

SWISS WATER DECAFFEINATED COFFEE INC.

Management Discussion and Analysis

For the first quarter ended March 31, 2021

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 May 6, 2021, provides a review of the financial results for the three months ended March 31, 2021 relative to the comparable period of 2020. The three-month period represents the first quarter ("Q1") of our 2021 fiscal year. This MD&A should be read in conjunction with Swiss Water's condensed consolidated interim financial statements for the three months ended March 31, 2021, the 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.

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 are 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 three months ended March 31, 2021, Swiss Water's volumes increased by 14% compared to the first quarter of the prior year. Revenue increased by 18% and EBITDA remained broadly flat compared to the first quarter of the prior year due to non-recurring events. However, gross profit and net income fell, primarily driven by the expected impact of new higher depreciation charges and incremental production expenses following the commissioning of our new production facility in the second half of 2020. In addition, net income was impacted by higher non-cash share based compensation expenses. The first quarter has demonstrated significant volume resilience with all regions growing, but Europe saw an exceedingly strong 275% growth versus a year ago. Despite the ongoing presence of the COVID-19 pandemic, we continue to see recovery in base business activity. Ultimately performance is largely a reflection of our well-diversified international customer base.

The primary change in our business, as it adapts to the COVID-19 pandemic environment, continues to be the customer mix. 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 2020 and through the first quarter of 2021, strong grocery demand continued but at a slower pace than when the pandemic started. Many, but not all, shuttered restaurants and out-of-home specialty coffee shops have reopened, and this trend has partially contributed to our volume recovery. This can be seen with a growth of 19% in Q1 2021 for our specialty customers as they get back on track compared to strong but lower commercial customer growth of 10% in the quarter.

Gross profit was positively lifted by higher trading volumes, however, this gain was offset by increased depreciation charges and incremental labour and production expenses following our transition to a dual location manufacturing structure during the second half of 2020.

We are currently well positioned with green coffee inventory and will be able to react to short-term demand increases as trading conditions strengthen. Although we are seeing some divergence from previous patterns in terms of geographic strength in demand. 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 March 31,	
	2021	2020
Sales	\$ 25,692	\$ 21,817
Gross profit	3,552	4,206
Operating income	738	2,035
Net (loss) income	(96)	1,448
EBITDA ¹	2,689	2,640
EBITDA excluding IFRS 16-Leases ²	1,987	1,981
Net (loss) income per share – basic ³	\$ (0.01)	\$ 0.16
Net (loss) income per share – diluted ³	\$ (0.01)	\$ 0.02

¹ 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.

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

³ 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 first quarter of 2021 improved by 14% compared to the same period in 2020. Many of our customers are starting to see strengthening consumer demand and are beginning to plan for trading activity closer to pre Pandemic levels. Encouragingly we recorded 4% and 11% growth in our North America and Asia Pacific regions respectively in Q1 2021. In Europe, volumes increased by an impressive 275% during the first quarter of this year.
- Our largest geographical market by volume in Q1 continued to be the United States, followed by Canada, Europe and other international markets. By dollar value, for the three months ended March 31, 2021, 43% of our sales were to customers in the United States, 33% were to Canada, and the remaining 24% 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.

Financial highlights

- Q1 revenue improved by \$3.9 million to \$25.7 million over the same period in 2020 as a result of increased volume growth in the quarter, and higher green coffee prices compared to the same period in 2020.
- For the three months ended March 31, 2021, gross profit decreased by \$0.7 million to \$3.6 million. The reduction in gross profit was driven by a lower differential margin due to foreign exchange, increased depreciation charges and incremental labour and production expenses following the commissioning of our new Delta manufacturing facility. These movements were not unexpected and were partially offset by improvements in customer sales mix and supply chain efficiencies within our Seaforth subsidiary. The additional depreciation and amortization expense from the Delta manufacturing facility were \$0.9 million for the quarter compared to Q1 2020.
- For the three months ended March 31, 2021, operating income decreased by \$1.3 million to \$0.7 million. Net income decreased by \$1.5 million to a net loss of \$0.1 million when compared to the same period last year. The quarter-over-quarter difference reflects the combination of changes in gross profit and both operating and non-operating expenses. In Q1 2020, non-operating expenses were diluted 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. In Q1 2021, there was a much smaller revaluation effect. There was also an increase in finance expenses during the first quarter of 2021. In 2020, during the construction of Delta Line 1, borrowing costs related to this project were capitalized. Following the commissioning of our new production facility in Q3 2020 related borrowing costs started to be recognized as an expense.
- EBITDA remained broadly flat at \$2.0 million for the three months ended March 31, 2021, when compared to the same period in 2020.

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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; however, we are beginning to see additional volume from the specialty market indicating that out-of-home is beginning to open up again.

Further, 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. This trend has continued through the first quarter of 2021.

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 11% in Q1 2021. 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 in 2021, 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, and strong Q1 2021, we are cautiously optimistic that our volumes will remain strong and resilient in 2021.

Operationally, Swiss Water continued to run both Burnaby production lines on a 24/7 basis throughout 2020. In September 2020, we announced the completion of our first production run of commercial-grade coffee from our Delta, B.C facility. Following this success, we have transitioned a significant proportion of production volume to Delta and reduced some of the pressure on our Burnaby assets. Currently, Delta is running on a 24/7 basis. As we move through 2021 we expect to gradually increase the processing speed of this asset and move towards optimizing and maximizing production from this line.

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 has 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 2020, 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 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

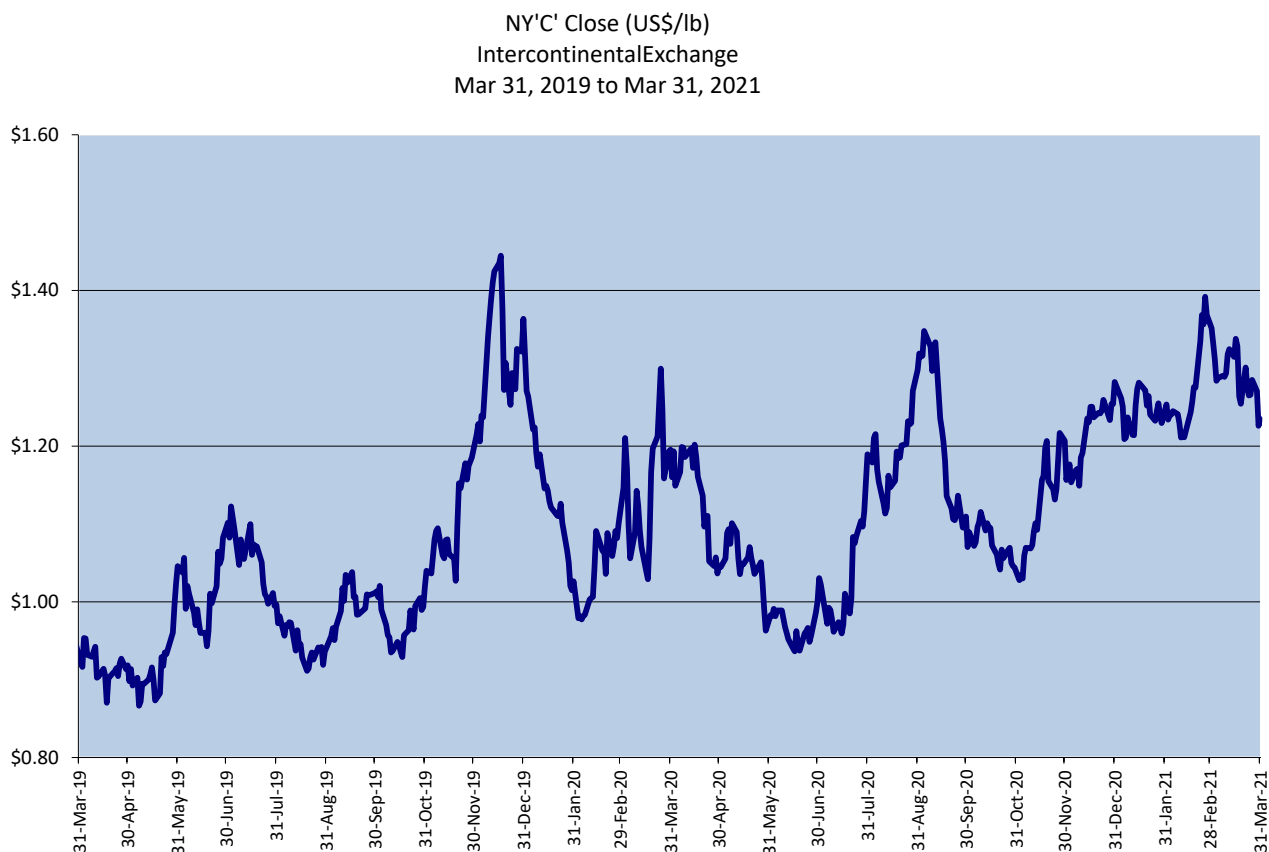
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of our proprietary process technology. For our Regular business, we work with coffee importers to source premium-grade green coffees from coffee-producing countries located in Central and South America, Africa and Asia. The purchase price is based 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.

The chart below shows the movement in the NY'C' for the last eight quarters:



In Q1 2021, the NY'C' averaged US\$1.27/lb compared to an average of US\$1.11/lb in Q1 2020. 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.

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:

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US Dollars to Canadian Dollars
Bank of Canada Noon Rates
Mar 31, 2019 to Mar 31, 2021



In Q1 2021, the US\$ averaged C\$1.27, a decrease from C\$1.34 over the same period in 2020. During Q1 2021 the US\$ ranged between C\$1.25 and C\$1.28 (2019: between C\$1.30 and C\$1.45). When the US\$ depreciates (appreciates), it decreases (increases) our gross profit on green coffee revenues.

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:

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In \$000s (unaudited)	3 months ended March 31,	
	2021	2020
Process revenue	\$ 6,503	\$ 5,750
Green revenue	17,326	14,404
Distribution revenue	1,863	1,663
Total revenue	\$ 25,692	\$ 21,817

For the quarter ended March 31, 2021, sales totaled \$25.7 million, an increase of \$3.9 million, or 18%, compared to the same quarter in 2020.

Our sales in the first quarter by revenue category are as follows:

- Process revenue increased by \$0.8 million, or 13% in Q1. This increase is reflective of an increase in our processing volumes.
- Green revenue increased by \$2.9 million, or 20% in Q1. Movements in green revenue reflect changes in sales processing volumes and lower or higher coffee futures price, NY'C'.
- Distribution revenue increased by \$0.2 million, or 12% in Q1. Variability in distribution revenue is driven by shipment volumes.

The sales volume performance in the first quarter of 2021 by geographical segment are as follows:

- Sales volume in North America increased by 4% in Q1.
- Sales volume in Europe increased by 275% in Q1.
- Sales volume in Asia Pacific increased by 11% in Q1.

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 first quarter cost of sales increased by \$4.5 million, or 26%, to \$22.1 million compared to the same period in 2020, driven by an increase in the cost of green coffee, depreciation of our Delta manufacturing facility, and incremental labour and production expenses. The additional depreciation and amortization expenses from the Delta manufacturing facility and finance lease were \$0.9 million for the quarter.

Gross Profit

Gross profit decreased by 16% to \$3.6 million for the first quarter of this year, mainly due to lower differential margin and depreciation of our Delta manufacturing facility.

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

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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 Q1 2021 totaled \$1.8 million. This is an increase of \$0.7 million, or 72%, compared to the same period last year. In Q1 2020, there was a significant 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 2021, a small expense was recorded. Administration expenses in Q1 2021 were \$0.1 million lower than Q1 2020 if the impact of share-based compensation is excluded.

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 programs, 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, social media communications, sponsorship and exhibiting at key industry events.

Sales and marketing expenses were down by \$0.1 million, or 9%, to \$1.0 million in Q1 2021. The decrease is driven by timing differences in advertising and marketing campaign activities and reduced travel. These gains were partially offset by a one-time expense relating to organisational changes initiated during Q1 2021.

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 March 31, 2021 compared to a net finance expense of \$0.5 million in the same period last year. The higher interest relates to higher borrowings from our ABL facility. Capitalization of borrowing costs and finance lease interest related to Delta Line 1 ended in Q3 of 2020 which also contributed to higher finance expenses.

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.

Finance lease interest of \$0.3 million was recognized during the three months ended March 31, 2021 compared to \$0.1 million in March 31, 2020. The increase is a result of the Delta manufacturing facility being operational now as in the prior period the interest was capitalized.

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.

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For the three months ended March 31, 2021, we recorded a loss of \$0.1 million compared to a loss of \$0.3 million recorded for the same periods in 2020.

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 a loss of \$0.03 million in Q1 2021 compared to a gain of \$1.5 million recorded for the same periods in 2020. The fluctuations are due to Swiss Water's share price and the risk-free interest rate that are used as inputs in the Black Scholes model. In Q1, 2020, a large gain was recovered because the share price from December 31, 2019 dropped from \$6.88 to \$2.72 at March 31, 2020. In Q1, 2021, the share price increase slightly from a price of \$3.06 in December 31, 2020 to \$3.11 in March 31, 2021.

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 first quarter, we recorded a gain on foreign exchange of \$0.2 million, compared to a \$0.7 foreign exchange loss in the same period of last year.

Income Before Taxes and Net Income

In the first quarter of 2021, we recorded a loss before taxes of \$0.1 million, compared to income of \$2.0 million in the same period in 2020. Current and deferred income tax recovery decreased our net loss by \$0.01 million for the quarter, compared to an expense of \$0.6 million in Q1 2020. 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 carry forwards recognized. Overall, we recorded a net loss of \$0.1 million in Q1 2021, compared to \$1.4 million net income in the same quarter last year.

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 first quarter of 2021 was a gain of \$0.4 million, compared to a loss of \$5.0 million in the same period of 2020. 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

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the debenture contains a net share settlement provision (which if exercised would result in far fewer shares being issued).

For the three months ended March 31, 2021, 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 three months ended March 31, 2020, all potential common shares issuable under the RSU Plan 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 March 31,	
	2021	2020
Basic earnings per share		
Net income (loss) attributable to shareholders	\$ (96)	\$ 1,448
Weighted average number of shares	9,099,703	9,068,354
Basic earnings per share	\$ (0.01)	\$ 0.16
Diluted earnings per share		
Net income (loss) attributable to shareholders	(96)	1,448
Effect of diluted securities: RSUs	-	(63)
Interest on convertible debenture	-	280
Gain on fair value adjustment of the embedded option	-	(1,474)
Net income (loss) after effect of diluted securities	\$ (96)	\$ 191
Weighted average number of shares – basic	9,099,703	9,068,354
Effect of diluted securities: RSUs	-	226,611
Effect of diluted securities: convertible debenture	-	1,818,182
Weighted average number of shares - diluted	9,099,703	11,113,147
Diluted earnings per share	\$ (0.01)	\$ 0.02

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 Q1 2021 was \$2.7 million compared to \$2.6 million in Q1 2020. EBITDA excluding the effect of IFRS 16 for the three months ended March 31, 2021 and 2020 was \$2.0 million. Operationally, the change in EBITDA was driven by revenue growth, successful efforts across the Company to enhance cost recovery, and increased financial contribution from Seaforth. These gains were offset by an increase in green coffee costs.

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The reconciliation of net income to EBITDA is as follows:

In \$000s (unaudited)	3 months ended March 31,	
	2021	2020
Net (loss) income for the period	\$ (96)	\$ 1,448
Income tax (recovery) expense	(11)	585
(Loss) income before tax	\$ (107)	\$ 2,033
Finance income	(115)	(74)
Finance expenses	1,022	568
Depreciation & amortization	1,713	849
Unrealized (gain) on foreign exchange forward contracts	154	614
Fair value loss (gain) on the embedded option	33	(1,474)
(Gain) loss on foreign exchange	(241)	700
Share-based compensation expense (recovery)	230	(576)
EBITDA	\$ 2,689	\$ 2,640
Impact of IFRS 16, which was adopted in the year 2019	(702)	(659)
EBITDA excluding the impact of IFRS 16	\$ 1,987	\$ 1,981

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 March 31,	
	2021	2020
Operating income for the period	\$ 738	\$ 2,035
Depreciation & amortization	1,713	849
Share-based compensation expense (recovery)	230	(576)
Gain on risk management activities	(146)	(282)
Unrealized loss on foreign exchange forward contracts	154	614
EBITDA	\$ 2,689	\$ 2,640
Impact of IFRS 16, which was adopted in the year 2019	(702)	(659)
EBITDA excluding the impact of IFRS 16	\$ 1,987	\$ 1,981

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 during 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	Q1 2021	Q4 2020	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Q3 2019	Q2 2019
Sales	24,540	25,692	24,512	24,862	26,380	21,817	25,023	23,645	24,392
Gross Profit	4,019	3,552	2,861	3,431	5,154	4,206	4,106	4,737	4,106
Operating income	1,258	738	126	606	2,370	2,035	539	2,291	1,356
EBITDA ¹	2,560	2,689	1,888	2,036	3,194	2,640	1,454	3,485	3,097
EBITDA excluding IFRS 16 ²	1,850	1,987	1,186	1,335	2,536	1,981	797	2,696	2,278
Net income (loss)	726	(96)	(320)	106	1,716	1,448	716	884	1,353
Per Share³									
Net income (loss) - basic	0.08	(0.01)	(0.04)	0.01	0.19	0.16	0.08	0.10	0.15
Net income (loss) - diluted	0.06	(0.01)	(0.04)	0.01	0.19	0.02	0.08	0.10	0.14

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¹ 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.

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

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

LIQUIDITY AND CAPITAL RESOURCES

Operating activities

For the three months ended March 31, 2021, we generated \$0.3 million, respectively, in net cash from operating activities, compared to using \$2.1 million in the same periods in 2020.

Investing Activities

Cash outflows in investing activities for Q1 2021 were \$2.7 million, compared to cash outflows of \$4.1 million in Q1 2020. In both years the majority of cash outflows were for capital expenditures related to our plant expansion in Delta, BC.

Financing Activities

During the three months ended March 31, 2021, proceeds received from our credit facility totalled \$2.2 million and were used to fund operational and capital initiatives. During Q1 2020 proceeds received totalled \$5.3 million.

Inventory

Our inventory increased in value and volume by 4% between December 31, 2020 and March 31, 2021. 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 March 31, 2021 was a gain of \$0.3 million compared to a gain of \$1.3 million in the same period of last year.

Accounts Receivable

Our accounts receivable increased by \$0.9 million, or 6%, between December 31, 2020 and March 31, 2021 compared to an increase of \$1.9 million, or 13%, between December 31, 2019 and March 31, 2020. 96% of Swiss Water accounts receivable are current as at March 31, 2021. 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 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

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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 2020 and 2021.

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 March 31, 2021, 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 March 31, 2021:

(In \$000s) (unaudited)	Total	Less than 1 year	2-3 years	4-5 years	Over 5 years
Long-term debt ¹	\$ 35,084	\$ 1,335	\$ 18,333	\$ 3,333	\$ 12,083
Financing leases ²	11,441	2,807	4,522	2,504	1,608
Credit facility ³	12,308	-	12,308	-	-
Purchase obligations ⁴	71,899	71,286	613	-	-
Total contractual obligations	\$ 130,732	\$ 75,428	\$ 35,776	\$ 5,837	\$ 13,691

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

² Minimum obligations for our finance leases.

³ Credit facility matures in 2022.

⁴ Purchase obligations represent outstanding capital, coffee and natural gas purchase commitments.

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.

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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 June 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 Swiss Water Director, Roland Veit.

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

(In \$000s) (unaudited)	3 months ended March 31,	
	2021	2020
Income for the period	\$ 196	\$ 69
Purchases of raw materials	\$ 194	\$ 1,260

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 March 31, 2021, our accounts receivable balance with this company was \$0.04 million (December 31, 2020: \$0.04 million) while our accounts payable balance with this company was \$0.2 million (December 31, 2020: \$0.3 million).

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 decaffeimators, 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

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hedge accounting. For example, if a hedged forecast transaction is no longer highly probable to occur, hedge accounting would be discontinued.

CHANGES IN ACCOUNTING STANDARDS

- The following standard became effective for annual periods beginning on or after January 1, 2021. 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 directly affected by IBOR reform and that required certain disclosures; IAS 1 and IAS 8 redefined materiality
- There are a number of changes in accounting standards not yet effective. The Company does not anticipate a material impact on its financial statements:
 - IFRS 9 Amended to address which fees should be included in the 10% test for derecognition of financial liability.
 - IAS 37 Amended to clarify (i) the meaning of “costs to fulfil a contract”, and (ii) that, before a separate provision for an onerous contract is established, an entity recognizes any impairment loss that has occurred on assets used in fulfilling the contract, rather than on assets dedicated to that contract.
 - IAS 16 Amended to (i) prohibit an entity from deducting from the cost of an item of PP&E any proceeds received from selling items produced while the entity is preparing the asset for its intended use (for example, the proceeds from selling samples produced when testing a machine to see if it is functioning properly), (ii) clarify that an entity is “testing whether the asset is functioning properly” when it assesses the technical and physical performance of the asset and (iii) require certain related disclosures.

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

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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 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 the 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.

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- 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 March 31, 2021 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 6.9 million lbs of green coffee with a notional value of US\$8.2 million. The furthest contract matures in December 2021. (December 31, 2020: 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).

Foreign Currency Risk

We realize a significant portion of our revenues in US\$ and we purchase 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 March 31, 2021, the Company had forward currency contracts to buy US\$6.8 million and sell US\$47.8 million (December 31, 2020: buy US\$5.6 million and sell US\$51.0 million) from April 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 March 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 March 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.

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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 March 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, 2021 and ended on March 31, 2021 that have materially affected or are reasonably likely to materially affect, Swiss Water's ICFR.