

ORGANTO FOODS INC.

CONSOLIDATED FINANCIAL STATEMENTS

**For the Year Ended
December 31, 2023**

(Stated in Canadian Dollars)



DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

Independent Auditor's Report

To the Shareholders of Organto Foods Inc.

Opinion

We have audited the consolidated financial statements of Organto Foods Inc. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2023 and 2022, and the consolidated statements of comprehensive loss, cash flows and changes in shareholders' equity (deficit) for the years then ended, and notes to the consolidated financial statements, including material accounting policy information (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2023 and 2022, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 to the financial statements, which describes events or conditions that indicate a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters, that in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In addition to the matter described in the Material Uncertainty Related to Going Concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Vancouver

1500 – 1140 West Pender St.
Vancouver, BC V6E 4G1
604.687.4747

Surrey

200 – 1688 152 St.
Surrey, BC V4A 4N2
604.531.1154

Tri-Cities

700 – 2755 Lougheed Hwy
Port Coquitlam, BC V3B 5Y9
604.941.8266

Victoria

320 – 730 View St.
Victoria, BC V8W 3Y7
250.800.4694

KEY AUDIT MATTER	HOW THE MATTER WAS ADDRESSED IN THE AUDIT
Acquisition of NFG New Fruit Group GmbH ("NFG") The Company disclosures related to the acquisition are included in Note 10. During the year ended December 31, 2023, the Company acquired 100% of the outstanding shares of NFG. The acquisition was accounted for under the acquisition method whereby the cost of the acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date and the excess of the cost of the acquisition over the fair value of identifiable net assets acquired is recorded as goodwill. While there are several assumptions that go into determining the fair values, the judgments with the highest degree of subjectivity are revenue forecasts, gross margin, profit margin and discount rates. We considered this a key audit matter due to the significant management estimates and judgments required in determining the fair value of the consideration paid and the identification and allocation of the purchase price to the identified assets acquired and liabilities assumed. Auditing the estimates of the fair value amounts required a high degree of subjectivity in applying audit procedures and in evaluating the results of those procedures. This resulted in an increased extent of audit effort including the involvement of valuation specialists.	In obtaining sufficient audit evidence, we performed the following audit procedures, among others: • Inspected the purchase agreement to obtain an understanding of the key terms and conditions associated with the acquisition. • Evaluated the appropriateness of the acquisition being a business combination rather than an asset acquisition. • With the assistance of valuation specialists, ◦ Assessed the appropriateness of valuation methods and assumptions used in the valuation. ◦ Tested the information underlying the determination of the discount rates. • Evaluated the reasonableness of revenue forecast, gross margin and profit margin. • Tested the mathematical accuracy of the calculations. • Evaluated the Identification of the intangible assets acquired and assessed the reasonableness of their useful lives. • Assessed the adequacy of the disclosures in the financial statements.
Impairment of non-financial assets – NFG and Beeorganic BV ("BEE"), Cash Generating Unit ("CGU") The Company disclosures related to impairment are included in Notes 3 (g) and (h), 10 and 22. As at December 31, 2023, the carrying amount of goodwill with respect to the acquisition of NFG was \$898,828 and the carrying value of intangibles assets related to NFG was \$660,801 and the carrying value of intangible assets related to BEE was \$nil after recording an impairment of \$533,115. Each of NFG and BEE are considered to be separate cash-generating units ("CGU"). Goodwill is to be tested for impairment annually and whenever there is an indication of impairment. Intangibles are tested for	In obtaining sufficient audit evidence, we performed the following audit procedures, among others: • With the assistance of valuation specialists for the NFG CGU, ◦ Assessed the appropriateness of valuation methods and assumptions used. ◦ Tested the information underlying the determination of the discount rates. ◦ Performed sensitivity analysis. • Evaluated the reasonableness of revenue forecast, gross margin and profit margin used in the value-in-use

impairment whenever there is an indication of impairment. In performing the impairment assessment, the recoverable amounts of each CGU to which goodwill and intangible assets has been attributed is determined. The Company determined that the recoverable amount of the NFG CGU corresponded to its value-in-use. It was determined that the recoverable amounts of the NFG CGU was higher than its carrying amount, resulting in no impairment loss.

The Company determined that the recoverable amount of the BEE CGU corresponded to its value-in-use. It was determined that the recoverable amounts of the BEE CGU was lower than its carrying amount, causing the Company to recognize an impairment loss of \$533,115.

While there are several assumptions that go into determining the recoverable amounts, the judgments with the highest degree of subjectivity are revenue forecast, gross margin, profit margin and discount rate.

We considered this a key audit matter due to the significant management estimates and judgments required in determining the recoverable amount of the CGUs. Auditing these estimates of the CGU recoverable amounts required a high degree of subjectivity in applying audit procedures and in evaluating the results of those procedures. This resulted in an increased amount of audit effort, including the involvement of valuation specialists.

calculations considering each of the CGUs current and past performance.

- Tested the mathematical accuracy of the calculations.
- Assessed the adequacy of the disclosures in the financial statements.

Other Information

Management is responsible for the other information. The other information comprises the information included in Management's Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, and for such internal control as management

determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Otto Ehinger.

A handwritten signature in black ink, appearing to read "DMCL.", with a stylized, large 'D'.

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS
Vancouver, BC

October 8, 2024

Organto Foods Inc.

Consolidated Statements of Financial Position

(Expressed in Canadian Dollars)

	December 31, 2023 (\$)	December 31, 2022 (\$)
Assets		
Current assets		
Cash	186,295	5,769,979
Restricted cash	69,187	-
Receivables (note 5)	2,363,502	2,290,358
Inventories (note 6)	1,204,468	235,418
Prepaid expenses	104,915	69,555
Grower advances (notes 7, 22 and 23)	544,011	1,438,391
Derivative assets (note 8)	-	38,712
Investment securities (note 9)	8,750	92,541
	4,481,128	9,934,954
Non-current assets		
Operating lease right-of-use asset (note 14)	841,575	-
Long-term grower advances (note 7)	-	885,229
Intangible assets (note 10)	660,801	550,338
Goodwill (note 10)	898,828	-
Deposit (notes 14 and 23)	34,100	-
	6,916,432	11,370,521
Liabilities and shareholders' equity		
Current liabilities		
Accounts payable and accrued liabilities (notes 13, 15, 16 and 23)	8,477,036	4,165,629
Factored accounts receivable liability (note 5)	918,551	1,313,972
Government loans and grants (note 12)	60,000	141,503
Short-term loans payable (note 13)	463,105	-
Operating leases – current portion (note 14)	252,638	-
Derivative liabilities (note 8)	400,653	-
Convertible debentures (note 15)	10,167,674	1,446,804
	20,739,657	7,067,908
Non-current liabilities		
Government loans and grants (note 12)	-	160,360
Operating leases (note 14)	611,813	-
Convertible debentures (note 15)	482,890	7,232,538
Other liabilities (note 16)	345,841	-
Deferred income taxes (notes 10 and 28)	272,400	64,800
Total liabilities	22,452,601	14,525,606
Shareholders' equity (deficit)		
Share capital (note 17(a))	35,251,632	34,842,972
Reserves (note 17(f))	8,032,465	7,394,988
Deficit	(58,820,266)	(45,393,045)
Total shareholders' equity (deficit)	(15,536,169)	(3,155,085)
	6,916,432	11,370,521
Nature of operations and going concern (note 1)		
Commitments (note 26)		
Subsequent events (note 29)		

Approved on behalf of the Board of Directors on October 3, 2024

"Steve Bromley"

Director

"Joe Riz"

Director

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

Organto Foods Inc.**Consolidated Statements of Comprehensive Loss**

(Expressed in Canadian Dollars)

	Year ended December 31	
	2023	2022
	(\$)	(\$)
Sales (notes 23 and 25)	27,682,364	22,124,257
Cost of sales (notes 6, 18 and 23)	(25,220,244)	(20,859,590)
Gross profit	2,462,120	1,264,667
Selling, general and administration expenses (notes 19 and 23)	(3,365,044)	(2,867,069)
Management fees (note 23)	(912,307)	(1,004,409)
Labour costs and benefits (note 23)	(3,610,236)	(3,413,401)
Stock-based compensation (notes 17(c), 17(d) and 23)	(657,123)	(917,017)
	(6,082,590)	(6,937,229)
Interest expense and accretion, net (note 14 and 15)	(3,912,067)	(1,526,439)
Other income (loss) (note 20)	(134,905)	105,565
Realized loss on investment securities (note 9)	(818)	-
Unrealized loss on investment securities (note 9)	(80,875)	(959,074)
Realized gain (loss) on derivative assets and liabilities (note 8)	(232,366)	296,304
Unrealized gain (loss) on revaluation of derivative assets and liabilities (note 8)	(443,591)	25,314
Gain (loss) on settlement of debt (note 21)	22,855	(68,206)
Impairment (note 22)	(2,680,942)	(1,916,272)
Recovery of earnout liability (note 10)	-	198,274
Foreign exchange gain (loss)	53,278	(113,148)
Loss before tax	(13,492,021)	(10,894,911)
Recovery of deferred income taxes (note 28)	64,800	66,700
Net loss for the year	(13,427,221)	(10,828,211)
Other comprehensive income (loss) for the year:		
Foreign currency translation	(555)	(266,255)
Comprehensive loss for the year	(13,427,776)	(11,094,466)
Loss per share:		
Basic and diluted	(0.47)	(0.39)
Shares used in computing loss per share:		
Basic and diluted	28,568,382	28,158,913

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

Organto Foods Inc.Consolidated Statements of Cash Flows
(Expressed in Canadian Dollars)

	Year ended December 31	
	2023	2022
	(\$)	(\$)
Operating activities		
Net loss for the year	(13,427,221)	(10,828,211)
Add back:		
Items not involving cash (note 24)	8,087,486	5,072,757
	(5,339,735)	(5,755,454)
Changes in non-cash working capital (note 24)	1,522,907	919,836
Change in restricted cash	(69,187)	-
Long-term grower advances paid	-	(885,229)
Cash used in operating activities	(3,886,015)	(5,720,847)
Investing activities		
Software development costs	(19,552)	(118,355)
Interest received	20,178	75,006
Cash paid to purchase NFG New Fruit Group GmbH	(361,450)	-
Cash acquired on purchase of NFG New Fruit Group GmbH	40,345	-
Proceeds from sale of investment securities	2,099	-
Cash used in investing activities	(318,380)	(43,349)
Financing activities		
Proceeds from convertible debentures, net of issue costs	1,001,020	-
Proceeds from short-term loans	471,110	-
Proceeds from exercise of stock options	70,000	105,000
Proceeds from exercise of warrants	-	12,186
Repayments of convertible debentures	(1,448,000)	(41,000)
Repayments of bank loan	(680,508)	-
Security deposits paid	(38,096)	-
Principal portion of lease payments	(145,624)	-
Interest portion of lease payments	(56,685)	-
Interest paid	(558,978)	(388,227)
Cash from (used in) financing activities	(1,385,761)	(312,041)
Effect of foreign exchange on cash	6,472	(23,783)
Decrease in cash	(5,583,684)	(6,100,020)
Cash, beginning of year	5,769,979	11,869,999
Cash, end of year	186,295	5,769,979

Supplemental cash flow information (note 24)

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

Organto Foods Inc.

Consolidated Statements of Changes in Shareholders' Equity (Deficit)

For the Years Ended December 31, 2023 and 2022

(Expressed in Canadian Dollars)

	Number of shares	Share capital (\$)	Shares to be issued (cancelled) (\$)	Reserves (\$)	Deficit (\$)	Total (\$)
Balance at January 1, 2022	27,738,665	33,854,516	797,770	6,604,958	(34,564,834)	6,692,410
Shares issued:						
Settlement of shares owing for BeeOrganic BV	157,967	402,816	(402,816)	-	-	-
Settlement of shares owing for ZMS business	164,564	394,954	(394,954)	-	-	-
Exercise of stock options	150,000	178,500	-	(73,500)	-	105,000
Exercise of warrants	12,186	12,186	-	-	-	12,186
Convertible debenture offering:						
Conversion option	-	-	-	201,823	-	201,823
Warrants issued	-	-	-	11,610	-	11,610
Convertible debentures prepaid	-	-	-	(665)	-	(665)
Stock-based compensation	-	-	-	917,017	-	917,017
Comprehensive loss for the year	-	-	-	(266,255)	(10,828,211)	(11,094,466)
Balance at December 31, 2022	28,223,382	34,842,972	-	7,394,988	(45,393,045)	(3,155,085)
Shares issued:						
Exercise of stock options	100,000	119,000	-	(49,000)	-	70,000
Exercise of restricted share units	20,000	49,000	-	(49,000)	-	-
Purchase of NFG New Fruit Group GmbH	225,000	240,660	-	-	-	240,660
Convertible debenture offering:						
Conversion option	-	-	-	72,764	-	72,764
Warrants issued	-	-	-	6,145	-	6,145
Stock-based compensation	-	-	-	657,123	-	657,123
Comprehensive loss for the year	-	-	-	(555)	(13,427,221)	(13,427,776)
Balance at December 31, 2023	28,568,382	35,251,632	-	8,032,465	(58,820,266)	(15,536,169)

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

Organto Foods Inc.

Notes to the Consolidated Financial Statements For the Years Ended December 31, 2023 and 2022 (Expressed in Canadian Dollars)

1. Nature of operations and going concern

Organto Foods Inc. ("Organto" or "the Company") is engaged in the sourcing, processing, packaging, distribution and marketing of fresh organic and value-added vegetable and fruit products. The Company employs an asset-light business model to provide a year-round supply of a number of organic and specialty fruit and vegetable products sourced from a global supply base and currently marketed to customers primarily in a variety of European countries. The Company's common shares are listed for trading on the TSX Venture Exchange ("TSXV") under the stock symbol "OGO", on the OTCQB under the stock symbol "OGOFF" and on the Frankfurt Stock Exchange under the stock symbol "OGF". The Company's head office and principal address is located at 410 – 1111 Melville St., Vancouver, BC, V6E 3V6, Canada.

Economic sanctions implemented in 2022 by the European Union and other countries in response to the Russia/Ukraine conflict had an economic impact on the Company including lost sales, supply dislocation as product normally destined for Russian markets by international suppliers is diverted to alternate markets and increased supply chain costs driven by rising energy costs and freight availability. Sales to customers in Russia decreased from \$85,800 in 2022 to \$nil in 2023.

The Company continues to monitor the Israeli-Palestinian conflict. To date, while deliveries of products from suppliers in Israel have been impacted, the conflict has not materially affected the Company's sales.

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. For the year ended December 31, 2023 the Company incurred a loss of \$13,427,221 (2022 - \$10,828,211). The operations of the Company have historically been funded by the issuance of share capital, bank loans, short-term loans and convertible debentures. At December 31, 2023, the Company had working capital deficiency of \$16,258,529 (December 31, 2022 – working capital of \$2,867,046) and had an accumulated deficit of \$58,820,266 (December 31, 2022 - \$45,393,045). 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 indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. If the going concern assumption was not appropriate for these consolidated financial statements, adjustments would be necessary in the carrying values of assets, liabilities, reported income and expenses and the consolidated statement of financial position classifications used. Such adjustments could be material.

2. Basis of presentation

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). The impairment of grower advances on the consolidated statement of comprehensive loss in the prior year has been reclassified to conform to the current year's presentation.

These consolidated financial statements were approved by the Board of Directors and authorized for issue on October 3, 2024.

(b) Basis of measurement

These consolidated financial statements have been prepared using the historical cost basis, except for certain assets and liabilities measured at fair value as required by IFRS pronouncements. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

Organto Foods Inc.

Notes to the Consolidated Financial Statements For the Years Ended December 31, 2023 and 2022 (Expressed in Canadian Dollars)

(c) Basis of consolidation

These consolidated financial statements include the accounts of the Company and its subsidiaries as follows:

Entity	Location	Functional currency	Ownership interest	Status
Organto Europe B.V.	Netherlands	Euro	100%	Consolidated subsidiary
Fresh Organic Choice B.V.	Netherlands	Euro	100%	Consolidated subsidiary
BeeOrganic B.V.	Netherlands	Euro	100%	Consolidated subsidiary
NFG New Fruit Group GmbH	Germany	Euro	100%	Consolidated subsidiary
NFG Italia SRL	Italy	Euro	100%	Consolidated subsidiary
Organto de Mexico, S.A.	Mexico	Mexican peso	100%	Consolidated subsidiary
Organto Argentina S.A.	Argentina	Argentinian peso	100%	Consolidated subsidiary
Organto Guatemala, S.A.	Guatemala	Guatemalan quetzal	100%	Consolidated subsidiary

All inter-company transactions and balances are eliminated on consolidation.

Control exists where the parent entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Subsidiaries are included in the consolidated financial statements from the date control commences until the date control ceases.

(d) Use of estimates and judgments

Significant estimates and assumptions

The preparation of financial statements in accordance with IFRS 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 financial statements and the reported amounts of revenues and expenses during the reporting period. The Company's 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 the recoverability of goodwill and intangible assets, the fair value of the Company's investment in securities, estimates of useful lives of long-lived assets, the valuation of inventory, collectability of accounts receivable and grower advances, the valuation of the Company's convertible debentures and other financial liabilities, share-based payments, share-based compensation and the recoverability and measurement of deferred tax assets.

Significant judgments

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

3. Material accounting policies

(a) Revenue recognition

Sales are recognized when control of the products has transferred to the Company's customers, being when the products have been delivered to the customer or the customer's agent according to the incoterms, the customer has full discretion over the price to sell the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the

Organto Foods Inc.

Notes to the Consolidated Financial Statements

For the Years Ended December 31, 2023 and 2022

(Expressed in Canadian Dollars)

products. The risks of obsolescence and loss have been transferred to the Company's customer once the customer has accepted the products in accordance with the sales order, the acceptance provisions have lapsed, or the Company has objective evidence that all criteria for acceptance have been satisfied.

No element of financing is deemed present as the sales are made with credit terms standard for the market and industry.

A receivable is recognized when the goods have been accepted by the customer as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

(b) Cash and restricted cash

The Company considers all highly liquid investments with an original maturity of twelve months or less to be cash. Cash on deposit with the provider of the Company's hedging facility as collateral to maintain margin requirements is reported separately as restricted cash.

(c) Accounts receivable

Trade receivables are recognised initially at fair value and thereafter at amortized cost less any allowance for bad debts and expected credit losses. An allowance for doubtful trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables and which were not anticipated at the time of the sale. The amount of the allowance is the difference between the receivable's carrying amount and the estimated future cash flows. The amount of the allowance is recognised in the income statement as part of bad debt expense which is included in selling, general and administrative expenses.

Trade receivables that are factored by financial institutions with recourse to the Company are not derecognised as the risks and rewards of the receivables remain with the Company. The cash received from the financial institutions is considered a form of financing and is recorded in current liabilities and any fee incurred to effect factoring is recognized in the income statement as part of interest expense.

(d) Inventory

Inventory is valued at the lower of cost and net realizable value. Cost is calculated using the first-in, first-out method and includes freight, handling and processing costs. The Company's inventory is comprised of fruit and vegetables. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses.

(e) Investment securities

Investment securities are recorded at fair value and gains and losses are recognized in profit or loss. Realized gains and losses from the sale of investment securities are recorded as the difference between the proceeds received and their carrying value. Unrealized gains and losses from period-end revaluations are calculated using the period-end closing prices as traded on recognized stock exchanges when available, or estimated using a combination of the price of the most recent funding involving financing from external investors and the expected proceeds. The fair value of any investment securities subject to trading restrictions is discounted to reflect these trading restrictions.

(f) Derivative assets and liabilities

The Company uses forward foreign exchange contracts to hedge the variability in cash flows arising from changes in foreign exchange rates relating to foreign currency inventory purchases. Forward contracts are accounted for at their fair value through profit or loss. At each period-end, the position of the contract is marked to market, and all gains or losses are recognized in net income. When contracts are settled, they are derecognized by removing the corresponding derivative asset or liability from the consolidated statement of financial position. The offsetting balance settles to cash and any resulting gain/loss is recorded through profit or loss.

Organto Foods Inc.

Notes to the Consolidated Financial Statements For the Years Ended December 31, 2023 and 2022 (Expressed in Canadian Dollars)

(g) Intangible assets

Intangible assets identified in a business acquisition are initially recorded at fair value. Intangible assets are then measured net of accumulated amortization and any impairment losses. Trade names were amortized over 5 years on a straight line basis and customer and supplier relationships over 5 or 10 years on a straight line basis.

Intangible assets also included the cost of externally acquired and developed software used in the design and implementation of a new reporting software for the Company's European subsidiaries. Development and testing of this reporting software continued until the design and implementation plan was halted in late 2023 at which time all capitalized costs were impaired.

(h) Goodwill

Goodwill represents the excess of the consideration paid over the fair value of the net identifiable assets acquired. Goodwill is not amortized but tested for impairment annually.

An impairment loss is recognized in the consolidated statement of comprehensive loss whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

(i) Leases

The Company recognizes both right-of-use assets representing the right to use the underlying leased assets and lease liabilities representing the obligations to make lease payments. Right-of-use assets are recognized at the commencement of the lease when the underlying asset is available for use. Right-of-use assets are measured at cost, less any accumulated amortization. The cost of right-of-use assets consist of the amount of lease liabilities recognized and are amortized over the term of the lease. Lease liabilities are measured at the present value of the lease payments that are to be made over the term of the lease. The lease payments include fixed payments as well as variable lease payments that are adjusted for inflation from time to time. During the term of the lease, the carrying value of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made.

(j) Convertible debentures

Convertible debentures issued by the Company represent a compound financial instrument that includes the host debt component and the convertible component, with the proceeds received allocated between the two components at the date of issue. The Company then assesses whether the convertible component qualifies as equity or is considered a derivative liability. For debentures issued for cash, the debt liability component is initially at fair value with the residual amount being assigned as the equity component. For debentures issued to settle maturing debentures, both the debt liability and equity components are initially recognized at their fair value with any excess over face value recorded as a loss on extinguishment of debt in the current period. The debt liability component is subsequently accreted to the face value of the convertible debentures at the effective interest rate over the life of the convertible debentures.

(k) Foreign currency translation

Items included in the consolidated financial statements of each of the Company's subsidiaries are measured using the currency of the primary economic environment in which the subsidiary operates (the "functional currency"). These consolidated financial statements are presented in Canadian dollars. The functional currencies are as follows:

Entity	Functional currency
Organto Foods Inc.	Canadian dollar
Organto Europe B.V.	European euro
Fresh Organic Choice B.V.	European euro
BeeOrganic B.V.	European euro
NFG New Fruit Group GmbH	European euro
NFG Italia SRL	European euro

Organto Foods Inc.

Notes to the Consolidated Financial Statements For the Years Ended December 31, 2023 and 2022 (Expressed in Canadian Dollars)

Entity	Functional currency
Organto de Mexico, S.A.	Mexican peso
Organto Argentina S.A.	Argentinian peso
Organto Guatemala, S.A.	Guatemalan quetzal

The functional currency determinations were conducted through an analysis of the consideration factors identified in IAS 21, *The Effects of Changes in Foreign Exchange Rates*.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the period-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the original transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items or on settlement of monetary items are recognized in profit or loss in the consolidated statement of comprehensive loss in the period in which they arise.

Exchange differences arising on the translation of non-monetary items are recognized in other comprehensive income in the consolidated statement of comprehensive loss to the extent that gains and losses arising on those non-monetary items are also recognized in other comprehensive income. Where the non-monetary gain or loss is recognized in profit or loss, the exchange component is also recognized in profit or loss.

Foreign operations:

The financial results and position of foreign operations whose functional currency is different from the Company's presentation currency are translated as follows:

- assets and liabilities are translated at period-end exchange rates prevailing at that reporting date; and
- income and expenses are translated at average exchange rates for the period.

Exchange differences arising on translation of foreign operations are recognized in other comprehensive income and recorded in the Company's foreign currency translation reserve in equity. These differences are recognized in the profit or loss in the period in which the operation is disposed.

(I) Impairment of long-lived assets

At each reporting date, the Company reviews the carrying amounts of its long-lived assets to determine whether there are any indications of impairment. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of cash inflows of other assets or groups of assets (the "cash-generating unit" or "CGU").

If the carrying amount of an asset or CGU exceeds its recoverable amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognized as an expense in the consolidated statement of comprehensive loss.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reduced if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of amortization, if no impairment loss had been recognized.

Organto Foods Inc.

Notes to the Consolidated Financial Statements For the Years Ended December 31, 2023 and 2022 (Expressed in Canadian Dollars)

(m) Financial instruments

Classification

The Company classifies its financial instruments at fair value through profit and loss ("FVTPL"), fair value through other comprehensive income (loss) ("FVTOCI") or at amortized cost. The Company determines the classification of financial assets at initial recognition. The classification of debt instruments is driven by the Company's business model for managing the financial assets and their contractual cash flow characteristics. Equity instruments that are held for trading are classified as FVTPL. For other equity instruments, on the day of acquisition the Company can make an irrevocable election to designate them as FVTOCI. Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL or if the Company has opted to measure them at FVTPL.

The following table shows the classification of the Company's financial instruments:

Financial assets/liabilities	IFRS 9 Classification
Cash and restricted cash	FVTPL
Receivables	Amortized cost
Grower advances	Amortized cost
Derivative assets and liabilities	FVTPL
Investment securities	FVTPL
Accounts payable	Amortized cost
Factored accounts receivable liability	Amortized cost
Government loans and grants	Amortized cost
Short-term loans payable	Amortized cost
Convertible debentures	Amortized cost

Measurement

Financial assets and liabilities at amortized cost

Financial assets and liabilities at amortized cost are initially recognized at fair value plus or minus transaction costs and subsequently carried at amortized cost less any impairment.

Financial assets and liabilities at FVTPL

Financial assets and liabilities carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the consolidated statements of comprehensive loss. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are included in net earnings in the period in which they arise. Where management has opted to recognize a financial liability at FVTPL, any changes associated with the Company's own credit risk will be recognized in other comprehensive loss.

Impairment of financial assets at amortized cost

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to the twelve month expected credit losses. The Company shall recognize in the consolidated statements of comprehensive loss, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

Organto Foods Inc.

Notes to the Consolidated Financial Statements For the Years Ended December 31, 2023 and 2022 (Expressed in Canadian Dollars)

Derecognition

Financial assets

The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all of the associated risks and rewards of ownership to another entity. Gains and losses on derecognition are generally recognized in the consolidated statements of comprehensive loss.

Financial liabilities

The Company derecognizes financial liabilities only when its obligations under the financial liabilities are discharged, cancelled or expired. Generally, the difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in the consolidated statements of comprehensive loss.

(n) Finance income and expenses

Finance income comprises interest income from cash accounts and is recognized in profit or loss on an accrual basis.

Interest expense comprises interest expense on borrowings. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit or loss using the effective interest method. Interest expense is shown net of interest income received.

(o) Income taxes

Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity. Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred income taxes are accounted for using the liability method of tax allocation. Under this method deferred income tax assets and liabilities are recognized for the tax consequences of temporary differences by applying substantively enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities.

The effect on deferred taxes for a change in tax rates is generally recognized in income in the period that includes the substantive enactment.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a deferred tax asset will be recovered, the deferred tax asset is reduced.

Deferred income tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis. Current and deferred tax relating to items recognized directly in equity is recognized in equity and not in the consolidated statement of comprehensive loss.

(p) Loss per share

Loss per share is calculated using the weighted average number of common shares outstanding during the period. The calculation of diluted loss per share assumes that outstanding options and warrants that are in the money are exercised and the proceeds are used to repurchase shares of the Company at the average market price of the shares for the period. The effect is to increase the number of shares used to calculate diluted earnings per share and is only recognized when the effect is dilutive.

Organto Foods Inc.

Notes to the Consolidated Financial Statements For the Years Ended December 31, 2023 and 2022 (Expressed in Canadian Dollars)

(q) Share-based payments

The Company grants share-based awards, including share options and restricted share units, as an element of compensation to directors, officers, employees and service providers.

The Company uses the Black-Scholes Option Pricing Model to measure the fair value for all share options and restricted share units granted, modified or settled during the period. Compensation expense is recorded based on the fair value of the award at the grant date, amortized over the vesting period. Each reporting date prior to vesting, the cumulative expense representing the extent to which the vesting period has expired and management's best estimate of the awards that are ultimately expected to vest is computed. No expense is recognized for awards that do not ultimately vest. When options are exercised, the proceeds received, together with any related amount in share-based payments reserve, are credited to share capital.

4. New accounting standards

The Company did not adopt any new accounting standard changes or amendments in the current year and no future accounting standards not yet adopted will have a material impact on the Company's consolidated financial statements.

5. Receivables

	December 31, 2023 (\$)	December 31, 2022 (\$)
Trade accounts receivables	1,920,378	2,129,924
VAT recoverable	219,984	153,096
Other	223,140	7,339
	2,363,502	2,290,358

Three of the Company's European subsidiaries have established accounts receivable factoring facilities with European financial institutions for up to a total of €2.75 million and the Company was required to guarantee the European subsidiaries' obligations under these facilities. Trade accounts receivable at December 31, 2023 included \$918,551 of factored accounts (\$1,313,972 at December 31, 2022) with corresponding amounts included in factored accounts receivable liability. Under the factoring facilities, the Company is required to maintain credit insurance for those customers whose accounts are factored and has pledged any and all proceeds received under this insurance to the European financial institutions. Factored accounts receivable incur interest either at EURIBOR plus 2.25% or at the factoring company's base rate plus 1% which is 6.75% at December 31, 2023. The Company retains the credit risk associated with the factored receivables.

In 2021 and 2022, one of the Company's European subsidiaries filed VAT returns incorrectly and, as a result, the tax authorities assessed the Company €1,047,666 for unremitted VAT. The subsidiary has filed updated returns correcting these errors and has received confirmation that €585,073 of the claim has been corrected with the remaining balance expected to be corrected in the same manner by the tax authority. Until rectified, the tax authorities continue to believe their claim for unpaid taxes of €462,593 from the subsidiary is valid. The Company believes the outcome will be satisfactorily resolved with no amounts owing related to the error in the VAT returns and accordingly no amount has been recorded as a liability with respect to this matter.

Organto Foods Inc.

Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2023 and 2022
(Expressed in Canadian Dollars)

6. Inventories

	Fruit and vegetables (\$)
Balance, January 1, 2022	316,324
Purchases	17,210,843
Expensed as cost of sales (note 18)	(17,291,749)
Balance, December 31, 2022	235,418
Purchases	23,677,052
Inventory acquired on purchase of NFG New Fruit Group (note 10)	389,931
Expensed as cost of sales (note 18)	(23,097,933)
Balance, December 31, 2023	1,204,468

7. Grower advances

Periodic advances are made to third-party growers for shipments of product prior to shipping and for various farming needs and are secured with crop harvests, property or other collateral owned by the growers. Grower advances are recorded at the gross amount of the advance amount less any allowances for potentially unrecoverable balances and if advances are to be recovered after one year they are discounted at a market interest rate and are classified based on their expected repayment dates with any advances not expected to be repaid within the next twelve months reported as long-term. Grower advances are reviewed on a regular basis to determine their recoverability and in the event that the timing of the recoverability of the advance can not be accurately determined, an impairment charge is recognized and expensed in the consolidated statement of comprehensive loss.

	December 31, 2023 (\$)	December 31, 2022 (\$)
Advances expected to be recovered within the next twelve months	544,011	1,438,391
Advances with an expected recovery date later than twelve months	-	885,229
	544,011	2,323,620

At December 31, 2023, short-term grower advances consists of \$544,011 (2022 – \$516,554) receivable from a related party (note 23). The related party provided convertible debentures and common shares as collateral against the advances receivable as at December 31, 2023.

During the year ended December 31, 2023, the Company impaired \$2,147,827 (2022 - \$634,568) of grower advances (note 22).

8. Derivative assets and liabilities

Two of the Company's European subsidiaries have established hedging facilities with European financial services companies in order to hedge their exposure to fluctuations in the US dollar vs Euro exchange rate. The facilities are all for forward currency exchange contracts up to a total maximum of US\$15.8 million. The Company has guaranteed the European subsidiaries' obligations under these facilities.

If exercised at December 31, 2023 the net forward currency exchange contracts would have required the Company to purchase US dollars for more than by acquiring them on the spot market, and a derivative liability was recognized. The carrying value of the derivative liabilities of \$400,653 represents the difference between the cost to acquire US dollars on the spot market and through the forward currency exchange contracts. The loss on the valuation of these derivative assets at December 31, 2023 has been recorded as an unrealized loss of \$443,591 and is included in the consolidated statement of comprehensive loss. At

Organto Foods Inc.

Notes to the Consolidated Financial Statements For the Years Ended December 31, 2023 and 2022 (Expressed in Canadian Dollars)

December 31, 2022 the difference between spot and contracted rates resulted in a derivative asset of \$38,712 and the Company recorded an unrealized gain of \$25,314.

During the year ended December 31, 2023, the Company's European subsidiaries purchased US dollars utilizing their forward currency exchange facilities. The difference between the cost to acquire the US dollars through the forward currency exchange contracts and the spot market at the time of purchase has been recorded as a realized loss on derivative assets of \$232,366 (2022 – gain of \$296,304) and is included in the consolidated statement of comprehensive loss.

9. Investment securities

At December 31, 2023, the market value of the 583,355 Xebra Brands Inc. shares held by the Company was \$8,750. At December 31, 2022, their carrying value was recorded as \$92,541 which represented a discount to their market value of \$98,438 to reflect certain trading restrictions. During 2023, the Company sold 72,901 of these shares and realized a loss of \$818. Each period end the Company revalues their carrying value to reflect their market value and in 2023 recognized an unrealized revaluation loss of \$80,875 (2022 – \$959,074). Subsequent to December 31, 2023 the Company sold 583,355 shares and realized a gain of \$8,819.

10. Intangible assets

Intangible assets include the trade name and customer and supplier relationships acquired when the Company purchased 100% of the outstanding shares of NFG New Fruit Group GmbH ("New Fruit Group") in 2023 and both Fresh Organic Choice BV ("Fresh Organic Choice") and BeeOrganic B.V. ("BeeOrganic"), as well as the operating business of Zimbabwe Marketing Services BV ("ZMS") in 2021. The amortization of trade names and customer and supplier relationships is included in selling, general and administrative expenses on the consolidated statement of comprehensive loss.

Intangible assets also include the cost of externally acquired and developed software used in the design and implementation of new reporting software for the Company's European subsidiaries. Due to difficulties experienced while developing this reporting software, development and implementation plans were cancelled in 2023 and the previously capitalized development costs were impaired.

	Intangible assets				
	Trade names (\$)	Customer and supplier lists (\$)	Software (\$)	Total (\$)	Goodwill (\$)
Cost					
Balance, January 1, 2022	66,070	1,068,231	-	1,134,301	757,439
Additions	-	-	118,355	118,355	-
Impairment	(40,193)	(488,492)	-	(528,685)	(753,019)
Foreign exchange	-	(5,962)	-	(5,962)	(4,420)
At December 31, 2022	25,877	573,777	118,355	718,009	-
Accumulated amortization					
Balance, January 1, 2022	(12,663)	(34,864)	-	(47,527)	-
Amortization	(13,214)	(105,665)	-	(118,879)	-
Foreign exchange	-	(1,265)	-	(1,265)	-
At December 31, 2022	(25,877)	(141,794)	-	(167,671)	-
Net carrying value at December 31, 2022	-	431,983	118,355	550,338	-

Organto Foods Inc.

Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2023 and 2022
(Expressed in Canadian Dollars)

	Intangible assets				Goodwill (\$)
	Trade names (\$)	Customer and supplier lists (\$)	Software (\$)	Total (\$)	
Cost					
Balance, January 1, 2023	25,877	573,777	118,355	718,009	-
Additions	-	826,001	19,552	845,553	898,828
Impairment	-	(376,901)	(156,214)	(533,115)	-
Foreign exchange	-	-	18,307	18,307	-
At December 31, 2023	25,877	1,022,877	-	1,048,754	898,828
Accumulated amortization					
Balance, January 1, 2023	(25,877)	(141,794)	-	(167,671)	-
Amortization	-	(220,282)	-	(220,282)	-
At December 31, 2023	(25,877)	(362,076)	-	(387,953)	-
Net carrying value at December 31, 2023	-	660,801	-	660,801	898,828

In January 2023, the Company purchased 100% of the outstanding shares of New Fruit Group, a privately held German corporation and a provider of organic fruits sold throughout Europe. Purchase consideration was made up of the payment of €250,000 in cash, the issuance of 225,000 common shares of Organto, a promissory note payable of €146,446 and an earn-out to the former owners of up to €650,000 based on pre-established growth targets to be attained over the next three years (note 16). The promissory note bears interest at 2% and is payable in 2025 and 2026. The promissory note was discounted at 12.9% based on expected payment dates and recorded at its discounted value of \$151,769. The common shares were issued in May 2023 and are subject to escrow provisions and will become freely tradable in equal amounts over the next five years. The common shares were recorded at a discount to their market value to reflect the trading restrictions.

The allocation of the purchase price was as follows:

	(\$)
Cash paid	361,450
Shares issued (225,000 common shares)	240,660
Promissory note	151,769
Fair value of earn-out payments	148,502
Total consideration	902,381
Preliminary allocation of net assets acquired:	
Cash	40,345
Accounts receivable	404,338
VAT receivable	14,461
Inventories (note 6)	389,931
Intangible assets	826,001
Goodwill	898,828
Accounts payable and accrued liabilities	(710,048)
Bank loan (note 11)	(689,075)
Deferred income tax liability	(272,400)
	902,381

Organto Foods Inc.

Notes to the Consolidated Financial Statements

For the Years Ended December 31, 2023 and 2022

(Expressed in Canadian Dollars)

The acquisition method of accounting was used to account for the acquisition of New Fruit Group. Under this method, the cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date and the excess of the cost of acquisition over the fair value of identifiable net assets acquired is recorded as goodwill.

Among the factors contributing to the purchase price resulting in the recognition of goodwill in the acquisition of New Fruit Group are: the acquisition of sales and product procurement talent; the addition of a new class of products available for sale; and the potential to market these new products under the Company's I AM Organic brand.

The results of operations of New Fruit Group are included in the consolidated financial statements of the Company from January 2, 2023, that date being the date on which the Company's control of New Fruit Group commenced, to December 31, 2023 and include sales of \$14,000,213 and net income of \$226,407. The fair value of the expected earn-out payments was calculated using the present value of the anticipated future payments, discounted at 28.3% and is recorded in accounts payable and other long-term liabilities. The carrying value of the earn-out payments will be accreted over the next three years or until fully paid. The fair value of the unpaid earn-out payments is reassessed each period end with any changes reported in other income or loss in the consolidated statement of comprehensive loss. The reassessment done at December 31, 2023 resulted in an increase in the fair value of the unpaid earn-out payments and a loss of \$46,021 (note 20).

Legal and consulting costs related to the acquisition of \$42,187 (\$115,251 in the fourth quarter of 2022) have been charged to professional fees in selling, general and administrative expenses (note 19) in the consolidated statement of comprehensive loss.

The intangible assets acquired in the New Fruit Group acquisition are not deductible for income tax purposes and deferred income taxes of \$272,400 have been recognized and added to the goodwill carrying value.

An impairment test of each of the Fresh Organic Choice, BeeOrganic, ZMS and New Fruit Group cash-generating ("CGU"s) was carried out at December 31, 2023 and 2022. The Company estimated the recoverable amounts based on value-in-use of each CGU. The Company recognized impairment losses as follows:

	Year ended December 31	
	2023	2022
	(\$)	(\$)
Fresh Organic Choice:		
Trade name	-	40,193
Customer list	-	207,581
Goodwill	-	176,713
BeeOrganic		
Customer list	376,901	70,984
Goodwill	-	423,445
ZMS		
Customer and supplier lists	-	209,927
Goodwill	-	152,861
Software	156,214	-
Impairment of goodwill and intangible assets	533,115	1,281,704
Represented by:		
Impairment of intangibles	533,115	528,685
Impairment of goodwill	-	753,019
Impairment of goodwill and intangible assets (note 22)	533,115	1,281,704

Organto Foods Inc.

Notes to the Consolidated Financial Statements For the Years Ended December 31, 2023 and 2022 (Expressed in Canadian Dollars)

11. Bank loan

The Company assumed a bank loan with an Italian bank when it acquired New Fruit Group. The loan was a line of credit with a maximum of €500,000 and bore interest at 3.3% per annum. In May 2023, the bank loan and accrued interest was repaid by making a cash payment of €456,919.

12. Government loans and grants

Canada

The Company received proceeds of \$40,000 in September 2020 and an additional \$20,000 in December 2020 under the Canada Emergency Business Account ("CEBA") program. The loan was a 0% interest bearing loan with no principal payments required. The loan could be repaid at any time and \$20,000 of the loan would be forgiven if repaid in full before December 31, 2023. The Company did not repay the loan and the loan began bearing interest at 5% per annum beginning January 19, 2024 and has a maturity date of December 31, 2026.

Netherlands

In response to the COVID-19 global pandemic, the Netherlands government implemented a tax payment extension for certain taxes beginning in March 2020. Payment of amounts deferred under this program are to begin in October 2022 and continue through October 2027. As long as payments are made, no interest is charged but missed or late payments are charged interest at rates between 1% and 4% depending on the payment's due date. Earlier payments are allowed.

Amounts payable under this program consist of payroll withholding taxes. Amounts with payment due dates after December 31, 2023 are recognized at fair value and the difference between their fair value and their original amount was recognized as a government grant and that government grant is reported in other loss in 2022 (note 20). Amounts with payment due dates prior to or on December 31, 2023 are recognized at their face value and recorded in accounts payable and accrued liabilities. In 2023 the Company was advised that it no longer qualifies for the deferred payment program and all amounts became immediately payable. Amounts previously recorded as a government grant were accreted to their face value and are recorded in accounts payable and accrued liabilities.

	December 31, 2023 (\$)	December 31, 2022 (\$)
Current:		
Canada CEBA loan	60,000	60,000
Taxes payable under the Netherlands tax payment extension program	-	81,503
	60,000	141,503
Long-term:		
Taxes payable under the Netherlands tax payment extension program	-	160,360
Total government loans and grants	60,000	301,863

13. Short-term loans

During the year ended December 31, 2023 the Company received US\$325,000 from a director and \$33,000 from an officer of the Company in interest-bearing loans. These loans are unsecured and bear interest at 12% per annum and have a term of one year, at which time principal and interest become payable. Accrued interest on these loans is included in accounts payable and accrued liabilities.

Organto Foods Inc.

Notes to the Consolidated Financial Statements For the Years Ended December 31, 2023 and 2022 (Expressed in Canadian Dollars)

14. Leases

The Company began leasing warehouse facilities in January 2023 and office facilities in October 2023. The warehouse lease has a term of two years at a monthly cost of €8,820 and the office lease has a term of five years at a monthly cost of €10,800 with annual inflation increases beginning after one year. The office lease is with a related party (note 23). At the commencement of each lease, the Company recognized a right-of-use asset and a lease liability.

The right-of-use assets are measured at cost and are amortized on a straight-line basis over their lease term. The lease liabilities are valued at their discounted net present value of the lease payments unpaid at that date using incremental borrowing rates of 16.5% and 12%. Over the term of the leases, the liabilities will be increased for interest and reduced for payments made.

A summary of the right-of-use assets is as follows:

	(\$)
Balance at December 31, 2022	-
New leases entered into	993,805
Lease amortization expense	(168,431)
Foreign exchange	16,201
Balance at December 31, 2023	841,575

A summary of the lease liability is as follows:

	(\$)
Balance at December 31, 2022	-
New leases entered into	993,805
Principal portion of lease payments	(145,624)
Foreign exchange	16,270
Balance at December 31, 2023	864,451
Lease payments due within the next twelve months	252,638
Lease payments due later than twelve months (note 16)	611,813
	864,451

Under the terms of the office lease, the Company paid a security deposit of €23,300.

15. Convertible debentures

December 2022 series

In December 2020 the Company completed a private placement of convertible debentures with a total face value of \$3,356,850. The debentures were unsecured and had a term of two years and bore interest at 8% annually, payable in arrears beginning one year after their date of issuance.

The debentures were convertible into shares of the Company at \$3 per share and interest was not convertible. The holder could convert all or part of the debentures at any time and the Company could prepay all or part of the debentures at any time. The

Organto Foods Inc.

Notes to the Consolidated Financial Statements For the Years Ended December 31, 2023 and 2022 (Expressed in Canadian Dollars)

Company had the right to force conversion of the debentures any time after April 29, 2021 if the closing price of the Company's shares exceeded \$4.50 or more for ten consecutive trading days.

Debentures with a face value of \$522,000 were converted in 2021 resulting in the issuance of 173,400 common shares and debentures with a face value of \$41,000 were prepaid in 2022.

On their maturity date of December 29, 2022, \$1,655,850 were repaid by issuing new convertible debentures ("December 2024 series A" below). The remaining \$1,138,000 of debentures were repaid in cash in January 2023.

January 2023 series

In January 2021 the Company completed a private placement of convertible debentures with a total face value of \$310,000. The debentures were unsecured and had a term of two years and bore interest at 8% annually, payable in arrears beginning one year after their date of issuance.

The debentures were convertible into shares of Organto at \$3.00 per share and interest was not convertible. The holder could convert all or part of the debentures at any time and the Company could prepay all or part of the debentures at any time. The Company had the right to force conversion of the debentures any time after May 5, 2021 if the closing price of the Company's shares exceeded \$4.50 or more for ten consecutive trading days.

These debentures were repaid in cash in January 2023.

December 2024 series A

In December 2022 the Company issued convertible debentures with a total face value of \$1,655,850. The December 2024 debentures are unsecured and have a term of two years and bear interest at 10% annually, payable in arrears beginning one year after their date of issuance.

The debentures are convertible into shares of Organto at \$3.00 per share and interest is not convertible. The holder may convert all or part of the debentures at any time. If, at any time after April 29, 2023, the closing price of the Company's shares exceeds \$4.50 or more for ten consecutive trading days, the Company has the right to force conversion of the debentures.

The issuance of this series of debentures was considered an extinguishment of the December 2022 series of debentures. As such, the fair value of both the debt component and the equity component of the debentures was calculated and the excess over face value, together with transaction costs of \$66,894 was recorded as a loss on extinguishment of the December 2022 debentures of \$96,467. See note 21.

The Company initially recorded \$1,483,600 as the fair value of the debt component of the debentures, and \$201,823 as the fair value of the equity component of the debentures. The debt component of the debentures was being accreted to the face value of the loan over the two-year term.

The Company did not pay the interest due in December 2023 and has entered discussions with the holders of these debentures to partially convert the debentures into common shares and restructure the maturity and future interest payment dates (note 29). As a result, this series of debentures is classified as short-term and have been accreted to their face value with the increase reported in interest expense and accretion.

December 2024 series B

In March 2023 the Company completed an offering of convertible debentures with a total face value of \$500,000. The debentures are unsecured and have a term expiring on December 29, 2024, the same expiry date as the December 2024 series A of debentures. The series B debentures bear interest at 10% annually, payable in arrears beginning one year after their date of issuance.

Organto Foods Inc.

Notes to the Consolidated Financial Statements For the Years Ended December 31, 2023 and 2022 (Expressed in Canadian Dollars)

The debentures are convertible into shares of Organto at \$3.00 per share and interest is not convertible. The holder may convert all or part of the debentures at any time. If, at any time after July 29, 2023, the closing price of the Company's shares exceeds \$4.50 or more for ten consecutive trading days, the Company has the right to force conversion of the debentures.

The Company initially recorded \$465,000 as the fair value of the debt component of the debentures, with the residual amount of \$35,000 allocated to the equity component of the debentures. The debt component of the debentures was being accreted to the face value of the loan over the twenty-one month term. A total of \$30,000 in transaction costs was allocated to the liability and the equity components of the debentures.

With a maturity date of December 29, 2024, this series of debentures is classified as short-term.

February 2025 series

In February 2023 the Company completed an offering of convertible debentures with a total face value of \$295,000. The debentures are unsecured and have a term of two years and bear interest at 10% annually, payable in arrears beginning one year after their date of issuance.

The debentures are convertible into shares of Organto at \$3.00 per share and interest is not convertible. The holder may convert all or part of the debentures at any time. If, at any time after June 28, 2023, the closing price of the Company's shares exceeds \$4.50 or more for ten consecutive trading days, the Company has the right to force conversion of the debentures.

The Company recorded \$271,105 as the fair value of the debt component of the debentures, with the residual amount of \$23,895 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 two-year term.

Transaction costs totaled \$21,417 and included \$17,700 in cash and 5,900 warrants with each warrant entitling the holder to purchase one common share at a price of \$3.00 for a period of two years. These finder warrants have a total fair value of \$3,717 determined using the Black-Scholes Option Pricing Model (note 17(e)). These transaction costs were allocated to the liability and the equity components of the debentures.

With a maturity date of February 28, 2025, this series of debentures is classified as long-term.

March 2025 series

In March 2023 the Company completed an offering of convertible debentures with a total face value of \$238,000. The debentures are unsecured and have a term of two years and bear interest at 10% annually, payable in arrears beginning one year after their date of issuance.

The debentures are convertible into shares of Organto at \$3.00 per share and interest is not convertible. The holder may convert all or part of the debentures at any time. If, at any time after July 28, 2023, the closing price of the Company's shares exceeds \$4.50 or more for ten consecutive trading days, the Company has the right to force conversion of the debentures.

The Company recorded \$218,960 as the fair value of the debt component of the debentures, with the residual amount of \$19,040 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 two-year term.

Transaction costs totaled \$16,708 and included \$14,280 in cash and 4,760 warrants with each warrant entitling the holder to purchase one common share at a price of \$3.00 for a period of two years. These finder warrants have a total fair value of \$2,428 determined using the Black-Scholes Option Pricing Model (note 17(e)). These transaction costs were allocated to the liability and the equity components of the debentures.

With a maturity date of March 28, 2025, this series of debentures is classified as long-term.

Organto Foods Inc.

Notes to the Consolidated Financial Statements For the Years Ended December 31, 2023 and 2022 (Expressed in Canadian Dollars)

November 2026 series

In November 2021 the Company completed an offering of convertible debentures with a total face value of \$8,050,000. The debentures are unsecured and have a term of five years and bear interest at 8% annually, payable in arrears beginning one year after their date of issuance.

The debentures are convertible into shares of Organto at \$5.00 per share and interest is not convertible. The holder may convert all or part of the debentures at any time after November 30, 2023. If, at any time after November 30, 2023, the 20-day volume weighted average trading price of the Company's shares on the TSXV exceeds \$6.25, the Company has the right to force conversion of the debentures. The Company may repay all or a portion of the convertible debentures by issuing common shares worth \$1,053 based on their current market price for each \$1,000 face value of convertible debentures. The Company may also pay all or a portion of the interest payable by issuing common shares to the debenture trustee who shall sell the common shares and use the proceeds to pay the interest due to debenture holders.

The Company initially recorded \$6,278,676 as the fair value of the debt component of the debentures, with the residual amount of \$1,771,324 allocated to the equity component of the debentures. The debt component of the debentures was being accreted to the face value of the loan over the five-year term.

Transaction costs of \$956,627 were paid in cash including \$126,084 in finder's fees. Finder's fees totaled \$483,000 and included 96,600 warrants with each warrant entitling the holder to purchase one common share at a price of \$5.00 for a period of two years. A total of \$1,215,515 in transaction costs was allocated to the liability and the equity components of the debentures.

The Company did not pay the interest due in November 2023 and has entered discussions with the holders of these debentures to partially convert the debentures into common shares and restructure the maturity and future interest payment dates (note 29). As a result, this series of debentures is classified as short-term and have been accreted to their face value with the increase reported in interest expense and accretion.

A summary of the convertible debentures is as follows:

	(\$)
Balance at December 31, 2021	8,382,397
Accretion	509,531
Prepaid in cash	(40,336)
Repaid with new debentures	(1,655,850)
Issued to settle maturing debentures	1,685,423
Allocated to equity component	(201,823)
Balance at December 31, 2022	8,679,342
Issued for cash	1,033,000
Allocated to equity component	(77,935)
Transaction costs allocated to debt component	(62,953)
Accretion	2,527,110
Repaid in cash	(1,448,000)
Balance at December 31, 2023	10,650,564

Organto Foods Inc.

Notes to the Consolidated Financial Statements For the Years Ended December 31, 2023 and 2022 (Expressed in Canadian Dollars)

	December 31, 2023 (\$)	December 31, 2022 (\$)
Convertible debentures by maturity:		
Debentures subject to restructuring	10,167,674	1,446,804
Maturing in more than one year	482,890	7,232,538
	10,650,564	8,679,342

Accrued interest on all outstanding debentures totals \$949,219 and is recorded in accounts payable and accrued liabilities at December 31, 2023 (December 31, 2022 - \$322,867).

16. Other liabilities

Other liabilities is comprised of:

	December 31, 2023 (\$)	December 31, 2022 (\$)
Earnouts payable – long-term portion (note 10)	178,389	-
Promissory note – long-term portion (note 10)	167,452	-
	345,841	-

As part of the consideration paid for the acquisition of New Fruit Group, the Company entered into an agreement with the former managers who continue to manage New Fruit Group whereby if certain growth targets are achieved in the three years after acquisition, up to €650,000 could be payable. The fair value of the earnout liability was calculated by discounting the expected future payments and will be accreted to their face value over their term or until fully paid. The portion of the earnout expected to be paid within one year is \$26,300 and is recorded in accounts payable and accrued liabilities. The balance of the earnout expected to be paid is recorded as a long-term liability. The long-term portions of the earnout liability will be accreted to the amounts expected to be paid over the next three years.

Part of the consideration paid to acquire New Fruit Group was the issuance of a promissory note by the Company to the former shareholders of New Fruit Group. The promissory note bears interest at 2% and is for €146,447 with payments due in 2025 and 2026. The fair value of the promissory note was calculated by discounting the future payments at 28.3% per annum and will be accreted to its face value over its three-year term.

17. Share capital

On September 29, 2023 the Company consolidated its shares on a one for ten basis. All references to the number of shares, share options and warrants herein have been restated to show their consolidated amounts.

(a) Common shares

The Company is authorized to issue an unlimited number of common shares without par value. At December 31, 2023 the Company had 28,568,382 common shares issued and outstanding. At December 31, 2022 the Company had 28,223,382 common shares issued and outstanding.

In May 2023 the Company issued 225,000 common shares as part of the consideration paid to acquire 100% of New Fruit Group (note 10). These common shares are subject to escrow provisions and will become freely tradable in equal amounts over the next four years.

Organto Foods Inc.

Notes to the Consolidated Financial Statements For the Years Ended December 31, 2023 and 2022 (Expressed in Canadian Dollars)

In February the Company issued 100,000 common shares on the exercise of stock options.

In July 2023 the Company issued 20,000 common shares on the exercise of restricted share units.

(b) Shares to be issued

In November 2021 the Company agreed to issue 157,967 common shares as part of the consideration paid to acquire 100% of BeeOrganic. These common shares are subject to escrow provisions and will become freely tradable in equal amounts over the next three years. These shares were issued in March 2022.

In November 2021 the Company agreed to issue 164,564 common shares as full consideration paid to acquire the operating assets of ZMS. These common shares are subject to escrow provisions and will become freely tradable in equal amounts over the next three years. These shares were issued in February 2022.

(c) 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 stock options already reserved for issuance under the 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.

165,000 options were granted in 2023 of which 33,000 vested immediately and 33,000 will vest in each of 2024, 2025, 2026 and 2027. The fair value of the options granted in 2023 was \$99,845 (2022 - \$170,220).

The Company recorded a stock-based compensation expense relating to options that vested in 2023 of \$430,282 (2022 - \$718,642).

The Company recognizes stock-based compensation over the vesting period of the underlying options using the Black-Scholes Option Pricing Model 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 2023 was calculated using the Black-Scholes Option Pricing Model with the following inputs: expected price volatilities of 104-110%, risk free interest rates of 2.88-4.04%, expected lives of 5 years and no dividend yield.

Organto Foods Inc.

Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2023 and 2022
(Expressed in Canadian Dollars)

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

	Total options		Exercisable options	
	Total options	Weighted average exercise price (\$)	Exercisable options	Weighted average exercise price (\$)
Balance, January 1, 2022	2,187,000	1.93	1,315,575	1.46
Granted	153,500	2.23	37,200	2.21
Vested	-	-	370,100	2.24
Exercised	(150,000)	0.70	(150,000)	0.70
Expired	(197,000)	2.12	(165,375)	1.92
Balance at December 31, 2022	1,993,500	2.03	1,407,500	1.71
Granted	165,000	1.12	33,000	1.17
Vested	-	-	246,100	2.60
Exercised	(100,000)	0.70	(100,000)	0.70
Forfeited	(35,300)	2.12	-	-
Expired	(336,200)	1.43	336,200	1.43
Balance at December 31, 2023	1,687,000	2.15	1,250,400	2.03

The average share price during 2023 on the dates when options were exercised was \$1.15 (2022 – \$1.26).

A summary of the Company's share options outstanding and exercisable at December 31, 2023 is as follows:

Exercise price (\$)	Average years to expiry	Number of options outstanding	Number of options exercisable
0.50	4.48	27,000	7,000
0.70	0.98	300,000	292,000
0.80	0.42	6,000	6,000
1.00	1.64	272,000	244,400
1.35	4.42	100,000	20,000
1.80	1.93	30,000	30,000
1.90	4.23	30,000	6,000
2.10	3.98	130,000	97,500
2.65	1.94	162,500	136,000
2.85	2.06	70,000	54,000
3.00	2.93	169,500	102,500
3.50	3.08	15,000	6,000
3.70	2.90	330,000	210,000
4.20	2.16	30,000	30,000
4.30	2.64	15,000	9,000
	2.41	1,687,000	1,250,400

(d) Restricted share units

The Company has adopted a restricted share unit ("RSU") plan to issue RSUs whereby the total aggregate RSUs and stock options outstanding may be up to 10% of its issued capital at the time of an applicable option grant. Under the RSU plan, the Company's Board of Directors may from time to time, grant RSUs to directors, officers, employees or consultants. The vesting terms of an RSU are at the discretion of the Board of Directors. The option to settle the RSUs in cash or in shares is also at

Organto Foods Inc.

Notes to the Consolidated Financial Statements For the Years Ended December 31, 2023 and 2022 (Expressed in Canadian Dollars)

the option of the Board of Directors.

In June 2023 the Company granted 50,000 RSUs which will vest 50% in one year and 25% each six months thereafter. The fair value of each RSU is determined using the closing price of the common shares of the Company on the date of grant. The Company recorded a stock-based compensation expense in 2023 for vested RSUs of \$226,841 (2022 - \$198,375).

20,000 RSUs were exercised in July 2023 and 20,000 common shares were issued.

(e) Warrants

In December 2022 the Company issued 18,428 warrants in connection with the convertible debentures issued in December 2022. These warrants are exercisable for a period of two years at an exercise price of \$3.00 per share. The fair value of these warrants of \$11,610 was calculated using the Black-Scholes Option Pricing Model with the following inputs: expected price volatility of 109%, risk free interest rate of 4.03%, expected life of 2 years and no dividend yield. The value of these warrants was classified as a transaction cost for the debentures and is recorded in the current period's loss on extinguishment of debentures (note 15).

The Company issued 10,660 warrants in connection with the convertible debentures issued in February and March 2023. These warrants are exercisable for a period of two years at an exercise price of \$3.00 per share. The fair value of these warrants of \$6,145 was calculated using the Black-Scholes Option Pricing Model with the following inputs: expected price volatility of 109%, risk free interest rate of 4.03%, expected life of 2 years and no dividend yield. The value of these warrants was classified as a transaction cost for the debentures and is recorded as an offset to the convertible debentures balance and will be amortized over the expected terms of the debentures.

Warrants outstanding and exercisable at December 31, 2023, are as follows:

Grant date	Number of warrants	Exercise price (\$)	Expiry Date
December 2022	18,428	3.00	December 2024
February 2023	5,900	3.00	February 2025
March 2023	4,760	3.00	March 2025
	29,088	3.00	

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

	Number of warrants	Weighted average exercise price (\$)
Balance at January 1, 2022	170,567	3.94
Issued	18,428	3.00
Exercised	(12,186)	0.75
Expired	(55,581)	1.70
Balance at December 31, 2022	121,228	4.59
Issued	10,660	3.00
Expired	(102,800)	4.88
Balance at December 31, 2023	29,088	3.00

The average share price on the date of exercise of the warrants was \$1.48 in 2022.

Organto Foods Inc.

Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2023 and 2022
(Expressed in Canadian Dollars)

(f) Reserves

	Options and RSUs (\$)	Warrants (\$)	Other reserves (\$)	Cumulative translation (\$)	Total (\$)
Balance, January 1, 2022	1,468,159	476,237	888,171	737,252	3,569,819
Stock-based compensation	917,017	-	-	-	917,017
Exercise of stock options	(73,500)	-	-	-	(73,500)
Convertible debentures prepaid	-	-	(665)	-	(665)
Issue of convertible debentures	-	-	201,823	-	201,823
Fair value of warrants issued	-	11,610	-	-	11,610
Accumulated comprehensive loss	-	-	-	(266,255)	(266,255)
Balance at December 31, 2022	3,632,585	746,735	2,601,095	414,573	7,394,988
Stock-based compensation	657,123	-	-	-	657,123
Exercise of stock options	(49,000)	-	-	-	(49,000)
Exercise of restricted share units	(49,000)	-	-	-	(49,000)
Issue of convertible debentures	-	-	72,764	-	72,764
Fair value of warrants issued	-	6,145	-	-	6,145
Accumulated comprehensive loss	-	-	-	(555)	(555)
Balance at December 31, 2023	4,191,708	752,880	2,673,859	414,018	8,032,465

18. Cost of sales

	Year ended December 31	
	2023 (\$)	2022 (\$)
Produce purchases (note 6)	23,097,933	17,291,749
Freight	1,246,806	2,207,820
Packaging and other	830,762	1,360,021
Amortization (note 14)	44,743	-
	25,220,244	20,859,590

19. Selling, general and administration expenses

	Year ended December 31	
	2023 (\$)	2022 (\$)
Administration and office	1,999,946	1,672,952
Professional fees (note 10)	748,092	886,811
Amortization (note 10 and 14)	343,969	118,879
Bad debt expense	273,037	188,427
	3,365,044	2,867,069

Organto Foods Inc.

Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2023 and 2022
(Expressed in Canadian Dollars)

20. Other income (loss)

	Year ended December 31	
	2023	2022
	(\$)	(\$)
Recovery of insurance claim	100,889	-
Severance costs associated with re-organization	(189,773)	-
Legal claim	-	24,099
Increase in fair value of earn-out liability (note 10)	(46,021)	-
Government grant (note 12)	-	81,466
	(134,905)	105,565

The Company undertook a re-organization of its operating units in the second quarter of 2023 in order to reduce labour and other costs and improve efficiencies and recorded a provision of \$189,773 for associated severance costs.

In 2021, the Company received notice of a claim against its subsidiary in Guatemala for events that took place in 2018 and provisionally accrued \$188,874 to resolve the claim. The Company paid \$164,775 to settle this claim in July 2022, resulting in a gain of \$24,099.

21. Gain (loss) on settlement of debt

	Year ended December 31	
	2023	2022
	(\$)	(\$)
Gain on settlement of accounts payable	22,855	28,261
Loss on settlement of convertible debentures (note 15)	-	(96,467)
	22,855	(68,206)

22. Impairment

	Year ended December 31	
	2023	2022
	(\$)	(\$)
Impairment of short-term grower advances (note 7)	(1,249,905)	-
Impairment of long-term grower advances (note 7)	(897,922)	(634,568)
Impairment of goodwill and intangible assets (note 10)	(533,115)	(1,281,704)
	(2,680,942)	(1,916,272)

Organto Foods Inc.

Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2023 and 2022
(Expressed in Canadian Dollars)

23. Related party transactions

- (a) Directors and key management personnel compensation:

	Year ended December 31	
	2023	2022
	(\$)	(\$)
Salaries, consulting and management fees	920,950	1,010,399
Stock based compensation	565,459	707,797
	1,486,410	1,718,196

Key management personnel were not paid post-employment benefits, termination benefits or other long-term benefits during the years ended December 31, 2023 and 2022.

- (b) Transactions with related parties:

	Year ended December 31	
	2023	2022
	(\$)	(\$)
Administrative services	641,415	561,059
Office lease payments (note 14)	46,841	-
Produce purchases	-	206,241

- (c) Outstanding balances payable (receivable):

	December 31, 2023	December 31, 2022
	(\$)	(\$)
Salaries, consulting and management fees	310,147	107,019
Interest on convertible debentures	46,695	37,356
Administration services	117,345	-
Expense reimbursements	25,357	5,111
Security deposit on office lease (note 14)	34,100	-
Advances to suppliers (note 7)	(544,011)	(516,554)
Product sales	-	(21,112)

Organto Foods Inc.

Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2023 and 2022
(Expressed in Canadian Dollars)

24. Supplemental cash flow information

	Year ended December 31	
	2023 (\$)	2022 (\$)
Items not involving cash:		
Amortization	388,712	118,879
Bad debt expense	273,037	188,427
Stock-based compensation	657,123	917,017
Interest expense and accretion	3,912,068	1,526,439
Foreign currency translation	(457,070)	(225,705)
Other loss	195,045	529,003
Loss (gain) on settlement of debt	(22,855)	68,206
Realized loss on revaluation of investment securities	818	-
Unrealized loss on revaluation of investment securities	80,875	959,074
Unrealized gain (loss) on revaluation of derivatives	443,591	(25,314)
Impairment (note 22)	2,680,942	1,281,705
Recovery of earnout liability	-	(198,274)
Recovery of deferred income taxes	(64,800)	(66,700)
	8,087,486	5,072,757
Changes in non-cash working capital:		
Receivables	(12,531)	763,521
Inventories	(579,119)	80,906
Grower advances	(105,751)	566,895
Prepaid expenses	(35,360)	(73,927)
Accounts payable and accrued liabilities	2,651,089	(386,894)
Factored accounts receivable	(395,421)	(30,665)
	1,522,907	919,836
Non-cash investing and financing activities includes the following:		
Common shares issued:		
as part of New Fruit Group acquisition	240,660	-

25. Segmented information

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

In the year ended December 31, 2023, 39% of the Company's sales were to 3 customers with each customer accounting for at least 5% of total sales. In the year ended December 31, 2022, 30% of the Company's sales were to 4 customers with each customer accounting for at least 5% of total sales.

In the year ended December 31, 2023, 50% of the Company's purchases were from 6 suppliers with each supplier accounting for at least 5% of total purchases. In the year ended December 31, 2022, 47% of the Company's purchases were from 4 suppliers with each supplier accounting for at least 5% of total purchases.

Organto Foods Inc.

Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2023 and 2022
(Expressed in Canadian Dollars)

Information by geographical areas is as follows:

	December 31, 2023 (\$)	December 31, 2022 (\$)
Non-current assets		
Netherlands	875,675	1,435,567
Germany	1,559,629	-
	2,435,304	1,435,567

26. Commitments

At December 31, 2023 the Company had entered into agreements which call for minimum payments as follows:

	Within 1 year (\$)	Between 1 and 5 years (\$)	After 5 years (\$)	Total (\$)
Management fees	242,560	-	-	242,560
Administration services	2,195	-	-	2,195
Labour and benefits	292,385	-	-	292,385
Property leases	346,468	607,570	157,290	1,111,327
Forward currency exchange contracts	9,147,365	-	-	9,147,365
	10,030,973	607,570	157,290	10,795,832

The Company has a hedging facility with a European financial services company in order to hedge its exposure to fluctuations in the US dollar vs Euro exchange rate. The facility is for forward exchange contracts, up to a maximum of US\$15.8 million in open contracts. As part of this facility, the Company was required to guarantee the European subsidiary's obligations under the facility.

In December 2022 one of the Company's European subsidiaries signed a lease for warehouse space with an effective start date of January 1, 2023 and a term of two years with a monthly cost of €8,820. In October 2023 one of the Company's European subsidiaries signed a lease with a related party (note 23) for office space with an effective start date of October 1, 2023 and a term of five years with a monthly cost of €10,800 with annual inflation increases beginning after one year.

27. Financial risk and capital management

The Company's financial instruments are exposed to certain financial risks. The risk exposures and the impact on the Company's financial instruments at December 31, 2023 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 Company's primary exposure to credit risk is in its cash accounts and accounts receivable. Credit risk associated with accounts receivable is considered moderate.

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 chartered banks in Canada, Europe and Mexico.

Organto Foods Inc.

Notes to the Consolidated Financial Statements For the Years Ended December 31, 2023 and 2022 (Expressed in Canadian Dollars)

(b) Liquidity risk

Liquidity risk arises from the Company's general and capital financing needs. The Company manages 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 December 31, 2023, the Company had a working capital deficiency of \$16,258,529 (December 31, 2022 – working capital of \$2,867,046). Liquidity risk is assessed as high.

To date, the Company has been able to address any shortfalls in meeting its short term financial demands by turning to equity and debt markets to raise the funding necessary to continue operations. The Company will continue to rely on equity or debt financing until it is able to realize consistent profitable operating results. See note 1 for the going concern discussion.

(c) Market risks – interest rate

The Company is exposed to interest rate risk as part of its factoring facility which is based on EURIBOR.

(d) Currency risks

The Company is exposed to currency risk as part of its hedging facility under which the Company has entered into forward currency exchange contracts. At December 31, 2023 the Company had entered into contracts to purchase \$6,654,433 US dollars by February 2024 at rates between 1.0441 and 1.0712 EUR per USD.

Sensitivity analysis

A 1% change in interest rates is not expected to have a material effect on the Company's profit or loss and equity.

As the Company's presentation currency is the Canadian Dollar, where foreign currency transactions such as the US Dollar, European Euro, Guatemalan Quetzal and Argentine Peso are converted into Canadian Dollars, changes in exchange rates between these currencies may have an effect on the Company's profit or loss and equity. A +/- 10% change in the exchange rate between those currencies and the Canadian Dollar can affect net loss by approximately \$741,200.

Capital management

The Company's objectives when managing capital are to ensure an optimal capital structure is maintained to reduce overall cost of capital and allow the Company flexibility to respond to changes in its working capital requirements.

In the management of capital, the Company includes the components of shareholders' equity, net of cash.

The Company manages the capital structure and makes 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, the Company 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 its capital requirements, the Company monitors working capital and cash flows regularly. There have been no changes to the Company's capital management policies and procedures since the end of the most recent fiscal year.

Fair value

The Company has determined the estimated fair values of its financial instruments based upon appropriate valuation methodologies.

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

Organto Foods Inc.

Notes to the Consolidated Financial Statements For the Years Ended December 31, 2023 and 2022 (Expressed in Canadian Dollars)

- 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).

The fair value of the Company's financial instruments were determined based upon appropriate valuation methodologies as follows:

- the fair value of cash is based on level 1 inputs and approximates its carrying value due to the immediate or short-term maturity of these financial instruments;
- the fair value of the Company's investment securities is based on level 1 and level 2 inputs, calculated using volatility, for lack of marketability;
- the fair value of the liability component of the Company's convertible debentures was based on level 2 inputs;
- the fair value of the earnout liability is based on level 3 inputs and a 10% change in the input assumptions would not result in any material change to the value of the liability; and
- the fair values of the lease obligations were based on level 2 inputs.

28. Income taxes

The provision for income taxes reported differs from the amount computed by applying the applicable Canadian federal and provincial income tax rates to the loss before tax provision due to the following:

	Year ended December 31,	
	2023	2022
	(\$)	(\$)
Loss before tax	(13,427,221)	(10,894,911)
Statutory tax rate	27%	27%
Income taxes (recovery) computed at statutory rates	(3,625,300)	(2,941,600)
Foreign tax differences, rate changes, foreign exchange and other	1,113,600	398,900
Expiry of non-capital losses carried forward	9,900	17,100
Non-deductible items	1,075,600	272,500
Share issue costs	(30,800)	(35,400)
Change in valuation allowance of deferred taxes	1,521,800	2,355,200
Recovery of deferred income taxes	64,800	66,700

The Company has deductible temporary differences for which deferred tax assets have not been recognized due to the uncertainty of their recovery. The significant components of unrecognized deferred income tax assets and liabilities at December 31, 2023 and 2022 are as follows:

	December 31, 2023	December 31, 2022
	(\$)	(\$)
Net operating losses carried forward	6,306,600	5,976,000
Share issue costs	54,300	17,600
Equipment, investment securities and other	2,479,000	2,074,000
	8,839,900	8,067,600
Tax benefits not recognized	(8,839,900)	(8,067,600)
Deferred tax liability related to intangible assets	(272,400)	(64,800)
	(272,400)	(64,800)

Organto Foods Inc.

Notes to the Consolidated Financial Statements For the Years Ended December 31, 2023 and 2022 (Expressed in Canadian Dollars)

The Company has non-capital losses in the tax jurisdictions in which it operates:

	December 31, 2023 (\$)
Canada - expires between 2035 and 2043	13,112,800
Netherlands - no expiry	16,724,600
Germany – no expiry, limits on annual use	241,100
Italy – no expiry, limits on annual use	36,900
Argentina - expires between 2023 and 2028	67,000
Mexico - expires between 2028 and 2033	492,700
	30,675,100

29. Subsequent events

Short-term loans

Subsequent to December 31, 2023 the Company received \$1,929,965 in proceeds from short-term loans. The loans are unsecured and bear interest at 12% and have a term of one year, at which time principal and interest become payable. During the same period the Company repaid \$774,710 of its short-term loans.

Private placements

In April 2024 the Company completed a private placement of 5,750,000 common shares at a price of \$0.10 per share for proceeds of \$575,000 with one director of the Company having purchased 5,150,000 common shares. No finder's fees were paid and the common shares are subject to a four month hold period that expires in August 2024. The proceeds were used to repay several of the short-term loans and for working capital.

The Company received US\$100,000 in February 2024 and \$468,000 in September 2024 in advance of a private placement planned for the fourth quarter of 2024.

Convertible debentures

The Company did not pay the interest amounts due in December 2023 on all series of its outstanding convertible debentures.

In March 2024 the Company reached an agreement with the holders of the \$8,050,000 November 2026 series of convertible debentures under which the holders will convert \$4,025,000 of the principal amount of debentures into common shares at a price of \$0.30 per common share. The maturity date of the remaining principal balance will be extended such that \$2,012,500 will mature in November 2027 and \$2,012,500 will mature in November 2028. The interest that was originally due to be paid in the fourth quarter of 2023 will be deferred such that \$322,000 is payable in November 2027 and \$322,000 is payable in November 2028. The interest rate remains unchanged at 8% as do the 2024, 2025 and 2026 scheduled interest payments. The conversion price has been changed to \$0.60 per common share and the Company has the option to force conversion if the Company's common stock trades at \$0.90 per share for at least 20 days.

In May 2024, holders of \$97,500 of the December 2024 series A of convertible debentures agreed to redeem their debentures plus \$9,750 of accrued interest and apply \$107,250 against amounts they collectively owe the Company's European subsidiary.

The Company has approached the other holders of its December 2024 series A, December 2024 series B, February 2025 and March 2025 series of convertible debentures in an effort to restructure these debentures on terms similar to those agreed to by the holders of the November 2026 series of debentures. To date, holders of \$1,006,350 of the total \$2,591,350 of debentures have agreed and they will convert \$503,175 of the principal amount of debentures into 1,677,250 common shares at a price of \$0.30 per common share. The maturity date of the remaining principal balance will be extended such that \$251,588 will mature in December 2025 and \$251,587 will mature in December 2026. The interest that was originally due to be paid in the fourth quarter

Organto Foods Inc.

Notes to the Consolidated Financial Statements

For the Years Ended December 31, 2023 and 2022

(Expressed in Canadian Dollars)

of 2023 will be deferred such that \$50,318 is payable in December 2025 and \$50,317 is payable in December 2026. The interest rate remains unchanged at 10%.

Sale of subsidiaries

In June 2024 the Company sold three of its wholly owned Dutch operating subsidiaries to an independent third-party purchaser ("Purchaser"), as part of the Company's efforts to reposition its business and strengthen its balance sheet. The subsidiaries sold ("Sale Subsidiaries") are: Organto Europe BV, Fresh Organic Choice BV; and BeeOrganic BV. The Purchaser will acquire all the outstanding shares in the capital of each of the Sale Subsidiaries for Euro 1 and assume all of the Sale Subsidiaries' assets and liabilities. The Company will continue operations and NFG New Fruit Group GmbH will become the Company's key operating entity focusing on organic and non-GMO bananas, avocados, ginger and mangos.

Stock options

Subsequent to December 31, 2023 a total of 6,000 stock options expired unexercised and 260,000 were forfeited.

Wind-up of subsidiary

In April 2024 the Company wound up its Argentinian subsidiary.

Hedging facility

In October 2024 one of the Company's European subsidiaries established a hedging facility with a European bank in order to partially hedge its exposure to fluctuations in the US dollar vs Euro exchange rate. The facility is for US\$2.8 million of forward exchange contracts and expires in April 2025. As part of this facility, the subsidiary is required to deposit €70,000 with the bank in order to provide collateral to maintain margin requirements. The deposit will be returned on a pro-rata basis when drawing down the contracts. The Company was not required to guarantee the subsidiary's obligation under this facility.