

# SWISS WATER DECAFFEINATED COFFEE INC.

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## Management Discussion and Analysis For the year ended December 31, 2020

### MANAGEMENT DISCUSSION AND ANALYSIS

*This Management's Discussion and Analysis ("MD&A") of Swiss Water Decaffeinated Coffee Inc. ("Swiss Water" or the "Company"), dated as of March 18, 2021, provides a review of the financial results for the three months and the year ended December 31, 2020 relative to the comparable period of 2019. The three-month period represents the fourth quarter ("Q4") of our 2020 fiscal year. This MD&A should be read in conjunction with Swiss Water's audited consolidated financial statements for the year ended December 31, 2020, and in conjunction with the Annual Information Form ("AIF"), which are available on [www.sedar.com](http://www.sedar.com).*

*All financial information is presented in Canadian dollars, unless otherwise specified.*

### FORWARD-LOOKING STATEMENTS

This MD&A contains forward-looking statements, including statements regarding the future success of our business and market opportunities. Forward-looking statements typically contain words such as "believes", "expects", "anticipates", "continue", "could", "indicates", "plans", "will", "intends", "may", "projects", "schedule", "would" or similar expressions suggesting future outcomes or events, although not all forward-looking statements contain these identifying words. Examples of such statements include, but are not limited to, statements concerning: (i) expectations regarding Swiss Water's future success in various geographic markets; (ii) future financial results, including anticipated future sales and processing volumes; (iii) future dividends; (iv) the expected actions of the third parties described herein; (v) factors affecting the coffee market including supplies and commodity pricing; (vi) the expected cost to complete the production facility and production line currently under construction; and (vii) the business and financial outlook of Swiss Water. In addition, this MD&A contains financial outlook information that is intended to provide general guidance for readers based on our current estimates, which based on numerous assumptions and may prove to be incorrect. Therefore, such financial outlook information should not be relied upon by readers. These statements are neither promises nor guarantees but involve known and unknown risks and uncertainties that may cause our actual results, level of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed in or implied by these statements. These risks include, but are not limited to, risks related to processing volumes and sales growth, operating results, supply of coffee, supply of utilities, general industry conditions, commodity price risks, technology, competition, foreign exchange rates, construction timing, costs and financing of capital projects, general economic conditions and those factors described herein under the heading 'Risks & Uncertainties'.

The forward-looking statements contained herein are also based on assumptions that we believe are current and reasonable, including but not limited to, assumptions regarding: (i) trends in certain market segments and the economic climate generally; (ii) the financial strength of our customers; (iii) the value of the Canadian dollar versus the US dollar ("US\$"); (iv) the expected financial and operating performance of Swiss Water going forward; (v) the availability and expected terms and conditions of debt facilities; and (vi) the expected level of dividends payable to shareholders; (vii) the potential impact of the COVID-19 pandemic. We cannot assure readers that actual results will be consistent with the statements contained in this MD&A. The forward-looking statements and financial outlook information contained herein are made as of the date of this MD&A and are expressly qualified in their entirety by this cautionary statement. Except to the extent required by applicable securities law, Swiss Water undertakes no obligation to publicly update or revise any such statements to reflect any change in our expectations or in events, conditions, or circumstances on which any such statements may be based, or that may affect the likelihood that actual results will differ from those described herein.

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### EXECUTIVE SUMMARY

For the year ended December 31, 2020, Swiss Water's revenues, operating income, and net income remained flat when compared to 2020. These results were achieved despite the ongoing impact of the COVID-19 pandemic. Year-to-date volume continued to recover and closed only 6% lower than last year. In the first three months of 2020, our volumes were negatively affected by a significant increase in commodity futures prices for coffee in late 2019. The negative impact of this persisted through the first quarter. Since then, volumes have recovered more strongly than expected in this COVID-19 environment, and this performance is largely a reflection of our well-diversified customer base. Q4 volume was down by only 4% versus Q4 2019.

The primary change in our business following the emergence of the COVID-19 pandemic continues to be the customer mix. Our large commercial roasters and specialty roasters with a grocery presence continue to drive our volumes. At the beginning of the pandemic, we experienced strong volume demands from those customers that supplied the retail grocery trade. Consumer hoarding and pantry loading created a short-term demand peak. Over the course of the second half of the year, strong grocery demand continued but at a slower pace than when the pandemic started. Shuttered restaurants and out-of-home specialty coffee shops started to reopen toward the end of the second quarter, and this trend has partially contributed to our volume recovery in the last half of the year.

Gross profit was impacted by higher green coffee prices, increased depreciation charges and higher operating expenses following the commissioning of our new Delta manufacturing facility and change in customer mix. In Q4 2020, Swiss Water's revenue, gross profit, operating income and net income all decreased versus Q4 2019.

We are currently well positioned with green coffee inventory and will be able to react to short-term demand increases as trading conditions strengthen. We remain in close contact with our customers, however, it is clear that many of our food service partners remain cautious regarding when their trading activity will return to pre-pandemic levels.

In \$000s except per share amounts (unaudited)	3 months ended December 31,		Year ended December 31,	
	2020	2019	2020	2019
Sales	\$ 24,512	\$ 25,023	\$ 97,571	\$ 97,230
Gross Profit	2,861	4,106	15,652	16,494
Operating income	126	539	5,137	5,162
Net income (loss)	(320)	716	2,949	2,944
EBITDA <sup>1</sup>	1,888	1,454	9,759	10,350
EBITDA excluding the impact of IFRS 16-Leases <sup>2</sup>	1,186	797	7,042	7,344
Net income (loss) – basic <sup>3</sup>	\$ (0.04)	\$ 0.08	\$ 0.32	\$ 0.32
Net income (loss) – diluted <sup>3</sup>	\$ (0.04)	\$ 0.08	\$ 0.25	\$ 0.32

<sup>1</sup> EBITDA is defined in the 'Non-IFRS Measures' section of this MD&A and is a "Non-GAAP Financial Measure" as defined by CSA Staff Notice 52-306.

<sup>2</sup> EBITDA excluding the impact of IFRS 16 - Leases is defined as EBITDA, less lease payments made during the year.

<sup>3</sup> Per-share calculations are based on the weighted average number of shares outstanding during the periods. Diluted earnings per share take into account shares that may be issued upon conversion of convertible debt and RSUs as well as the impact on earnings from changes in the fair market value of the embedded option in the convertible debt and conversion of RSUs.

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### Operational highlights

- Total volumes in the fourth quarter and year ended December 31, 2020 declined by 4% and 6%, respectively, compared to the same periods in 2019. Although we have been negatively impacted by the pandemic, our volumes have proven to be more resilient than we originally anticipated. Encouragingly we recorded 6% volume growth within our Asia Pacific region in 2020.
- Our largest geographical market by volume in Q4 continued to be the United States, followed by Canada, Europe and other international markets. By dollar value, for the year ended December 31, 2020, 49% of our sales were to customers in the United States, 31% were to Canada, and the remaining 20% were to other countries. Our international business continues to expand and we anticipate revenues from our European and Asia-Pacific markets will continue to increase in both dollar and percentage terms.
- Swiss Water's operations have been deemed essential services during the pandemic, and as such, we have maintained our best efforts to supply decaffeinated coffee to food manufacturers and retailers who are supporting consumers around the world. During these unprecedented times, Swiss Water has remained committed to continuing our decaffeination process and operations, while prioritizing safety for our customers, vendors and employees. To protect our stakeholders, we have implemented best health practices and social distancing in our production facilities, warehouses and offices as recommended by the appropriate health authorities.
- In September 2020, we successfully completed the first production run of commercial-grade coffee from our Delta, B.C. facility. This marked the final step in the startup of the initial processing line at our new, technically advanced decaffeination facility and the culmination of a three-year effort to develop additional capacity to service the growing demand for our sustainably sourced, chemical free decaffeinated coffees. For the first time in its history Swiss Water is shipping decaffeinated from two production facilities.

### Financial highlights

- 2020 revenue remained relatively flat, increasing by \$0.3 million to \$97.6 million. Despite the drop in volumes in Q1 of 2020 as mentioned above, our business remains resilient and growth has been steady.
- For the year ended December 31, 2020, gross profit decreased by \$0.8 million to \$15.7 million. The reduction in year-to-date gross profit was driven by higher green coffee prices, increased depreciation charges and incremental operating expenses following the commissioning of our new Delta manufacturing facility. These increases were not unexpected and were partially offset by improvements in customer sales mix and supply chain efficiencies within our Seaforth subsidiary.
- For the year ended December 31, 2020, operating income and net income remained relatively flat at \$5.1 million and \$2.9 million when compared to the same period last year. The year-over-year difference reflects the combination of changes in gross profit, and both operating and non-operating expenses. This year non-operating expense was reduced by the revaluation of an embedded derivative as a result of Swiss Water's lower share price, offset by a slight loss on risk management activities.
- EBITDA decreased by \$0.6 million, or 6%, to \$9.8 million for the year ended December 31, 2020, when compared to the same period in 2019. EBITDA, excluding the impact of IFRS 16, decreased by \$0.3 million, or 4%, to \$7.0 million for the year 2020, compared to the same periods in 2019, and increased by \$0.4

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million, or 49%, to \$1.2 million in Q4, and. The adverse movement in EBITDA was expected and reflects a softening of coffee quality differential gains in the second half of 2020.

### OUTLOOK

The Company is limiting guidance for the 2021 fiscal year due to the ongoing uncertainty of the effect of the COVID-19 pandemic. During the early stages of the pandemic, we experienced strong short term volume pull from customers that service the retail grocery trade as consumers loaded their pantries in anticipation of quarantines and supply disruptions, or simply consumed their coffee at home. The at-home coffee market has remained strong but has leveled off from the initial spike in demand. We expect this trend to continue for the immediate future, unless there is a significant change in COVID-19 infection rates.

Meanwhile, we expect customers who serve the out-of-home coffee market through cafes and restaurants to continue to recover from the serious disruption they experienced due to the widespread or targeted food-service shutdowns implemented to combat surges in the number of COVID-19 cases. In the second half of 2020 many countries partially lifted their lockdowns and our sales into the out-of-home channel began to recover.

Many countries and regions have started to successfully roll out COVID-19 vaccination programs. These include a number of states and major cities in the USA, which is our largest geographical segment. We are cautiously optimistic that these actions will reduce the scale of subsequent COVID-19 outbreaks and lower the risk of future lockdowns in some of our most important markets. It is particularly encouraging that the Company's sales volumes in Asia Pacific grew by 6% in 2020, and accelerated to 14% growth in Q4 2020. This region has been acknowledged to have managed the control of the COVID-19 pandemic relatively well, and we are hopeful that the region's growth is a leading indicator of how our volume will rebound in North America and Europe as COVID-19 infection rates fall in these regions.

Despite signs of recovery uncertainty persists. The global recovery from the COVID-19 pandemic, and the rollout of the vaccine is unlikely to be without a challenge. Given this ambiguity, we cannot reliably predict the ultimate impact that the COVID-19 pandemic will have on our business, particularly within the out-of-home market. Accordingly, the risk remains that Swiss Water may continue to report sales volumes that under-index recent year trends. However, after a stronger than expected second half of 2020 we are cautiously optimistic that our volumes will remain resilient in 2021.

Operationally, Swiss Water has continued to run both Burnaby production lines on a 24/7 basis throughout 2020. In September, we announced the completion of our first production run of commercial-grade coffee from our Delta, B.C. facility. Delta is currently run on a 24/7 basis. As we move through 2021 we expect to migrate a significant proportion of production volume to Delta and reduce some of the pressure on our Burnaby assets.

Both Swiss Water and Seaforth have remained open and fully resourced to supply customers since the beginning of the pandemic. From the outset of the pandemic, we have taken precautions within each of our operating sites to ensure appropriate personal protective equipment has been available to employees and contractors, and that ongoing deep cleaning by internal and third-party suppliers have been performed with increased frequency. During the early stages of the pandemic, we initiated a brief shutdown of one of our operating lines to mitigate the possible risk of a province-wide work stoppage. During this period, we took the opportunity to complete scheduled maintenance on this line, and it was quickly brought back into service when this was completed. In 2021 we will remain focused on maintaining these high standards and utilizing our assets responsibly.

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As noted previously, in Q2 of this year, the landlord of our Burnaby manufacturing site provided formal notice that our lease would not be extended beyond June 2023. Accordingly, we are in the advanced stages of planning for the construction of an additional production facility, including a second production line, at our Delta location with a targeted completion date before the 2023 deadline in Burnaby. An additional production line is required to ensure the capacity to process expected volume upon the conclusion of our Burnaby lease and to provide additional capacity for intermediate term growth. Based on engineering reports from a third-party engineering firm, when both are completed, the two lines in Delta are expected to have a targeted endpoint capacity at least 40% greater than the current existing capacity of the two lines at our Burnaby site.

The preliminary cost estimate from our third-party engineering firm for the design and construction of a new production facility in Delta is approximately \$45.0 million plus commissioning costs, which are expected to be approximately \$2.0 million. These estimates are preliminary and like all major design and construction projects are highly dependent on local and global economic factors impacting construction. These include, without limitation, changes in labour, commodity and materials pricing, trade policies, and supply chain issues. In addition, the continuing impact of the worldwide COVID-19 pandemic is unknown and could impact the timing and costs of the proposed project. We are now in the process of finalizing financing plans for the project.

### **BUSINESS OVERVIEW**

Swiss Water Decaffeinated Coffee Inc. is a premium green coffee decaffeinator located in Burnaby and in Delta, British Columbia. We employ the proprietary Swiss Water® Process to decaffeinate green coffee without the use of chemical solvents, leveraging science-based systems and controls to produce coffee that is 99.9% caffeine free. Our process is certified organic by the Organic Crop Improvement Association and is the world's only consumer-branded decaffeination process. Decaffeinating premium green coffee without the use of harmful chemical solvents is our primary business.

Our Seaforth subsidiary provides a complete range of green coffee logistics services including devanning coffee received from origin; inspecting, weighing and sampling coffees; and storing, handling and preparing green coffee for outbound shipments. Seaforth provides all of Swiss Water's local green coffee handling and storage services. In addition, Seaforth handles and stores coffees for several other coffee importers and brokers, and is the main green coffee handling and storage company in Metro Vancouver. Seaforth is organically certified by Ecocert Canada.

Swiss Water's shares trade on the Toronto Stock Exchange under the symbol 'SWP'. As at the date of this report, 9,129,673 shares were issued and outstanding.

### **Swiss Water Decaffeinated Coffee's Business**

We carry an inventory of premium-grade Arabica coffees that we purchase from the specialty green coffee trade, decaffeinate and then sell to our customers (our "Regular" or "Non-Toll" business). Revenue from our Regular business includes both processing revenue and green coffee cost recovery revenue.

We also decaffeinate coffee owned by our customers for a processing fee under toll arrangements (our "toll" business). The value of the coffee processed under toll arrangements does not form part of our inventory, our revenue or our cost of sales. Revenue from toll arrangements consists entirely of processing revenue.

Our cost of sales is comprised primarily of the cost of green coffee purchased for our regular business, plant labour and other processing costs directly associated with our production facility. This incorporates an allocation of fixed overhead costs, which includes depreciation of our production equipment and amortization

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of our proprietary process technology. For our Regular business, we work with coffee importers to source premium-grade green coffees from coffee-producing countries located in Central and South America, Africa and Asia. The purchase price is based on the NY'C' coffee futures price on the Intercontinental Exchange, plus a quality differential. The NY'C' component typically makes up more than 80% of the total cost of green coffee, while the quality differential typically accounts for less than 20%. Both the NY'C' price and the quality differential fluctuate in response to fundamental commodity factors that affect supply and demand.

### KEY PERFORMANCE DRIVERS

The following key performance drivers are critical to the successful implementation of our strategy and ability to improve profitability and cash from operations:

#### External Factors

##### US\$/C\$ Exchange Rates

As noted above, the majority of our ("C\$") revenues are generated in US dollars ("US\$"), while a significant portion of our costs is paid in Canadian dollars. We, therefore, have exposure to changes in the US\$/C\$ exchange rates. This is managed, in part, through derivative financial instruments. All other factors being equal, our profitability and cash from operations will be higher when the US dollar appreciates relative to the Canadian dollar. A long-term depreciation of the Canadian dollar will improve our long-term profitability and cash generation. The chart below illustrates the US\$ to Canadian dollar ("C\$") exchange rates for the last eight quarters:

US Dollars to Canadian Dollars  
Bank of Canada Noon Rates  
Dec 31, 2018 to Dec 31, 2020



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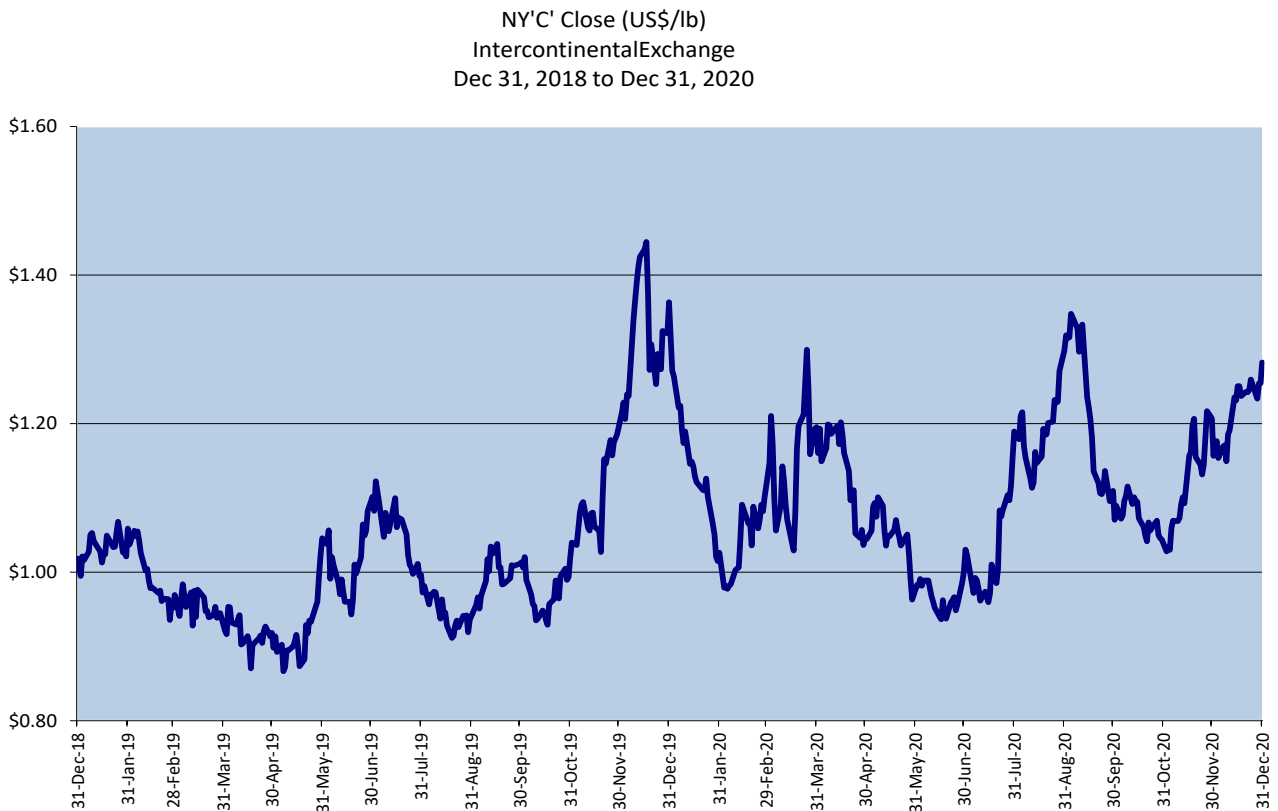
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In Q4 2020, the US\$ averaged C\$1.30, a decrease from C\$1.32 over the same period in 2019. In 2020, the US\$ averaged C\$1.34, a slight increase of 1% over the same period last year. During 2020 the US\$ ranged between C\$1.27 and C\$1.45 (2019: between C\$1.30 and C\$1.36). When the US\$ depreciates (appreciates), it decreases (increases) our gross profit on green coffee revenues.

### Coffee Futures Prices

We buy and sell coffees based on the NY'C' plus the quality differentials for specified coffees, both of which rise and fall in response to changes in supply and demand. We manage our exposure to changes in the NY'C' futures price on the value of our inventories through a commodity hedging program (discussed under 'Hedge Accounting' below), but cannot hedge our exposure to changes in quality differentials. In addition to the price risks associated with holding coffee inventories, our revenue and cost of sales are affected by changes in the underlying commodity price. Commodity price increases (decreases) raise (lower) the green coffee cost recovery revenue generated through our non-toll business, as well as the costs of green coffee sold to customers to generate sales.

Changes in the NY'C' also affect our statement of financial position and the amount of working capital we use in our business. When coffee prices rise (fall), our inventory values gradually increase (decrease) as we replace coffee at higher prices. Our accounts receivable and our accounts payable also rise and fall with the NY'C'. Finally, there is no open market to hedge the quality differential component of our green coffee cost. We sell coffee at replacement quality differentials, and as such, in a period of falling (rising) differentials, we will generate differential cost recovery losses (gains), as green coffee revenues will be less than (exceed) green coffee costs. The chart below shows the movement in the NY'C' for the last eight quarters:



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In Q4 2020, the NY'C' averaged US\$1.14/lb compared to an average of US\$1.12/lb in Q4 2019. For 2020, the NY'C averaged US\$1.11/lb, compared to US\$1.01/lb for 2019. The rise and fall of the NY'C' affects our volume of shipments, our revenues and our cost of sales. In an upward trending market, our customers tend to consume their inventories rather than build them. When the NY'C' declines over a sustained period, our customers tend to add to their inventories.

### Internal Factors

- **Sustainability and Environmental Responsibility** – The Swiss Water® Process is a 100% chemical free decaffeination process that enables us to consistently deliver high-quality coffee. Our approach to sustainability is to continually improve and innovate this process to be more efficient by actively managing resource usage in a safe and environmentally responsible manner. In addition to carefully managing our operations, we take steps to ensure a sustainable coffee supply by purchasing sustainably certified coffees and organic coffees. We promote social sustainability by participating in programs within the coffee industry that advance the health of women and their families living in coffee-growing communities (Grounds for Health) and that foster research-based approaches to advancing coffee cultivation (World Coffee Research).
- **Processing Volumes** – Our decaffeination facility generates a certain level of fixed operating costs that are incurred regardless of the volume of coffee processed. Accordingly, our profitability and cash from operations will increase as processing volumes increase. Processing volume is a key performance indicator (“KPI”) that we monitor continuously.
- **Process Consistency** – We manage our operations in order to reduce variability in production and drive continuous improvement. Production consistency results in improved product quality. We have developed a number of KPIs designed to monitor process consistency, and have set targets for continuous process improvement.
- **Product Quality** – Quality control is a key part of our operations. We operate under the Food Safety Systems Certification (FSSC) 22000, which manages our food safety, as well as HACCP (Hazard Analysis Critical Control Points) and quality assurance programs. All green coffees delivered to our processing facility are weighed and inspected and are subject to rigorous internal quality-control evaluations. Each lot of green coffee processed is monitored throughout the decaffeination process, and a certificate of analysis is prepared for each lot. A sample from each production lot is also roasted, brewed and cupped to ensure quality. In addition, our focus on reducing the size of production lots and increasing inventory turnover results in fresher coffee being provided to our customers. Production batch size and inventory turns are two other KPIs that we monitor regularly.
- **Order Fulfillment** – Our integrated supply chain management strategy includes maintaining inventories of finished goods at various coffee warehouses throughout North America, and of raw goods for improved inventory replenishment times. Our order fulfillment rates are monitored regularly. An improved order fulfillment rate contributes to our volume growth and improved customer service levels.
- **Employee Safety** – We are focused on operating our business in a safe manner, and reducing the likelihood that employees will be injured at work. We track employee safety metrics by department, and our safety committee proactively seeks ways to reduce the risks inherent in our operating environment. While we cannot completely eliminate workplace incidents or accidents, we have significantly reduced the number



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of safety-related incidents over the past few years. We believe that ensuring employee safety leads to improved employee retention and morale, increased efficiency and lower operating costs.

### CAPACITY TO DELIVER RESULTS

The following resources allow us to deliver on our business strategy:

- **Proprietary Chemical Free Production Lines** – We have three decaffeination production lines. This enables us to align our production capacity with changes in demand throughout the year. We are able to better control our variable cost by operating a reduced number of lines when demand is lower and all lines when demand is higher. In Q3 2020 we initiated production from our new processing facility in Delta, B.C. In prior years we completed an efficiency enhancement project in Q2 2018 to increase capacity at our Burnaby operating facility and in 2016, we expanded the capacity of one of our production lines, which enabled us to meet near-term growth in demand for our products. The construction of our fourth processing line in Delta will enable us to meet our long term growth ambition.
- **Consumer Branding as the Premium, 100% Chemical Free Method of Decaffeinating Green Coffee** – We have been successful in establishing our brand as a leading chemical free processor of green decaffeinated coffee. Consumers and participants in the coffee trade are increasingly aware of the value of the chemical free Swiss Water® Process due to its quality and taste. We believe that there is significant potential to continue to broaden consumer awareness of the benefits of the Swiss Water® Process.
- **Established Customer Base** – The Swiss Water® Process has an established customer base across North America and in many international markets. Our customers include some of North America’s largest roasters, roaster-retailers and leading coffee brands.
- **Broad Distribution Channels** – Green coffee decaffeinated using the Swiss Water® Process is sold through the coffee market’s key distribution channels: roaster retailers, commercial roasters and coffee importers. This diversity ensures that we access all key segments of the specialty coffee trade and consumer coffee markets.
- **Working Capital and Expansion Capital** – In 2015, 2016, 2018, and 2019 we raised capital which was used to fund the construction of our third production line (housed in the new production facility noted above). This production line was commissioned in 2020. In 2021, we will continue to revisit our budgets and financing strategy to ensure that we have sufficient funds to execute on our business strategy. This will include initiating the construction of our fourth production line at our Delta, B.C. location. We expect to utilize internally generated and external funds to finance the capital costs associated with the new production facility and its future growth.
- **Management Expertise** – Swiss Water is highly regarded in the coffee industry for our senior management team’s substantial experience, our close attention to consumer trends in the specialty coffee market, and our in-depth knowledge of green and roasted coffee. In particular, our intense focus on premium product quality and commitment to science-driven insight is well recognized. To maximize these strengths, we have invested significant resources in enhancing our team’s industry-related skills and talents over the past few years. Going forward, we intend to leverage our exceptional experience with, and knowledge of, the specialty coffee industry to continue to build our business.

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### OPERATING RESULTS

#### Revenue

We categorize our customers by the nature of their business: either coffee importers or roasters. Coffee importers act like grocery stores to roasters, sourcing and importing green coffee from various origins and carrying a selection of different origins and quality levels for roasters to choose from. Importers buy from us in order to resell our coffees to roasters when and where they need it. Roasters are in the business of roasting and packaging coffee for sale to consumers in their own coffee shops, or for home or office use. Roasters either buy directly from Swiss Water, or they buy from an importer. Roasters generally carry lower inventories, as they tend to take delivery of green coffee shortly before roasting it. As such, when compared one period to period, shipments to roasters are more stable when compared to shipments to importers.

We also monitor and report our revenue in three categories. "Process revenue" represents the amount we charge our customers for decaffeinating green coffee, and it generally increases as our processing volumes increase. "Green coffee cost recovery revenue", or "green revenue", is the amount we charge our customers for the green coffee we purchase for decaffeination. "Distribution revenue" consists of shipping, handling, and warehousing charges billed to our customers. It typically rises with our processing volumes and with the growth of Seaforth's business. Our revenue by category for the indicated period was:

(In \$000s) (unaudited)	3 months ended December 31,		Year ended December 31,	
	2020	2019	2020	2019
Process revenue	\$ 6,726	\$ 6,895	\$ 26,079	\$ 26,852
Green revenue	15,951	16,278	64,299	63,047
Distribution revenue	1,835	1,850	7,193	7,331
Total revenue	\$ 24,512	\$ 25,023	\$ 97,571	\$ 97,230

For the quarter ended December 31, 2020, sales totaled \$24.5 million, a decrease of \$0.5 million, or 2%, compared to the same quarter in 2019. Sales for the year 2020 totaled \$97.6 million, an increase of \$0.3 million, or 0.4%, over the same period last year.

Our sales in the fourth quarter and in 2020 by revenue category are as follows:

- Process revenue decreased slightly by \$0.2 million, or 2% in Q4, and decreased by \$0.8 million, or 3% in 2020. Decreases in both periods reflect a slight decrease in our processing volumes and a lower average US\$ exchange rate.
- Green revenue decreased by \$0.3 million, or 2% in Q4, and increased by \$1.3 million, or 2% in 2020. These movements are mainly due to green coffee sales volume decrease or increase offset by a lower or higher coffee futures price, NY'C', in such periods.
- Distribution revenue remained broadly flat in Q4, and decreased by \$0.1 million, or 2% in 2020. Variability in distribution revenue has been driven by lower shipment volumes and some COVID-19 related disruption in the supply chain.

The sales volume performance in the fourth quarter and in 2020 by geographical segment are as follows:

- Sales volume in North America decreased by 3% in Q4, and by 6% in 2020,
- Sales volume in Europe decreased by 48% in Q4, and by 24% in 2020,
- Sales volume in Asia Pacific increased by 14% in Q4, and by 6% in 2020.

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### Cost of Sales

Cost of sales includes the cost of green coffee purchased for our regular business, the plant labour and other processing costs directly associated with our production facility, customer-specific hedges and commodity hedges. The cost of sales incorporates an allocation of fixed overhead costs, which includes depreciation of our production equipment and amortization of our proprietary process technology. In addition, cost of sales includes the costs of operating Seaforth's warehouses.

Our fourth quarter cost of sales increased by \$0.7 million, or 4%, to \$21.7 million this year compared to the same period in 2019, driven by an increase in the cost of green coffee and depreciation of our Delta manufacturing facility. Additional depreciation expense from the Delta manufacturing facility was \$0.5 million for the quarter and \$1.0 million for the year. For the year 2020, our cost of sales was \$81.9 million, up by \$1.2 million, or 1%, over the same period last year. The increase is broadly the result of higher production costs associated with operating in two locations, increased depreciation and annual labour cost inflation, partially offset by a decrease in green coffee costs, which is a significant portion of our cost of sales.

### Gross Profit

Gross profit decreased by 30% to \$2.8 million for the fourth quarter of this year, mainly due to a softening of coffee quality differentials and lower sales volumes. Gross profit for the year 2020 decreased by 5% to \$15.7 million, compared to the same period last year. Full year results have been impacted by lower than expected sales volume, short-term differential margin losses, higher depreciation expense, offset by improved supply chain efficiencies including benefits from the consolidation of our Seaforth warehouses, and lower natural gas costs.

### Administration Expenses

Administration includes general management, inbound and outbound logistics, finance and accounting, quality control and assurance, engineering, research and development, and other administrative or support functions. Administration expenses include compensation expenses, travel and other personnel-related expenses for administrative staff, directors' fees, investor relations expenses, professional fees, depreciation of office-related equipment, and amortization of the brand asset.

Administration expenses for Q4 2020 totaled \$1.4 million. This is a decrease of \$0.7 million, or 33%, compared to the same period last year. Administration expenses for the year 2020 decreased by 15% to \$6.1 million. The reduction was largely due to lower cost recovery of share-based compensation costs, which are based on Swiss Water's share price. During the year 2020, our share price dropped. This resulted in an estimated stock-based compensation cost recovery whereas, in 2019, an expense was recorded. Administration expenses were also lower due to reduced travel costs and less recruitment activity.

### Sales and Marketing Expenses

Sales and marketing expenses include compensation and other personnel-related expenses for sales and marketing staff, consumer initiatives, trade advertising and promotion costs, as well as related travel expenses. We invest in research regarding the behavior of decaffeinated coffee consumers. These insights enable us to create effective consumer advertising programmes, and they form a cornerstone of the consultative services we provide to our customers. We also aim to grow brand awareness with both the coffee trade and consumers. We employ a range of marketing activities to achieve this, including digital and print advertising and social media communications exhibiting and sponsorship at key industry events.

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## Management Discussion and Analysis For the year ended December 31, 2020

Sales and marketing expenses were down by \$0.2 million, or 11%, to \$1.4 million in Q4 2020, and up by \$0.2 million, or 6%, to \$4.4 million for 2020, compared to the same periods in 2019. The increase was driven by timing differences in advertising and marketing campaign activities.

### Finance Expenses and Income

Finance income reflects the charges we bill to customers for financing coffee inventories and interest earned on cash balances and short-term investments. Finance expenses include interest costs on credit facilities and bank debt, other borrowings, the accretion expense on our asset retirement obligation, interest expense on a convertible debenture and interest expense on finance leases.

The net finance expense was \$0.9 million for the three months ended December 31, 2020, and \$2.6 million for the year ended December 31, 2020, respectively, compared to net finance income of \$0.2 million and finance expense of \$1.4 million in the same periods last year. The lower interest income from short-term investments maturing in 2020 combined with interest expenses on a convertible debenture and interest expense on finance leases, due to the adoption of IFRS 16 in 2019, accounted for the majority of the changes.

Interest on the convertible debenture is expensed at an effective interest rate of 12.15% (a rate determined by management in accordance with IFRS), while the contractual interest paid on this loan is at a rate of 6.85%, causing the amortization of the bond discount to change over time.

The adoption of IFRS 16 – Leases in 2019 resulted in interest expenses of \$0.2 million and \$0.8 million recognized during the three months and the year ended December 31, 2020 compared to \$0.1 million and \$0.4 million in December 31, 2019.

During the construction phase of our Delta facility, interest expense related to the construction loan and the Delta lease was capitalized in the property, plant and equipment.

### Gains and Losses on Risk Management Activities

Under hedge accounting, gains or losses on designated hedges are included in either revenue or cost of sales, held on the balance sheet or included in other comprehensive income for future transactions (see 'Hedge Accounting', below). Thus, 'Gain (loss) on risk management activities' includes only those gains and losses on derivative financial instruments or portions of such instruments that are not designated as hedging instruments.

For the three months and the year ended December 31, 2020, we recorded a gain of \$0.3 million and \$0.1 million respectively, compared to a gain of \$0.4 million and \$1.4 million recorded for the same periods in 2019.

### Fair Value Adjustment on Embedded Option

Swiss Water entered into a convertible debenture in October 2016. Under IFRS, this instrument is deemed to contain an embedded option that must be revalued at each balance sheet date. The fair value of the derivative liability was determined using the Black-Scholes Option Pricing Model. The variables and assumptions used in computing the fair value are based on management's best estimate at each balance sheet date.

The revaluation on this embedded option resulted in loss of \$0.1 million in the fourth quarter of 2020 and a gain of \$1.3 million for the year-to-date, compared to losses of \$0.01 million and \$0.8 million, respectively, in the same periods of last year. The fluctuations are due to Swiss Water's share price and the risk-free interest

# SWISS WATER DECAFFEINATED COFFEE INC.

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## Management Discussion and Analysis For the year ended December 31, 2020

rate that are used as inputs in the Black Scholes model. During the year, our share price and risk-free interest rate dropped.

### Gains and Losses on Foreign Exchange

We realize gains and losses on transactions denominated in foreign currencies when they occur, and on assets and liabilities denominated in foreign currencies when they are translated into Canadian dollars as at the financial statement date.

During the fourth quarter, we recorded a loss on foreign exchange of \$0.04 million, compared to a \$0.2 foreign exchange loss in the same period of last year. The full year amount for 2020 was a gain of \$0.02 million compared to a loss of \$0.4 million in the same period of 2019.

### Income Before Taxes and Net Income

In the fourth quarter of 2020, we recorded a loss before taxes of \$0.6 million, compared to a gain of \$0.9 million in the same period in 2019. Current and deferred income tax recovery increased our net income by \$0.3 million for the quarter, compared to an expense of \$0.2 million in Q4 2019. Deferred income taxes arise mainly from temporary differences between the depreciation and amortization expenses deducted for accounting purposes, and the capital cost allowances deducted for tax purposes, as well as changes in corporate income tax rates as adjusted for substantively enacted higher future tax rates. The latter is offset by the tax benefit of loss carryforwards recognized. Overall, we recorded a net loss of \$0.3 million in Q4 2020, compared to \$0.7 million net income in the same quarter last year.

We recorded a pre-tax income of \$4.0 million in 2019 and 2020. This was reduced by income tax expenses of \$1.1 million in both 2019 and 2020. Overall, we recorded a net income of \$2.9 million for the year-to-date 2020 and 2019.

### Other Comprehensive Income

Gains or losses on our designated revenue hedges that will mature in future periods are recorded in other comprehensive income, net of income tax expense. Other comprehensive income, net of tax, for the fourth quarter of 2020 was a gain of \$1.8 million, compared to a gain of \$0.7 million in the same period of 2019. Other comprehensive income, net of tax, for 2020 was a gain of \$1.4 million, compared to \$1.9 million in the same period of 2019. In both periods, the increases and decreases are related to fluctuations in the value of the Canadian dollar versus the US dollar.

### Basic and Diluted Earnings per Share

Basic earnings per share are calculated by dividing net income by the basic weighted average number of shares outstanding during the period. Similarly, diluted earnings per share are calculated by dividing net income adjusted for the effects of all dilutive potential common shares, by the diluted weighted average number of shares outstanding. For the purposes of the calculation, under IFRS we are required to assume that the maximum number of shares issuable under the convertible debenture will be issued, even though the debenture contains a net share settlement provision (which if exercised would result in far fewer shares being issued).

For the three months ended and year ended December 31, 2019, potential common shares issuable under the RSU Plan and common shares issuable for the convertible debenture were anti-dilutive and excluded from the dilution calculation.

# SWISS WATER DECAFFEINATED COFFEE INC.

## Management Discussion and Analysis For the year ended December 31, 2020

For the three months period ended December 31, 2020, potential common shares issuable under the RSU Plan and common shares issuable for the convertible debenture were anti-dilutive and excluded from the dilution calculation.

For the year ended December 31, 2020, all potential common shares issuable under the RSU Plan were anti-dilutive and excluded from the dilution calculation and common shares issuable for the convertible debenture were dilutive, hence included in the dilution calculation.

The calculations of basic and diluted earnings per share for the current and prior periods are shown in the following table:

(In 000s except for per share data) (unaudited)	3 months ended December 31,		Year ended December 31,	
	2020	2019	2020	2019
<b>Basic earnings per share</b>				
Net income (loss) attributable to shareholders	\$ (320)	\$ 716	\$ 2,949	\$ 2,944
Weighted average number of shares	9,078,780	9,061,210	9,076,188	9,061,210
Basic earnings (loss) per share	\$ (0.04)	\$ 0.08	\$ 0.32	\$ 0.32
<b>Diluted earnings (loss) per share</b>				
Net income (loss) attributable to shareholders	(320)	716	2,949	2,944
Interest on convertible debenture	-	-	1,145	-
Gain on fair value adjustment of the embedded option	-	-	(1,328)	-
Net income (loss) after effect of diluted securities	\$ (320)	\$ 716	\$ 2,766	\$ 2,944
Weighted average number of shares – basic	9,078,780	9,061,210	9,076,188	9,061,210
Effect of diluted securities: convertible debenture	-	-	1,818,182	-
Weighted average number of shares - diluted	9,078,780	9,061,210	10,894,370	9,061,210
Diluted earnings (loss) per share	\$ (0.04)	\$ 0.08	\$ 0.25	\$ 0.32

## NON-IFRS MEASURES

### EBITDA and EBITDA which excludes the impact of IFRS 16 - Leases

EBITDA is often used by publicly traded companies as a measure of cash from operations, as it excludes financing costs, taxation and non-cash items. The reporting of EBITDA is intended to assist readers in the performance of their own financial analysis. However, since this measure does not have a standardized meaning prescribed by IFRS, it is unlikely to be comparable to similar measures presented by other entities.

We define EBITDA as net income before interest, depreciation, amortization, impairments, share-based compensation, gains/losses on foreign exchange, gains/losses on disposal of property and capital equipment, fair value adjustments on embedded options, and provision for income taxes. Our definition of EBITDA also excludes unrealized gains and losses on the undesignated portion of foreign exchange forward contracts.

EBITDA for Q4 2020 was \$1.9 million, up by 30% compared to Q4 2019. EBITDA excluding the effect of IFRS 16 for the three months ended December 31, 2020 was \$1.2 million, up by 49% compared to Q4 2019. EBITDA for 2020 was \$9.8 million, down by 6% compared to the same period in 2019. EBITDA excluding the effect of IFRS 16 for 2020 was \$7.0 million, down by 4% compared to the same period in 2019. Operationally, the change in EBITDA was driven by revenue growth, successful efforts across the Company to enhance cost recovery, an increased financial contribution from Seaforth and lower costs for natural gas. These gains were offset by lower sales volumes, an increase in green coffee costs and annual increases in labour costs.

# SWISS WATER DECAFFEINATED COFFEE INC.

## Management Discussion and Analysis For the year ended December 31, 2020

The reconciliation of net income to EBITDA is as follows:

(In \$000s) (unaudited)	3 months ended December 31,		Year ended December 31,	
	2020	2019	2020	2019
Income (loss) for the period	\$ (320)	\$ 716	\$ 2,949	\$ 2,944
Income taxes	(323)	193	1,058	1,059
Income before tax	\$ (643)	\$ 909	\$ 4,007	\$ 4,003
Finance income	(118)	(134)	(488)	(511)
Finance expenses	1,061	(85)	3,087	1,911
Depreciation & amortization	1,653	804	4,677	3,697
Unrealized gain on foreign exchange forward contracts	(371)	(488)	(48)	(830)
Fair value loss (gain) on the embedded option	72	12	(1,328)	770
(Gain) loss on foreign exchange	43	190	(19)	425
Share-based compensation	192	246	(129)	885
EBITDA	\$ 1,889	\$ 1,454	\$ 9,759	\$ 10,350
Impact of IFRS 16, which was adopted in the year 2019	(700)	(657)	(2,717)	(3,006)
EBITDA excluding the impact of IFRS 16	\$ 1,189	\$ 797	\$ 7,042	\$ 7,344

To help readers better understand our financial results, the following table shows the reconciliation of operating income to EBITDA:

(In \$000s) (unaudited)	3 months ended December 31,		Year ended December 31,	
	2020	2019	2020	2019
Operating income for the period	\$ 126	\$ 539	\$ 5,137	\$ 5,162
Add back:				
Depreciation & amortization	1,653	804	4,677	3,697
Share-based compensation	192	246	(129)	885
Gain (loss) on risk management activities	289	353	122	1,436
Deduct:				
Unrealized gain on foreign exchange forward contracts	(371)	(488)	(48)	(830)
EBITDA	\$ 1,889	\$ 1,454	\$ 9,759	\$ 10,350
Impact of IFRS 16, which was adopted in the year 2019	(700)	(657)	(2,717)	(3,006)
EBITDA excluding the impact of IFRS 16	\$ 1,189	\$ 797	\$ 7,042	\$ 7,344

# SWISS WATER DECAFFEINATED COFFEE INC.

## Management Discussion and Analysis For the year ended December 31, 2020

### QUARTERLY INFORMATION / SEASONALITY

There is an element of seasonality in our business, in that the second half of the year tends to have higher volumes and revenues. The pandemic masked the typical seasonality pattern in 2020.

The following table summarizes results for each of the eight most recently completed fiscal quarters. For comparative purposes, we have also provided the averages for the previous 8-quarter period:

In \$000s except for per share amounts (unaudited)	8 Quarter Average	Q4 2020	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Q1 2019
Sales	24,350	24,512	24,862	26,380	21,817	25,023	23,645	24,392	24,170
Gross Profit	4,018	2,861	3,431	5,154	4,206	4,106	4,737	4,106	3,544
Operating income	1,287	126	606	2,370	2,035	539	2,291	1,356	976
EBITDA <sup>1</sup>	2,513	1,888	2,036	3,194	2,640	1,454	3,485	3,097	2,312
EBITDA excluding IFRS 16 <sup>2</sup>	1,798	1,186	1,335	2,536	1,981	797	2,696	2,278	1,573
Net income (loss)	737	(320)	106	1,716	1,448	716	884	1,353	(9)
<b>Per Share<sup>3</sup></b>									
Net income (loss) - basic	0.08	(0.04)	0.01	0.19	0.16	0.08	0.10	0.15	-
Net income (loss) - diluted	0.06	(0.04)	0.01	0.19	0.02	0.08	0.10	0.14	-

<sup>1</sup> EBITDA is defined in the 'Non-IFRS Measures' section of this MD&A and is a "Non-GAAP Financial Measure" as defined by CSA Staff Notice 52-306.

<sup>2</sup> EBITDA excluding the impact of IFRS 16 - Leases is defined as EBITDA, less lease payments made during the year.

<sup>3</sup> Per-share calculations are based on the weighted average number of shares outstanding during the periods.

### SELECTED ANNUAL INFORMATION

(In \$000s except per share amounts) (unaudited)	December 31, 2020	December 31, 2019	December 31, 2018
<b>Balance Sheet</b>			
Total assets	139,233	136,881	86,881
Total non-current liabilities	70,262	66,445	27,284
<b>Income Statement</b>			
Revenue	97,571	97,230	89,939
Net income	2,949	2,944	4,531
EBITDA <sup>1</sup>	9,759	10,350	7,745
EBITDA excluding impact of IFRS 16 <sup>2</sup>	7,042	7,344	7,745
Dividends paid <sup>4</sup>	566	2,265	2,262
<b>Per share, basic<sup>3</sup></b>			
Net income	0.32	0.32	0.50
EBITDA <sup>1</sup>	1.08	1.14	0.85
EBITDA excluding impact of IFRS 16 <sup>2</sup>	0.78	0.81	0.85
Dividends declared	-	0.25	0.25
<b>Per share, diluted<sup>3</sup></b>			
Net income	0.25	0.32	0.35
EBITDA <sup>1</sup>	0.90	1.14	0.71
EBITDA excluding impact of IFRS 16 <sup>2</sup>	0.65	0.81	0.71

<sup>1</sup> EBITDA is defined in the 'Non-IFRS Measures' section of this MD&A and is a "Non-GAAP Financial Measure" as defined by CSA Staff Notice 52-306.

<sup>2</sup> EBITDA excluding the impact of IFRS 16 - Leases is defined as EBITDA, less lease payments made during the year.

<sup>3</sup> Per-share calculations are based on the weighted average number of shares outstanding during the periods.

<sup>4</sup> Dividend paid in 2020 was for dividend declared in Q4 2019.

Our total assets and our total long-term liabilities increased in each of the last two years as we were building our new production facility in Delta, which is now complete, and they increased due to the adoption of IFRS 16 – Leases. Our new state of the art production facility in Delta, BC, for which construction commenced in



# SWISS WATER DECAFFEINATED COFFEE INC.

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## Management Discussion and Analysis For the year ended December 31, 2020

2016, increased our total assets by \$7.8 million in 2020 and by \$24.8 million in 2019, respectively (see 'Outlook' section, above). IFRS 16 – Leases was adopted in the year 2019, which resulted in an increase of \$24.0 million to total assets. Total long-term liabilities increased in both years consistently with the additions to our new plant and the new IFRS 16.

### LIQUIDITY AND CAPITAL RESOURCES

#### Operating activities

For the three months and year ended December 31, 2020, we generated \$3.2 million and \$4.4 million, respectively, in net cash from operating activities, compared to \$0.7 million and \$7.4 million generated in the same periods in 2019.

#### Investing Activities

Cash outflows in investing activities for Q4 2020 were \$0.4 million, compared to cash outflows of \$4.1 million in Q4 2019. Cash outflows from investing activities for 2020 were \$12.5 million, compared to cash outflows of \$18.7 million in the same period last year. In both years the majority of cash outflows were for capital expenditures related to our plant expansion in Delta, BC.

#### Financing Activities

During the year ended December 31, 2020, Swiss Water paid \$0.6 million in dividends to shareholders compared to \$2.3 million in 2019. In 2019, we received proceeds from our construction loan in the amount \$10.6 million which were used to pay for costs of our new production plant in Delta. No proceeds were received from the construction loan in 2020 as the company had already reached its loan capacity. Also, in the year 2020, we received proceeds (net of repayment) of \$6.3 million from our credit facility to pay for operational and capital initiatives compared to \$3.5 million in 2019.

#### Inventory

Our inventory increased in value by 4% and in volumes decreased by 3% between December 31, 2019 and December 31, 2020. The increase reflects a higher NY'C' in the current year.

Under hedge accounting, gains and losses on derivative instruments for coffee to be sold in future periods are recorded in inventory. The hedge accounting component of inventory as at December 31, 2020 was a gain of \$1.1 million compared to a gain of \$1.3 million at the end of 2019.

#### Accounts Receivable

Our accounts receivable increased by \$0.8 million, or 6%, between December 31, 2019 and December 31, 2020 compared to an increase of \$0.3 million, or 2%, between December 31, 2018 and December 31, 2019. 89% of Swiss Water accounts receivable are current as at December 31, 2020. The majority of the past due amounts were collected shortly after the year end.

#### Credit Facilities and Liquidity

On October 18, 2019, Swiss Water entered into a revolving credit facility agreement ("Credit Facility"), with a Canadian Bank, for borrowings up to the lower of the Borrowing Base and \$30.0 million. The Credit Facility's Borrowing Base margins eligible inventories and accounts receivable, commodity hedging account equity margin plus its market-to-market gains, which are netted against any losses in the commodity account and foreign exchange contract facility. Amounts can be drawn in either Canadian or in US\$ dollars and can be borrowed, repaid, and re-borrowed to fund operations, capital expansions, letters of credit and for general

# SWISS WATER DECAFFEINATED COFFEE INC.

## Management Discussion and Analysis

For the year ended December 31, 2020

corporate purposes. The maturity date is October 18, 2022, however, we can repay the Credit Facility at any time on or before the maturity date as long as the outstanding balance is not in excess of the borrowing base. The maturity date can be extended, subject to the lenders' approval.

The Credit Facility has multiple interest rate options that are based on the Canadian Prime Rate, Base Rate, LIBO Rate, Bankers' Acceptance Rate plus an acceptance fee, in addition to an Applicable Margin for each of these rates. Fees apply to outstanding letters of credit and the unused portion of the credit. Swiss Water has pledged substantially all of our assets, except for assets pledged to BDC under the Term Loan (see below, Construction Loan).

In addition, as a part of the Credit Facility, we have an US\$8.0 million foreign exchange and commodity futures contract facility, which allows us to enter into spot, forward and other foreign exchange rate transactions with our bank with a maximum term of 60 months.

Our facilities are collateralized by general security agreements over all of the assets of Swiss Water and a floating hypothecation agreement over cash balances.

We have certain bank and creditor covenants that relate to the maintenance of specified financial ratios and we were in compliance with all covenants in the years 2019 and 2020.

### Construction Loan

In Q4 2018, the Company completed a transaction with the Business Development Bank of Canada ("BDC") for a term loan facility ("Term Loan") of up to \$20.0 million. The purpose of the Term Loan is to assist in the financing of new equipment for the facility being built in Delta, British Columbia. The Term Loan bears interest at 4.95% per annum over 12 years with principal repayment commencing on July 1, 2021.

The Term Loan matures on June 1, 2033. Only interest will be paid on the outstanding balance on a monthly basis prior to July 1, 2021. The Term Loan is secured by a general security agreement and a first security interest on all existing equipment and machinery plus new equipment and machinery financed with the Term Loan. Seaforth has provided a guarantee for the Term Loan. As of December 31, 2020, the loan amount outstanding was \$20.0 million with interest accrued of \$0.08 million.

### Contractual Obligations

The following table sets forth our contractual obligations and commitments as at December 31, 2020:

(In \$000s) (unaudited)	Total	Less than 1 year	2-3 years	4-5 years	Over 5 years
Long-term debt <sup>1</sup>	\$ 35,083	\$ 918	\$ 18,333	\$ 3,333	\$ 12,499
Financing leases <sup>2</sup>	12,153	2,809	4,917	2,497	1,930
Credit facility <sup>3</sup>	10,021	-	10,021	-	-
Purchase obligations <sup>4</sup>	52,587	52,587	-	-	-
Total contractual obligations	\$ 109,844	\$ 56,314	\$ 33,271	\$ 5,830	\$ 14,429

<sup>1</sup> Long-term debt represents the principal amounts of the convertible debenture and construction loan.

<sup>2</sup> Minimum obligations for our finance leases.

<sup>3</sup> Credit facility matures in 2022.

<sup>4</sup> Purchase obligations represent outstanding capital, coffee and natural gas purchase commitments.

# SWISS WATER DECAFFEINATED COFFEE INC.

## Management Discussion and Analysis For the year ended December 31, 2020

Swiss Water leases the following offices, warehouses and equipment:

On August 26, 2016, we signed a lease agreement for a build-to-suit production facility. The lease has an initial term of five years and can be renewed at our option in five-year increments up to a total of 30 years. The lease commenced in July 2018. Under the lease, Swiss Water has multiple options to buy-out the lease starting at the end of the second five-year term. The buy-out value will be equal to the fair market value of the property as determined by an appraisal process, subject to specified maximum and minimum values.

Seaforth leases a warehouse in Delta and the lease expires in June 2027. The Company has two options to renew the lease for an additional term of five years each.

Swiss Water leases a sales office in France which expires in October 2027.

Swiss Water leases a facility in Burnaby that houses its decaffeination plant and offices. The lease expires in May 2023.

Swiss Water Decaffeinated Coffee Company USA, Inc. leases a sales office in Seattle, Washington, which expires in October 2022.

Seaforth leases a truck. The lease expires in April 2023.

Swiss Water leases various office equipment with expiring dates of October 2024 and January 2025.

### OFF-BALANCE SHEET ARRANGEMENTS

Swiss Water has no off-balance sheet arrangements.

### RELATED PARTY TRANSACTIONS

We provide toll decaffeination services and/or sell finished goods to, and purchase raw material inventory from a company that is related to one of Swiss Water's Directors, Roland Veit.

The following table summarizes related party sales and purchases during the periods:

(In \$000s) (unaudited)	Year ended December 31,	
	2020	2019
Income for the period	\$ 479	\$ 957
Purchases of raw materials	\$ 3,891	\$ 3,843

All transactions were in the normal course of operations and were measured at the fair value of the consideration received or receivable, which was established and agreed to by the related parties. As at December 31, 2020, our accounts receivable balance with this company was \$0.04 million (December 31, 2019: \$0.01 million) while our accounts payable balance with this company was \$0.3 million (December 31, 2019: \$0.5 million).

On March 16, 2017, a subsidiary of Swiss Water and a member of Key Management (the borrower) entered into a promissory note in the amount of US\$0.1 million. For as long as the borrower remains an employee, the obligation to repay the principal is forgiven against current and future awards under the RSU Plan, by forfeiture of awards. The loan is interest-free other than in the event of default, in which case the promissory note shall bear simple interest at a rate of 10% per annum.

# SWISS WATER DECAFFEINATED COFFEE INC.

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## Management Discussion and Analysis For the year ended December 31, 2020

### RISKS AND UNCERTAINTIES

Cash from operations may fluctuate with the performance of the business, which can be susceptible to a number of risks. These risks may include, but are not limited to, foreign exchange fluctuations, labour relations, coffee prices (notwithstanding hedging programs, as exact hedging correlation is not attainable), the availability of coffee, competition from existing chemical and other natural or chemical free coffee decaffeinator, competition from new entrants with alternate processing methods or agricultural technologies, environmental and regulatory risks, terms of credit agreements, commodity futures losses, ability to maintain organic certification, adequacy of insurance, risks related to information technology, dependence on key personnel, product liability, uncollectable debts, liquidity risk and timing and costs of capital projects including the construction of the second line at the Delta facility and general economic downturns. These risks and how Swiss Water manages them are described in the AIF. The future effect of these risks and uncertainties cannot be quantified or predicted.

Swiss Water's operations may be negatively impacted in the event of a local or global outbreak of disease, such as the novel coronavirus, COVID-19 outbreak pandemic declared in March 2020. A pandemic may impact demand for our products and services and the capability of our supply chains. It may also impact expected credit losses on our amounts due from customers and whether the entity continues to meet the criteria for hedge accounting. For example, if a hedged forecast transaction is no longer highly probable to occur, hedge accounting would be discontinued.

### ENVIRONMENTAL RISKS

The Canadian Securities Administrators ("CSA") identifies five categories of risks: litigation, physical, regulatory, reputational and business model, for which issuers are asked to identify material risks and if they are reasonably likely to affect financial statements in the future.

Environmental matters relate to a broad range of issues, including those related to air, water, waste and land. As a small company with limited human and financial resources, we focus on only those risks that we believe could have a materially adverse impact on our operations and/or financial results within our planning horizon, rather than seeking to identify all possible future risks. Risk assessment involves judgment, uncertainty and estimates, which can provide only reasonable, rather than an absolute, assurance that all the applicable risks and their expected impacts on Swiss Water are considered.

The most pervasive environmental risks that we face relate to the fact that we buy, sell and store an agricultural commodity. The supply of green coffee can be impacted by numerous environmental conditions such as frosts, drought, plant disease and insect damage, which can impact the quality and size of the coffee crop. In addition, certain environmental conditions, such as excessive rains, can hamper crop harvesting. A shortage of coffee can impact our processing volumes and revenues. We seek to mitigate the risks of coffee shortages by maintaining an extensive list of coffee suppliers; by dealing with importers who themselves have multiple suppliers rather than contracting directly with farmers or coffee co-operative organizations; by maintaining up to three months of coffee inventories at any time; by developing and modifying coffee blends that take into consideration coffee availability and cost from various coffee origins; and, by entering into purchase contracts with suppliers for future delivery of coffee (rather than relying on 'spot' deliveries). In addition, the coffee commodity price is closely tied to available supplies of coffee globally. We mitigate the commodity price risk through our commodity price risk management policy.

Our leased facilities are located in the Metro Vancouver area of British Columbia. Vancouver is considered to be at high risk of a major earthquake. Any significant earthquake in the vicinity could have a material impact

# SWISS WATER DECAFFEINATED COFFEE INC.

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## Management Discussion and Analysis For the year ended December 31, 2020

on our operations for a period of time, depending on the extent of the damage to the facilities, our equipment, and the transportation infrastructure in the region. In short, a major earthquake could have a material adverse impact on our revenues. We carry property and business interruption insurance, including earthquake coverage, which would help offset the cash flow impact of such an event. In addition, we keep some finished goods inventory in third-party coffee warehouses in other regions, and we would be able to sell these finished goods even if our production and distribution of coffee were temporarily interrupted by an earthquake. Nevertheless, the financial and operational impact of a major earthquake cannot be reasonably predicted.

We are subject to a number of environmental laws and regulations related to our facilities in British Columbia, which mandate, among other things, the maintenance of air and water quality. We routinely monitor our compliance with these standards. Based on our compliance record and our maintenance programs, as well as currently enacted laws and regulations, we do not believe that these regulatory risks are material.

We expect to incur increased costs for energy and water consumption over time. If we cannot pass on such increased costs to our customers, our profitability may be adversely impacted.

We believe that all known environmental obligations and provisions have been appropriately reflected in our financial statements. We have not identified any material litigation, reputational, or business model risks related to environmental matters. Nevertheless, we may be subject to potential unknown or unforeseeable environmental impacts arising from, or related to, our business. Costs associated with such issues could be material.

We believe that the trend toward increased environmental awareness creates an opportunity for us to grow our business, as consumers and coffee industry participants place greater emphasis on reducing their impact on the environment. As one of the few chemical free decaffeinator in the world, we believe that an increased focus on environmental matters will allow us to win more business away from decaffeinator that use chemicals such as methylene chloride to decaffeinate coffee.

## CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES

### Measurement of Uncertainty

The preparation of financial statements in accordance with IFRS requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Estimates are used when accounting for asset retirement obligations, share-based compensation and convertible debt with embedded derivatives and income taxes. Actual results may be different from these estimates.

Effective January 1, 2019, we adopted IFRS 16 Leases in accounting for leases of our offices, warehouses, and equipment. Estimates and assumptions were made and applied, including the useful lives of right-of-use assets and the implicit borrowing rates. The useful lives of right-of-use assets are estimated to be the length of the related lease terms, ranging from 2 to 20 years. The weighted average implicit borrowing rate is 4.92% per annum which was based on borrowing rates available to the Company.

An accounting estimate is deemed critical only if it requires us to make assumptions about matters that are highly uncertain at the time the accounting estimate is made, and different estimates that we could have used in the current period would have a material impact on our financial condition or results of operations.

# SWISS WATER DECAFFEINATED COFFEE INC.

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## Management Discussion and Analysis For the year ended December 31, 2020

### Asset Retirement Obligation

The undiscounted future value of the asset retirement obligation (“ARO”) with respect to our leased decaffeination facilities is estimated at \$1.5 million. This estimate assumes that we relocate from the current locations upon expiry of the lease renewal term in 2023 for Line 1 and Line 2, and the expiry of lease, before renewal in 2038 for Line 3. Further, the estimate reflects the expected costs of vacating the leased facility in 2023 and 2038, having regard for the contract language in the lease, the expected useful lives of our plant and equipment, and the expected costs that would be paid to a third party to remove equipment.

### Income Taxes

We compute income taxes using the liability method, under which deferred income taxes are provided for the temporary differences between the financial reporting bases and the tax bases of our assets and liabilities. Deferred tax assets and liabilities are measured using the enacted and substantively enacted income tax rates that are expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

Deferred tax assets also reflect estimates of the recoverability of non-capital loss carryforwards. We have recognized the benefit of loss carryforwards to the extent that it is probable that taxable income will be available in the future against which our non-capital loss carryforwards can be utilized. As at December 31, 2020, Swiss Water and its subsidiaries had combined non-capital tax loss carryforwards totaling \$20.8 million, which can be used to reduce income taxes payable in future years.

The financial reporting bases of our assets reflect the useful lives of depreciable assets, as well as the carrying amounts of assets with indefinite useful lives. Accordingly, management estimates that impact the carrying amounts of depreciable and non-depreciable assets also have an impact on deferred income tax assets and liabilities.

### Convertible Debenture with Embedded Derivatives

On October 11, 2016, the Company issued an unsecured subordinated convertible debenture for gross proceeds of \$15.0 million. The convertible debenture bears interest at a rate of 6.85% per annum to be paid quarterly in arrears and is due on October 11, 2023. Subject to reaching specific thresholds in the covenant, the interest rate increases to 7.85% per annum to be paid quarterly in arrears. The convertible debenture is convertible into common shares of the Company at a conversion price of \$8.25 per common share. Under the terms of the agreement, Swiss Water had the option to pay interest-in-kind for the first two years. If elected, this option would have increased the principal sum by the interest owing. This option was not elected.

The convertible debenture also includes a Net Share Settlement feature that allows Swiss Water, upon conversion, to elect to pay cash equal to the face value of the convertible debenture and to issue common shares equal to the excess value of the underlying equity above the face value of the convertible debenture. If the Net Share Settlement option is elected, it will result in fewer common shares being issued. In 2016, the Company paid financing costs of \$0.5 million in respect of issuing the convertible debenture.

Under IFRS, we are required to estimate the interest rate on a similar instrument of comparable credit status and providing for substantially the same cash flows, on the same terms, but without the equity conversion option, in order to estimate the fair value of the liability portion of the convertible debenture upon initial recognition. We have estimated the effective interest rate to be 12.15%, such that the fair value of the liability component of the convertible debenture was initially measured at \$11.2 million. During 2020, the Company

# SWISS WATER DECAFFEINATED COFFEE INC.

## Management Discussion and Analysis For the year ended December 31, 2020

estimated and recorded \$1.6 million in interest expense (2019: \$1.5 million) and paid \$1.0 million (2019: \$1.0 million).

We are also required to estimate the fair value of the embedded derivative liability related to the convertible debenture at initial recognition, and at the end of each reporting period. We use the residual value method to allocate the fair value of the convertible debenture between the liability component and the derivative liability. Under this method, the value of the derivative liability was determined to be \$3.3 million at inception. The fair value of the derivative liability was determined using the Black-Scholes Option Pricing Model. The variables and assumptions used in computing the fair value are based on management's best estimate. The value varies with different variables of certain subjective assumptions.

Inputs into the Black-Scholes Option Pricing Model to determine the fair value of the conversion option:

	Year ended December 31,	
	2020	2019
Share price	\$ 3.06	\$ 6.92
Exercise price	\$ 8.25	\$ 8.25
Option life	2.78 years	3.78 years
Volatility	48%	31%
Risk-free interest rate	0.25%	1.68%
Dividend yield	0.00%	3.61%

### Leases

The preparation of consolidated financial statements requires that the Company's management make assumptions and estimates on its finance leases. Certain estimates and assumptions need to be made and applied, which include, but are not limited to, the determination of the expected lease term and minimum lease payments, the assessment of the likelihood of exercising options, and estimation of the fair value of the leased properties at lease inception.

### Impairment

Property, plant and equipment, and intangible assets with finite lives and that are subject to depreciation or amortization are tested for impairment indicators at the end of each reporting period. If any such indicator exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. During 2020, the Company received notification from the landlord of the Lake City Way lease that they will not renew the lease after 2023. The location houses two production lines, of which one is anticipated to have utility past the year 2023, and therefore is depreciated beyond the life of the lease. The Company continues to pursue options to utilize assets from this production line in future operations. As a result, the Company tested our property, plant and equipment for impairment in accordance with IAS 36, Impairment of Assets, using a fair value less cost to sell method and determined that no write-down of property, plant and equipment was required.

### CHANGES IN ACCOUNTING STANDARDS

- The following standard became effective for annual periods beginning on or after January 1, 2020. The adoption of these revised standards by the Company did not have a material impact on its condensed consolidated interim financial statements.
  - IFRS 9/ IAS 39 and IFRS 7 relate to interest benchmark reform and has amendments that provide temporary relief from applying specific hedge accounting requirement to hedging relationships

# SWISS WATER DECAFFEINATED COFFEE INC.

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## Management Discussion and Analysis For the year ended December 31, 2020

directly affected by IBOR reform and that required certain disclosures; IAS 1 and IAS 8 redefined materiality; IFRS 3 was amended to revise the definition of a business; Conceptual Framework replaces the conceptual framework for financial reporting issued by IASB in September 2010.

- There are a number of changes in accounting standards not yet effective. The Company does not anticipate a material impact on its financial statements:
  - IAS 1 amendments address the classification of liabilities between current and non-current.
  - IFRS 17 new standard on accounting for insurance contracts, replacing IFRS 4.

### HEDGE ACCOUNTING

There is a risk related to unpredictability over coffee commodity prices and foreign exchange rates. To minimize these risks, we follow our risk management program, which is carried out under two policies approved by the Board of Directors: the Foreign Exchange Risk Management Policy and the Commodity Price Risk Management Policy. With the use of derivative financial instruments we hedge potential adverse effects on our financial performance and cash flows. Under the risk management program we enter into three types of hedges and each type is discussed below:

- 1) Commodity price risk hedges on coffee purchase commitments and coffee inventory (“commodity hedges”);
- 2) Currency risk hedges related to US\$ denominated future process revenues (“revenue hedges”); and
- 3) Currency risk hedges related to US\$ denominated purchases of green coffee (“purchase hedges”).

#### Commodity Hedges

When we enter into a purchase commitment to buy green coffee, the contract specifies that the purchase price will be based, in part, on the future (to-be-determined) coffee futures price, or NY’C’. We agree on or ‘fix’ the NY’C’ price with the vendor on or before receiving the coffee into inventory. When we bear the economic risk of a change in the commodity price, we offset this risk by selling short a futures contract on the Intercontinental Exchange. When we later sell such coffee at a fixed price to a customer, we cover our short by going long on a futures contract on the Intercontinental Exchange.

At each period-end, commodity hedges are re-measured to their fair value. Under hedge accounting, gains/losses for hedged coffee purchase commitments and inventory are recorded in the statement of financial position until such coffee is sold, at which time the gains/losses on our commodity hedges are recognized in cost of sales. In this way, gains/losses on our commodity hedges are matched to our sales in the period.

#### Revenue Hedges

We enter into forward contracts to sell US\$ at future dates to hedge the foreign exchange cash flow variability of expected US\$ processing fee revenue up to 60 months in advance. The hedged process revenue includes both process revenue from tolling arrangements (processing of customer-owned coffee) as well as the US\$ processing fee layer of inventory sales agreements. This enables us to more reliably predict how much Canadian currency we will receive for our US\$ process revenue. Cash flows in the immediate 12-month period are hedged at a higher percentage of expected future revenues than those farther out, reflecting greater uncertainty in the 13-to 60-month period.

At each period end, revenue hedges are re-measured to their fair value. Under hedge accounting, unrealized gains/losses for open revenue hedges are recorded in other comprehensive income. When a revenue hedge



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matures, the realized gain/loss on that contract is reclassified from accumulated other comprehensive income to process revenue.

### Purchase Hedges

We enter into forward contracts to buy US\$ for green coffee inventory which, once decaffeinated, will be sold at a fixed C\$ price pursuant to a customer-specific contract. To mitigate the exposure to margin changes on these transactions arising from fluctuations in the US\$/C\$ exchange rate, we enter into US\$ forward purchase contracts which economically lock in the US\$/C\$ exchange rate, and effectively locks in the C\$ cost of inventory to be sold at the fixed C\$ amount.

The hedge accounting allows for matching of US\$ purchases with the associated gains/losses on the forward contracts used to economically hedge these items. At each period-end, customer-specific hedges are re-measured to their fair value. Under hedge accounting, the gains/losses on these hedges are deferred on the statement of financial position until the inventory is sold, at which time the gains/losses are recorded in cost of sales on the income statement.

## FINANCIAL INSTRUMENTS

We use financial instruments to mitigate economic risks associated with our business. The three types of hedges we enter into, and the hedging instruments used, are discussed in more detail under 'Hedge Accounting' above.

We classify our financial assets and financial liabilities in the following measurement categories (i) those to be measured subsequently at fair value (either through other comprehensive income or through profit or loss); and (ii) those to be measured at amortized cost. We have implemented the following classifications for financial instruments other than derivatives:

- Cash and cash equivalents and short-term investments are classified as assets at fair value and any period change in fair value is recorded through interest income in the consolidated statement of income, as applicable.
- Accounts receivable and other receivables are classified as assets at amortized cost using the effective interest rate method. Interest income is recorded in the consolidated statement of income, as applicable.
- Accounts payable, credit facilities, the debt portion of the convertible debenture and other liabilities are classified as other financial liabilities and are measured at amortized cost using the effective interest rate method. Interest expense is recorded in the consolidated statement of income, as applicable.

### Commodity Price Risk

Commodity price risk is the risk that the fair value of inventory will fluctuate as a result of changes in commodity prices. The Company utilizes futures contracts to manage its commodity price exposure. The Company buys and sells futures contracts for coffee on the Intercontinental Exchange in order to offset its inventory position and fix the input cost of green coffee. As at December 31, 2020, the Company had futures contracts to buy 2.5 million lbs of green coffee with a notional value of US\$3.0 million, and contracts to sell 6.6 million lbs of green coffee with a notional value of US\$7.9 million. The furthest contract matures in September 2021 (2019: buy 3.6 million lbs of green coffee with a notional value of US\$4.7 million, and contracts to sell 6.6 million lbs of green coffee with a notional value of US\$8.3 million).

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## Management Discussion and Analysis For the year ended December 31, 2020

### Foreign Currency Risk

We realize a significant portion of our revenues in US\$, and purchases green coffee in US\$ which is, in some cases, sold to customers in Canadian dollars. The Company enters into forward foreign currency contracts to manage its exposure to currency rate fluctuations and to minimize the effect of exchange rate fluctuations on business decisions.

As at December 31, 2020, the Company had forward currency contracts to buy US\$5.6 million and sell US\$51.0 million (2019: buy US\$3.8 million and sell US\$53.0 million) from January 2021 through to February 2025 at various Canadian exchange rates ranging from \$1.2147 to \$1.3626.

### INTERNAL CONTROLS OVER FINANCIAL REPORTING & DISCLOSURE CONTROLS AND PROCEDURES

The Chief Executive Officer (“CEO”) and the Chief Financial Officer (“CFO”) of Swiss Water are responsible for establishing and maintaining adequate internal control over financial reporting (“ICFR”) to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Under the supervision and with the participation of management, we conducted an evaluation of the design and effectiveness of our ICFR as of December 31, 2020, based on the updated framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO 2013”). Based on this assessment, the CEO and CFO concluded that, as of December 31, 2020, Swiss Water’s ICFR was effective.

The CEO and CFO are also responsible for establishing and maintaining adequate disclosure controls and procedures. Disclosure controls and procedures are controls and other procedures designed to provide reasonable assurance that information required to be disclosed in documents filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation and includes controls and procedures designed to ensure that information required to be disclosed in documents filed or submitted under securities legislation is accumulated and communicated to Swiss Water’s management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

The CEO and CFO evaluated or caused to be evaluated under supervision, the effectiveness of our disclosure controls and procedures and based on this evaluation, the CEO and CFO concluded that, as of December 31, 2020, Swiss Water’s disclosure controls and procedures were effective. There were no changes in our ICFR that occurred during the period beginning on January 1, 2020 and ended on December 31, 2020 that have materially affected or are reasonably likely to materially affect, Swiss Water’s ICFR.

### SUBSEQUENT EVENTS

On February 23, 2021, a total of 50,893 of the outstanding RSUs vested and were converted to common shares, pursuant to the 2011 Restricted Share Unit Plan as amended on June 25, 2019.