases, adjusted gross profit(1) was $273,164 or approximately 6.0% of sales.
- Cash overhead costs for the quarter were 35.5% of sales, or approximately 27.0% after adjusting for non-recurring and investment spending, versus costs of 33.6% 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 $385,839 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

- Nine month sales of $16,657,387 versus sales of $14,443,506 in the prior year, an increase of 15.3%. Adjusting for the year over year decline in the Euro versus the Canadian dollar for the nine-month period, sales increased by approximately 24% when measured in Euros.
- Gross profit of $1,044,812 or 6.3% of sales versus $1,635,820 or 11.3% of sales in the prior year. When adjusted for the realized gain on derivative assets of $189,077 which is from currency hedging and directly impacts the effective cost of products sold, adjusted gross profit(1) was $1,233,889 or 7.4% of sales.
- Cash overhead costs for the first nine months of the year were 31.3% of sales, or 23.8% after adjusting for non-recurring and investment spending, versus costs of 27.8% 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 $1,252,127 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 September 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 $6,881,565 versus $1,610,978 in the prior year.
    - Working capital of $4,470,562 versus $1,005,156 in the prior year.
    - Non-current debt of $6,623,761 versus $2,956,408 in the prior year.

"While the third quarter is traditionally a seasonally slower quarter in our business given the European vacation schedule and availability of locally grown crop alternatives, we achieved record third quarter sales as volumes accelerated in the back half of the quarter. This momentum has carried into the fourth quarter where our October sales were the largest monthly sales in the history of our Company and the impacts of our margin improvement initiatives are taking hold. Our third quarter margins were impacted by an extremely challenging macroeconomic environment including the effects of significant cost increases due to rising inflation, the rapid decline of the Euro versus foreign currencies and continued global supply chain challenges. We continue to take actions to address and mitigate these challenges, and remain 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 third quarter of 2022 represents the largest third quarter sales in our history and our thirteenth 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 expand our product portfolio and branded product capabilities and develop and implement new technologies to improve efficiency and transparency. When combined with our strong balance sheet and continued demand for healthy foods that are produced in a sustainable and transparent manner, we believe we are well-positioned to capitalize on this demand and to drive continued growth."

Third Quarter 2022 Results Commentary

Sales for the three months ended September 30, 2022 were $4,547,574 as compared to $4,298,282 during the same period in the prior year, an increase of approximately 6% versus the same quarter in the prior year. When measured in Euros, sales increased approximately 17% versus the same period in the prior year. This quarter represents the Company's thirteenth 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, plus impacted processing and local delivery costs; iii) and our decision to take a "risk-off" approach for periods of time on 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.

We realized quarterly gross profit of $166,126 or approximately 3.7% of sales in the third quarter of 2022 as compared to a gross profit of $529,018 and 12.3% during the same quarter of the prior year. We hedge currencies for certain product categories where both the supply and sales commitments are fixed in foreign currencies. In the third quarter, we realized a gain on derivative assets from our hedging program of $107,038, which while related to product purchases, is reported separately. Including this gain, adjusted gross profit(1) was $273,164 or approximately 6.0% of sales. Increased supply chain costs plus the rapid increase in inflation, negatively impacted gross profit in the quarter. Gross profits in the organic asparagus and sugar snap categories were significantly impacted in the quarter by continued inflationary pressures, while other categories performed to expectation.

Selling, general and administration expenses were $542,958 or 11.9% of sales this quarter as compared to $558,968 or 13.0% of sales in the same quarter of the prior year. Included in 2022 are costs associated with our acquisition program of $19,032 and $124,788 related to the development of our retail branded and on-line product platforms.

Management fees in the current quarter were $231,650 compared to the $236,040 recorded in the same quarter of the prior year and in line with expectations.

Labour costs and benefits during the third quarter were $839,524, a significant increase versus the same quarter of the prior year, but within expectations. With commercial activities growing and expected to continue 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 third quarter labour costs and benefits are costs incurred by Beeorganic which are new for the Company in 2022. Also included are $18,540 for costs associated with the Company's acquisition program and $223,479 related to the development of retail branded and on-line product platforms.

As detailed above, during the third quarter of 2022 we incurred costs of $385,839 of which $348,268 were related to the development of our retail branded product offering and on-line go-to-market capabilities and $37,571 of costs associated with our acquisition program. While the benefits of these activities have yet to translate into significant bottom-line contribution, we believe these are prudent investments for the future of our Company.

We recognized $229,172 in stock-based compensation in the third quarter of 2022 which consists of $64,761 for restricted share units and $164,411 for stock options. Stock-based compensation for the third quarter of 2021 totaled $154,948 and consisted of $38,042 for restricted share units and $116,906 for stock options.

Net interest and accretion expense for the third quarter of 2022 was $557,672 as compared to $176,980 for the prior year. Interest in 2022 consists of interest on our convertible debentures and accounts receivable factoring costs. Accretion in 2022 consists of accretion on the 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 higher factoring costs resulting from increased commercial activity, led to the higher expense in 2022. Interest expense in the third quarter of 2022 was offset by $26,838 of interest income.

We recognized a loss of $45,067 in the third quarter of 2022 on the revaluation of grower advances. We decided not to continue with an exclusive supply agreement for organic avocados that we announced in 2021. Due to severe weather impacts on both the supply chain and supply capacities, the grower could not deliver the expected supply of avocados in 2021 and both parties decided to terminate the agreement.

At September 30, 2022 we revalued the shares of Xebra that we own and recorded an unrealized loss of $77,822 for the third quarter of 2022. The valuation acknowledges that a portion of the Xebra shares we own are subject to trading restrictions which expire between March 2023 and September 2023. The carrying value of the Xebra shares of $183,224 at September 30, 2022 represents a discount to their market value of $196,877 to reflect these trading restrictions. No gain or loss was recorded in the third quarter of 2021.

In order to hedge our exposure to fluctuations in the US dollar vs Euro exchange rate, one of our 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 $107,038 in the third 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, helped offset our reported 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 September 30, 2022. These contracts will allow 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 $186,686 for the current quarter.

Foreign exchange gains and losses may arise from transactions incurred in currencies other than the functional currency of the Company and our subsidiaries. We reported a foreign exchange loss of $18,029 this quarter as compared to a loss of $2,414 during the same quarter last year.

We reported a net loss of $2,057,945 during the third quarter of 2022, as compared to a net loss of $1,948,165 during the same period in the prior year. Operations were impacted by a number of macroeconomic challenges in the third quarter including the decline of the Euro versus a number of global currencies, supply chain challenges and rapidly rising inflation. As a result, we took a prudent "risk off" approach for periods of time on certain product categories in order to manage our potential downside risks and preserve cash. In addition to a $77,822 unrealized loss on the revaluation of our investment securities, third quarter 2022 results include $385,839 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.

Year-to-Date 2022 Results Commentary

Sales for the nine months ended September 30, 2022 were $16,657,387 as compared to $14,443,506 during the same period in the prior year, an increase of approximately 15%. When measured in Euros, sales increased approximately 24% versus the same period 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; and iii) our decision to take a "risk-off" approach for periods of time on 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.

We realized gross profit of $1,044,812 or approximately 6.3% of revenues in the first nine months of 2022 as compared to a gross profit of $1,635,820 or approximately 11% of revenues during the same period of the prior year. In early 2022, we 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, we realized a gain on derivative assets from our hedging program of $189,077, which while related to product purchases, is reported separately. Including this gain, adjusted gross profit(1) was $1,233,889 or approximately 7.4 % of sales. Increased supply chain costs plus the rapid increase in inflation impacted gross margin in the first nine months of the year.

Selling, general and administration expenses were $1,950,927 or 11.7% of sales for the first nine months of 2022 as compared to $1,509,388 or 10.5% of sales in the same period of the prior year. Included in 2022 are costs associated with our acquisition program of $159,758 and $399,655 related to the development of our retail branded and on-line product platforms.

Management fees in the first nine months of 2022 were $765,423 compared to $703,585 in the same period of the prior year and in line with expectations.

Labour costs and benefits during the first nine months of 2022 were $2,496,353, a significant increase versus the same period of the prior year but within expectations given the increased volume of commercial activity and our recent acquisitions completed. 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 us in 2022. Also included are $645,918 of costs related to the development of our branded and on-line product platforms and $46,796 for costs associated with our acquisition program.

As detailed above, during the first nine months of 2022 we incurred costs of $1,252,127 of which $1,045,573 were related to the development of our retail branded product offering and on-line go-to-market capabilities and $206,554 of costs associated with our acquisition program. While the benefits of these activities have yet to translate into significant bottom-line contribution, we believe these are prudent investments for the future of our Company.

We recognized $685,484 in stock-based compensation in the first nine months of 2022 which consists of $134,729 for restricted share units and $550,755 for stock options. Stock-based compensation for the first nine months of 2021 totaled $760,426 and consisted of $285,414 for restricted share units and $475,012 for stock options.

Net interest and accretion expense for the first nine months of 2022 was $1,706,664 as compared to $620,833 for the prior year. Interest in 2022 consists of interest on our convertible debentures and accounts receivable factoring costs. Accretion in 2022 consists of accretion on the 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 higher factoring costs resulting from increased commercial activity, led to the higher expense in 2022. Interest expense in 2022 was offset by $41,278 of interest income received.

We recognized a loss of $45,067 in the third quarter of 2022 on the revaluation of grower advances. We decided not to continue with an exclusive supply agreement for organic avocados that we announced in 2021. Due to severe weather impacts on both the supply chain and supply capacities, the grower could not deliver the expected supply of avocados in 2021 and both parties decided to terminate the agreement.

At September 30, 2022 we revalued the shares of Xebra that we own and recorded an unrealized loss of $868,391 for the first nine months of 2022. The valuation acknowledges that a portion of the Xebra shares we own are subject to trading restrictions which expire between March 2023 and September 2023. The carrying value of the Xebra shares of $183,224 at September 30, 2022 represents a discount to their market value of $196,877 to reflect these trading restrictions. No gain or loss was recorded in the first nine months of 2021 on the revaluation at September 30, 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 $189,077 in the nine months ended September 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, helped offset our reported 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 September 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 $236,405 for the nine months ended September 30, 2022.

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 $41,441 for the first nine months of 2022 as compared to a loss of $35,721 during the same period last year.

We reported a net loss of $7,065,357 during the nine months ended September 30, 2022, as compared to a net loss of $4,351,687 during the same period in the prior year. Operations were impacted by a number of macroeconomic challenges in the first nine months of 2022 including the impact of the decline of the Euro versus a number of global currencies, supply chain challenges and rapidly rising inflation. As a result, we took a prudent “risk off” approach for periods of time on certain product categories to manage our potential downside risks and preserve cash. When measured in Euros, sales increased approximately 24% versus the prior year yet only approximately 15% when reported in CDN dollars due to the reduction in the value of the Euro versus the Canadian dollar. Gross profit was impacted by supply chain and inflationary pressures, combined with the decline in the Euro which further impacted product margin spreads. 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 the remainder of 2022 and beyond. In addition to a $868,391 unrealized loss on the revaluation of our investment securities, results for the first nine months of 2022 include $1,252,127 of costs not related to day-to-day operations including on-line platform and branded product development costs and costs incurred as we evaluated acquisition opportunities.

Interested parties may access the Company’s September 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 third quarter results were impacted by an extremely challenging macroeconomic environment and belief that the Company continues 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.