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 16, 2023, provides a review of the financial results for the quarter and year ended December 31, 2022 relative to the comparable periods of 2021. The quarter period represents the fourth quarter ("Q4") of our *2022 fiscal year. This MD&A should be read in conjunction with Swiss Water's audited consolidated financial statements for the year ended December 31, 2022, 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 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, interest rate risks, construction timing, inflation, 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; (vi) the expected level of dividends payable to shareholders; (vii) the potential impact of pandemics (viii) the potential impact of any war and terrorist activity. We cannot assure readers that the 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.

EXECUTIVE SUMMARY

The following selected information, other than Adjusted EBITDA was derived from the financial statements for the year ended December 31, 2022, prepared in accordance with IFRS. For the definition of Adjusted EBITDA, refer to the Non-IFRS Measures section of this MD&A.

In $000s except per share amounts (unaudited)	3 months ended December 31, 2022	3 months ended December 31, 2021	Year ended December 31, 2022	Year ended December 31, 2021
Revenue	$ 43,998	$ 35,129	$ 176,935	$ 125,076
Gross Profit	5,759	4,389	26,088	17,611
Operating income	2,792	1,517	13,381	6,686
Net income (loss)	(254)	241	2,387	496
Adjusted EBITDA[1]	3,087	2,111	16,659	10,533
Net income (loss) per share – basic[2]	$ (0.03)	$ 0.03	$ 0.26	$ 0.05
Net income (loss) per share – diluted[2]	$ (0.03)	$ 0.03	$ 0.26	$ 0.05

[1] Adjusted 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] 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 the exercise of warrants and RSUs.

Financial highlights

- Revenue for the quarter and year ended December 31, 2022, was $44.0 million and $176.9 million respectively, which represents a 25% and 41% increase over the same periods in 2021. The increase is a result of strong volume growth and higher green coffee prices. In addition, our Seaforth subsidiary continues to operate at record levels of activity.
- Gross profit for the quarter and year ended December 31, 2022, was $5.8 million and $26.1 million respectively, which represents a 31% and 48% increase over the same periods in 2021. Gross profit percent for the year ended December 31, 2022, was 15%, which represents a 1% increase over the same period in 2021. The increase in gross profit dollars was primarily driven by higher sales volume. In addition, we benefited from a significantly higher green coffee differential margin. The increase was partially offset by inflationary pressure on variable production costs and freight.
- Operating income for the quarter and year ended December 31, 2022, was $2.8 million and $13.4 million respectively, which represents an 84% and 100% increase over the same periods in 2021. The increase is a result of the improvements in gross profit from increased volumes and higher green coffee differential margin, partially offset by increases in administration expenses. The increased expenses were due to general inflationary pressure, higher professional fees, increased headcount and salaries, and overall costs of running two facilities, including depreciation and rental expenses.
- In Q4 2022, we performed an assessment of the salvageable assets associated with our Burnaby location in advance of the expiry of the lease, in June 2023. With the support of a third party engineering consultancy, we considered the potential future use, cost and benefit, and related cash flows to salvage equipment from the Burnaby location and determined that only a portion of the equipment should be salvaged for future use. As a result, a one-time $2.5 million impairment of plant and equipment was recorded in Q4 2022. The impairment is a non-cash expense that, if removed, would have resulted in a $2.5 million increase in annual net income in 2022. There was no such impairment in 2021.

- Net income for the quarter and year ended December 31, 2022, was a loss of $0.3 million and income of $2.4 million, respectively. The decrease in Q4 net income was mainly due to the impairment of plant and equipment associated with the Burnaby location. For the full year, the increase resulted from improvements in operating income, materially offset by a one-time impairment of plant and equipment associated with the Burnaby location. Increased losses on foreign exchange due to the strengthening of the US dollar in Q3 2022, and increased losses on risk management activities due to mark-to-market revaluations of commodity and foreign currency hedges were also deductions against 2022 net income.
- Adjusted EBITDA[1] for the quarter and year ended December 31, 2022, was $3.1 million and $16.7 million respectively, which represents a 46% and 58% increase over the same periods in 2021. The improvement in Adjusted EBITDA was mainly driven by the positive impact of increased sales volume and a higher green coffee differential margin.

Operational highlights

- Total sales volumes for the year increased by 15% compared to 2021. Volume growth during the first half of the year was enhanced by the shipment of products to new out-of-home food service customers within North America. Over the second half of the year, our customers continued to see strong consumer demand within most segments. Encouragingly, we recorded 19% and 10% volume growth in our North America and Asia-Pacific regions respectively, during 2022.
- Our largest geographical market by volume during 2022 was the United States, followed by Canada and international markets. By dollar value, 48% of our sales were to customers in the United States, 26% were to Canadian customers, and the remaining 26% were to international customers. Our international business continues to expand rapidly, and we anticipate demand from our Asia-Pacific and European markets to remain strong in 2023.
- On November 7, 2022, Swiss Water announced the expansion of our credit facilities with our existing creditors, resulting in $33.25 million of incremental capital availability. This consists of $21.25 million of expanded revolving credit capacity for working capital and $12.0 million of incremental senior-term financing for capital expansions. The capital allocation is specifically to help finance our second production line in Delta, British Columbia (“Delta 2”) (see Press Release dated November 7, 2022).

Looked at sequentially, we did see a slow down in the rate of volume growth during the second half of 2022, when compared to the strong double-digit growth we experienced in the first half of the year. However, despite this, as well as inflationary pressures, we continue to see strong volume increases across the business. Sales to customers in the United States increased by $11.9 million during the fourth quarter and by $32.1 million for the full year, when compared to the same periods in 2021. Sales to customers in Canada increased by $3.4 million in the quarter and by $7.1 million for the full year. Although we saw a decline in our international sales during the fourth quarter, this was largely due to timing issues. For the full year, sales to international customers were strong, increasing by $12.7 million, or 39% over the 2021 level. Within the international business, 2022 sales volumes to Asia-Pacific customers were substantial, growing by a 10% increase year-over-year. Generally, we continue to see robust organic growth with existing customers, as well as incremental volume from new customers switching to chemical free decaffeinated coffee. Ultimately, our

[1] Adjusted EBITDA is defined in the ‘Non-IFRS Measures’ section of the MD&A and is a “Non-GAAP Financial Measure” as defined by CSA Staff Notice 52-306.

strong volume performance reflects our well-diversified customer base and the growing recognition of the importance of drinking coffee decaffeinated without the use of harmful chemicals.

Regarding customer mix, 2022 saw incremental volumes going to restaurants and out-of-home specialty coffee shops which are now operating at or above pre-pandemic capacity. This was evidenced by the 28% annual growth in business with our specialty roaster customers. As in recent quarters, we also continue to see new volume associated with the addition of new customers and brands within our North American business.

Throughout 2022, we have remained well positioned with green coffee inventory and can react to short-term demand increases in most coffee origins. However, we continue to be affected by persistent disruptions in deliveries of green coffee, particularly from Brazil, as supply chain bottlenecks and equipment shortages persist in many outbound ports, and container-ship service to the Port of Vancouver is still reduced. This has led to significant increases in freight rates. While these costs are generally recoverable, they are nonetheless inflationary. We remain in daily contact with our customers and suppliers regarding the movement of coffee. However, many of them have remained cautious of the time it will take for supply chains to return to normal operating efficiency. This caution has caused participants throughout the coffee supply chain to increase their inventories despite a high New York Futures contract coffee commodity price, or NY'C.

The NY'C for Arabica coffee increased rapidly in the third quarter of 2021 and remained high until the third quarter of 2022. It is unusual for the NY'C to experience such an elevated level for a sustained period. A rare double frost occurred in July 2021, in Brazil, the world's largest producer of coffee. This caused an immediate run-up in the NY'C reaching a peak of US$2.58 that occurred during the first quarter of 2022. The tight availability of exportable coffee due to crop shortages and ongoing logistical backlogs has kept the pressure on the futures market and we have seen spot availability of coffees fall substantially as a result. The NY'C for Arabica coffee did decrease in the fourth quarter of 2022. However, the effects of this on the coffee market will not be fully realized until later in 2023, and its impact depends on the futures market remaining at this lower level for a sustained period of time.

We also experienced and continue to feel inflationary pressures within other components of our variable cost structure. These increases include higher costs for natural gas, packaging, shipping, and labour. The resulting pressure on our profitability drove our decision to increase processing prices toward the end of the fourth quarter of 2021, to help maintain our margins.

On November 7, 2022, Justin Jacobs, Managing Director of Mill Road Capital LLC ("Mill Road"), was appointed to Swiss Water's Board of Directors, pursuant to Mill Road's existing board nomination rights. Mr. Jacobs has been with Mill Road since the firm's founding in 2005. Previously, he worked at LiveWire Capital, an investment and management group, and in the private equity group at The Blackstone Group. Mr. Jacobs has been a director at numerous public and private companies, including British Columbia's based PRT Growing Services Ltd., a British Columbia based leader in the reforestation sector. In addition to the debenture with warrants referred to in Note 17.3 of our audited consolidated financial statements, Mill Road currently holds 608,500 shares of Swiss Water, representing approximately 6.6% of the issued and outstanding shares of the Company.

NON-IFRS MEASURES

Adjusted EBITDA

Adjusted EBITDA is a Non-GAAP measure that is often used by publicly traded companies as a measure of cash from operations, as it excludes financing costs, taxation, and non-cash items. We believe that disclosing this Non-IFRS measure provides readers of this MD&A with important information regarding Swiss Water's financial performance and our ability to pay distributions to stakeholders. By considering Adjusted EBITDA in combination with IFRS, we believe that readers are provided with additional and more useful information about Swiss Water than readers would have if they simply considered IFRS measures alone. Reported Adjusted EBITDA is intended to assist readers with 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 Adjusted EBITDA as net income before interest, depreciation, amortization, impairments, share-based compensation, gains/losses on foreign exchange, gains/losses on disposal of property and equipment, fair value adjustments on embedded options, gains/losses on extinguishment of debt, adjustment for the impact of IFRS 16 - Leases, and provision for income taxes. Our definition of Adjusted EBITDA also excludes unrealized gains and losses on the undesignated portion of foreign exchange forward contracts.

Adjusted EBITDA for the quarter and year ended December 31, 2022, was $3.1 million and $16.7 million respectively, compared to $2.1 million and $10.5 million for the same periods in 2021. Operationally, the change in Adjusted EBITDA was driven by increased processing volume, revenue growth, and higher green coffee differentials. These gains were partially offset by an increase in green coffee costs and inflationary pressures on our underlying cost structure.

To help readers better understand our financial results, the following table provides a reconciliation between Adjusted EBITDA and operating income, the most comparable IFRS measure for the periods as indicated:

(In $000s) (unaudited)	3 months ended December 31, 2022	2021	Year ended December 31, 2022	2021
Operating income	$ 2,792	$ 1,517	$ 13,381	$ 6,686
Depreciation and amortization	1,686	1,095	7,018	6,208
Share-based compensation	173	205	552	690
(Gain) loss on risk management activities	(65)	179	(1,560)	(323)
Unrealized (gain) loss on foreign exchange forwards	(796)	(183)	44	80
Impact of IFRS 16 Leases	(703)	(702)	(2,776)	(2,808)
Adjusted EBITDA	$ 3,087	$ 2,111	$ 16,659	$ 10,533

The reconciliation of net income, an IFRS measure, to Adjusted EBITDA is as follows:

(In $000s) (unaudited)	3 months ended December 31, 2022	2021	Year ended December 31, 2022	2021
Income (loss) for the period	$ (254)	$ 241	$ 2,387	$ 496
Income taxes expense (recovery)	(130)	128	819	509
Income (loss) before tax	$ (384)	$ 369	$ 3,206	$ 1005
(Gain) loss on the embedded option	(513)	-	(513)	48
(Gain) loss on the extinguishment of debt	(583)	(4)	(583)	1,381
Finance income	(174)	(72)	(509)	(442)
Finance expenses	1,577	1,189	5,567	4,364
Impairment of plant and equipment	2,470	-	2,470	-
Loss on foreign exchange	334	214	2,183	7
Depreciation and amortization	1,686	1,095	7,018	6,208
Unrealized loss (gain) on foreign exchange forwards	(796)	(183)	44	80
Share-based compensation	173	205	552	690
Impact of IFRS 16 Leases	(703)	(702)	(2,776)	(2,808)
Adjusted EBITDA	$ 3,087	$ 2,111	$ 16,659	$ 10,533

OUTLOOK

Swiss Water delivered an exceptionally strong financial performance in 2022. Sustained volume growth over the last two years has been a major driver of our strong results. This momentum initially emerged during the early stages of the COVID-19 pandemic when working remotely gained traction, resulting in a significant increase in the at-home consumption of coffee. As pandemic restrictions eased and, things began to return to normal through 2022, many businesses and organizations have now moved away from the modified work-from-home model. This change slowed the growth of at-home consumption and, as a result, the volumes we deliver to our large commercial customers who serve the grocery channel. However, at the same time, our sales to our specialty roaster segment grew significantly during 2022. Now, many of our specialty customers are ordering in-line or exceeding pre-pandemic levels of activity.

We continue to see increased demand from all our customers that serve the out-of-home market through cafes and restaurants. This has been particularly evident in North America where our food service customers have generally returned to a normal operating environment. It is particularly encouraging that our sales volumes in the Asia-Pacific region grew by 10% during 2022, while sales to our largest market, North America, grew by 19% over the last twelve months.

Despite the normalization of trading conditions, uncertainty persists. Inflationary pressures are becoming ever more apparent and interest rates have risen rapidly across the globe. We cannot reliably predict the ultimate impact these factors will have on global supply chains and customer demand. If inflation rates continue through the first quarter of 2023, we may have to increase the process rates we charge our customers. However, we are cautiously optimistic that our volume growth will offset some of this anticipated inflationary pressure.

On a further cautionary note, the post-pandemic recovery of the global economy combined with the negative impact of the conflict in Ukraine has placed additional stress on international supply chains and production costs. These developments are actively undermining the efficient movement of coffee from some growing regions, and we are experiencing delays in the delivery of some coffees to our production facilities. Furthermore, although coffee prices have started to soften, high coffee prices can have a destabilizing impact on the efficient movement of coffee inventories and will result in higher prices on retail grocery shelves. Historically, sharp increases in retail pricing have resulted in demand destruction in the grocery channel, which has the effect of decreasing Swiss Water's volumes. We are paying close attention to these risks and will implement necessary mitigation steps, as required, to ensure that our production schedules are not compromised as we move through 2023.

Operationally, Swiss Water ran both production lines at our legacy plant in Burnaby on a 24/7 basis during the fourth quarter of 2022. Since completing the first production run of commercial-grade coffee from our new decaffeination line in Delta, in September 2020, we have been steadily transitioning a significant proportion of production volume to this new facility. Aside from scheduled maintenance, the Delta line has been running on a 24/7 basis as we continue its optimization. However, record demand in the last six quarters drove higher than expected utilization of our legacy assets in Burnaby. During this period, the capacity utilization rate across all three of our current production lines regularly exceeded 80%, operating at these elevated production levels would not have been possible without the investment we made in our first production line in Delta. Furthermore, it provides valuable insight into the value creation opportunity available when we operate at high-capacity utilization rates and supports our decision to invest in a second line in Delta.

As reported previously, in the second quarter of 2020, the landlord of our Burnaby manufacturing site provided formal notice that our lease would not be extended beyond June 2023. This made clear the need for

Swiss Water to build a second new decaffeination line in Delta to ensure our ability to meet customer demand is uninterrupted upon the conclusion of our Burnaby lease and to provide additional capacity for intermediate-term growth. Last summer, we were issued the necessary building permits and began construction of the Delta expansion. The targeted completion date of this project is the third quarter of 2023. 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. This should provide sufficient capacity to satisfy current demand and projected intermediate term growth.

During the fourth quarter, Swiss Water continued construction of a second production line at its facility in Delta, BC. The preliminary cost estimate of this project was approximately $45.0 million, plus commissioning costs of approximately $2.0 million. During the second half of 2022, the impacts of global macroeconomic pressures, including inflation, trades disruptions, and supply chain issues, became more acute in terms of project budget and schedule. The Company currently projects a $53.0 million final cost as it approaches substantial completion, factoring in the vast majority of realized inflationary factors to date, and there is no change to the commissioning budget. 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 inflation is unknown and could impact the timing and costs of the project.

The progress and estimated completion of Delta 2 has been closely monitored in light of the deadline to exit the Burnaby site. We plan to utilize our Burnaby assets into the second quarter of 2023. However, given the targeted completion date of Delta 2 is the third quarter of 2023, we recognize that there will be a period of time when our production capacity will be reduced. As a result, we have been proactive in our communications with customers and suppliers regarding the production of coffee leading up to the Burnaby exit, during the estimated period of lower production capacity, and after Delta 2 begins producing a commercially viable product. We are cautiously optimistic that this proactive response will minimize any disruptions to our business and customers. However, it will necessitate a front loaded working capital investment to cover elevated production volumes during Q1 2023, and may also temporarily compress net income during Q3 2023 when our production capacity is constrained.

During 2022, we engaged a third party engineering consultancy to help us to evaluate the exit cost and transition plan associated with permanently shutting down our Burnaby location (“Exit Plan”). This evaluation, not only considered the Exit Plan, but assessed the recoverability of existing production assets from the site. This planning process recently concluded, and it has been determined that only a portion of existing assets should be salvaged for future use. In reaching this decision, we considered the probability of near-term future use, as well as the costs, potential benefits and related cash flow impacts of extracting the equipment from the Burnaby location.

The preliminary cost estimate to execute this plan is $1.5 million. We now consider 20% of the preliminary cost estimate to be an approximate risk factor and we are now actively working to mitigate cost and schedule impacts. This estimate is preliminary and is dependent on variable local and global economic factors. The decision to limit the recovery of existing assets triggered a one-time, non-cash impairment charge which has been reflected in our 2022 financial statements.

Finally, on November 7, 2022, we announced the expansion of our credit facilities with existing creditors, resulting in $33.25 million of incremental capital availability. This consists of $21.25 million of expanded revolving credit capacity for working capital and $12.0 million of incremental senior-term financing for capital expansions. The capital allocation is specifically to help finance our second production line in Delta, British Columbia (see Press Release dated November 7, 2022). As part of the refinancing, we amended our agreement with Mill Road to increase our senior debt covenant to $123.25 million.

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 their 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, 9,165,815 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 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.

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 which is projected to be two lines by Q3 2023. 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, BC. 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 second production line in Delta, which commenced in 2021 will enable us to meet our intermediate 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, 2019, and 2022 we raised capital, which was used to fund the construction of our first and second production lines in Delta. The first production line in Delta was commissioned in 2020. In 2021 and 2022, we raised capital through debt financing to finance our second production line in Delta. We expect to utilize internally generated and external funds to finance the capital costs associated with the new production facility, and our future working capital investments.
- 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.

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:

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).

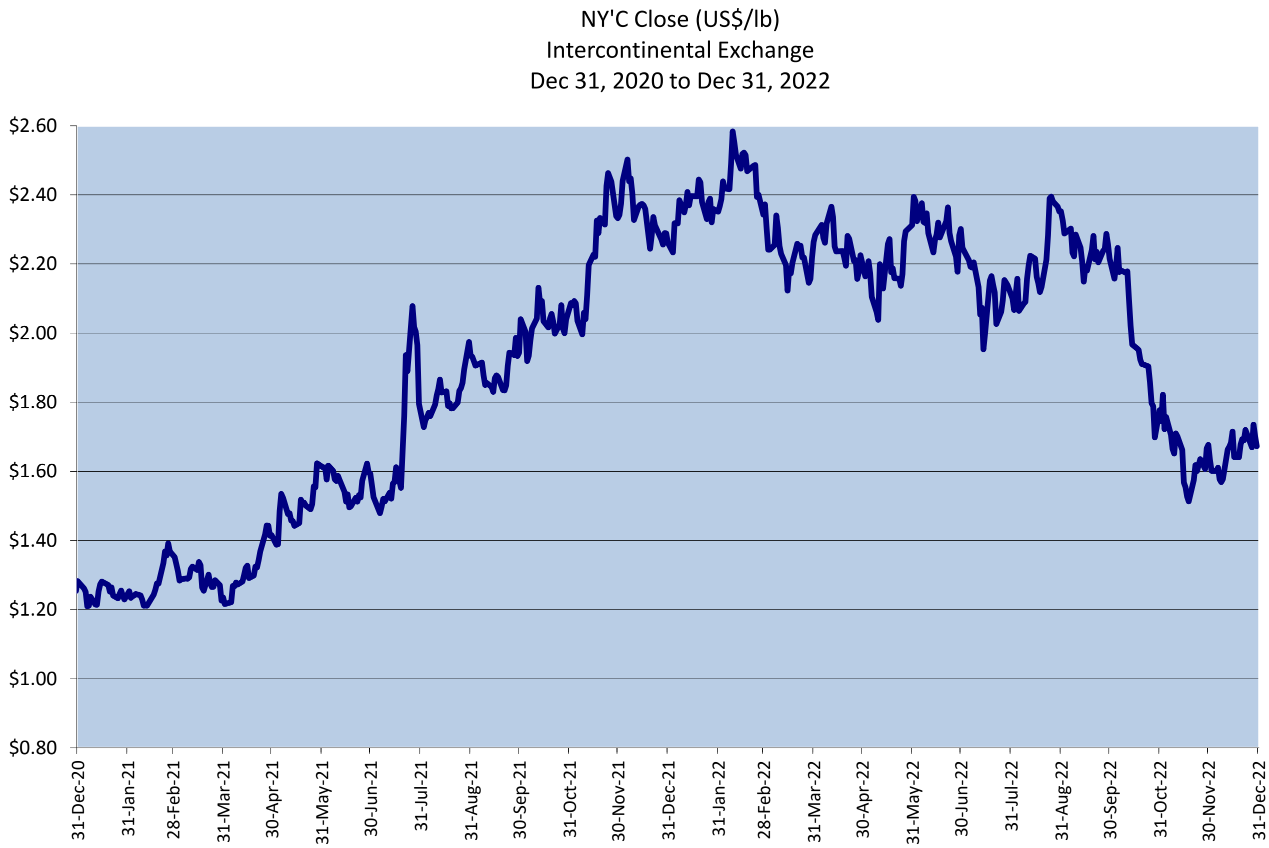
- Processing Volumes – Our decaffeination facility generates a certain level of fixed operating costs that are incurred regardless of the volume of coffee processed. Accordingly, our profitability and cash from operations will increase as processing volumes increase. Processing volume is a key performance 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 the risk of workplace incidents or accidents, we have significantly reduced the number 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.

External Factors

- 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.

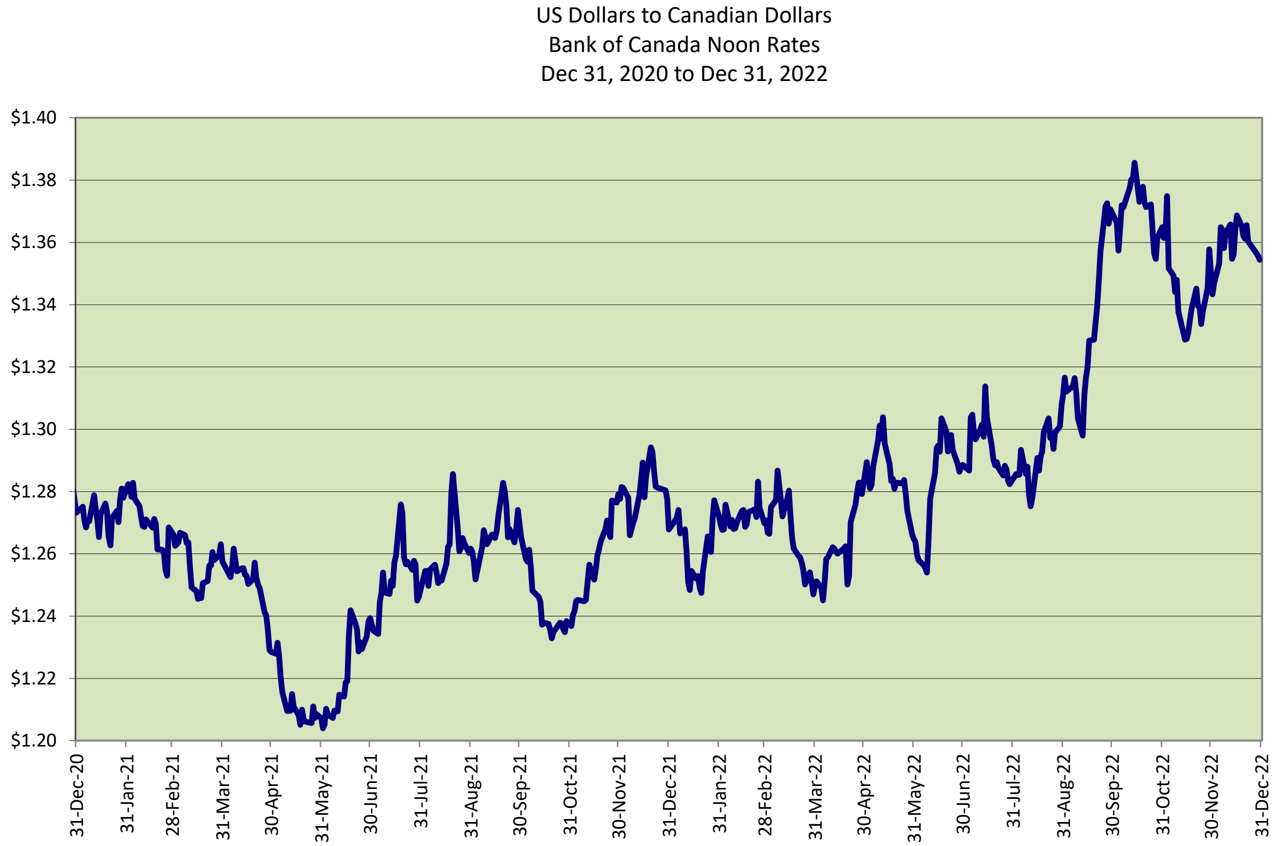
The chart below shows the movement in the NY'C for the last eight quarters:



In Q4 2022, the NY'C averaged US$1.77/lb compared to an average of US$2.20/lb in Q4 2021. In 2022, the NY'C averaged US$2.13/lb compared to an average of US$1.68/lb in the same period in 2021. The rise and fall of the NY'C affects our volume of shipments, our revenues, our cost of sales, and our working capital requirements. 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.

- US$/C$ Exchange Rates – The majority of our ("C$") revenues are generated in US dollars ("US$"), while a significant portion of our costs are 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 shows the US$ to C$" exchange rates for the last eight quarters:



In Q4 2022, the US$ averaged C$1.36 compared to an average of C$1.26 in Q4 2021. In 2022, the US$ averaged C$1.30 compared to an average of C$1.25 in the same period in 2021. When the US$ 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 to resell our coffees to roasters when and where they need them. 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 comparing 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)	3 months ended December 31,		Year ended December 31,	
(unaudited)	2022	2021	2022	2021
Process revenue	$ 8,405	$ 8,396	$ 36,952	$ 30,482
Green revenue	32,248	24,444	128,039	86,157
Distribution revenue	3,345	2,289	11,944	8,437
Total revenue	$ 43,998	$ 35,129	$ 176,935	$ 125,076

For the quarter and year ended December 31, 2022, sales totaled $44.0 million and $176.9 million respectively, an increase of $8.9 million or 25% and $51.9 million or 41% compared to the same periods in 2021. The increase was driven by volume demand from our customers, the impact of an increase in the New York Arabica Futures market, and the appreciation of the US dollar.

Our sales for the quarter and year ended December 31, 2022, by revenue category, are as follows:

- Process revenue remained flat in Q4 and increased $6.5 million or 21% year to date. The increase reflects growth in our processing volumes, prices, and foreign exchange hedging activities.
- Green revenue increased $7.8 million or 32% in Q4, and $41.9 million or 49% year to date. The increase reflects higher green coffee sales volume and coffee futures price, NY'C, and appreciation of the US dollar.
- Distribution revenue increased $1.1 million or 46% in Q4, and $3.5 million or 42% year to date. The increase reflects higher shipment volumes, inflationary pressure on freight rates, and stronger than expected capacity utilization rates in our Seaforth subsidiary.

Our sales volumes for the year ended December 31, 2022, by geographical segment, are as follows:

- Sales volume in North America increased 19%;
- Sales volume in Asia-Pacific increased 10%.

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 warehouse.

For the quarter and year ended December 31, 2022, cost of sales totaled $38.2 million and $150.8 million respectively, an increase of $7.5 million or 24% and $43.4 million or 40%, compared to the same periods in 2021. This was driven mainly by increased production volume, green coffee costs, and freight.

Gross Profit

For the quarter and year ended December 31, 2022, gross profit totaled $5.8 million and $26.1 million respectively, an increase of $1.4 million or 31% and $8.5 million or 48%, compared to the same periods in 2021. The improvement was primarily driven by higher sales volume. In addition, we benefited from a higher green coffee differential margin.

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, director fees, investor relations expenses, professional fees, depreciation of office-related equipment, and amortization of the brand asset.

For the quarter and year ended December 31, 2022, administration expenses totaled $1.8 million and $8.9 million respectively, a decrease of $0.3 million or 14% and an increase of $1.4 million or 19%, compared to the same periods in 2021. The primary drivers of the overall increase were general inflationary pressure, increased professional fees, increased headcount and salaries, and overall administrative costs associated with operating two facilities, including depreciation and rental expenses.

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 the foundation 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.

For the quarter and year ended December 31, 2022, sales and marketing expenses totaled $1.2 million and $3.8 million respectively, an increase of $0.4 million or 47% and $0.3 million or 10%, compared to the same periods in 2021. An increase in headcount and salaries in the current year, together with increased travel and trade shows, more than offset savings generated in 2021 following the restructuring of various departments in the first half of 2021.

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, any gain or 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 quarter and year ended December 31, 2022, we recorded a loss on risk management activities of $0.1 million and $1.6 million respectively, a decrease of $0.2 million and $1.2 million, compared to the same periods in 2021. The main drivers for this are unrealized losses due to fluctuations in the Canadian versus US dollar and fluctuations in NY'C.

Finance Expenses and Income

Finance income reflects the charges we bill to customers for financing coffee inventories and interest earned on cash balances. 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 debenture with warrants and interest expense on finance leases.

For the quarter and year ended December 31, 2022, net finance expense totaled $1.4 million and $5.1 million respectively, an increase of $0.3 million or 26% and $1.1 million or 29%, compared to the same periods in 2021. The overall increase primarily relates to a higher outstanding balance on our construction loans and credit facility, higher variable interest rates, and higher interest rate on our debenture with warrants.

On July 20, 2021, we amended our convertible debenture agreement with Mill Road into a debenture with warrants. Until the amendment, the interest on the 2016 convertible debenture agreement was expensed at an effective interest rate of 12.15% (a rate determined in accordance with IFRS), while the contractual interest paid on this loan was at a rate of 6.85%, causing the amortization of the bond discount to change over time. The new agreement, effective July 20, 2021, with Mill Road had an effective interest rate of 16.2% and a contractual interest paid rate of 9%. There is also an additional 1.5% interest calculated quarterly to be paid at the debt maturity date. Refer to Note 12.2 of the audited consolidated financial statements for more details.

On November 22, 2022, we amended our debenture with warrants with Mill Road. The new agreement had an effective interest rate of 18.3%. The contractual interest paid rate remained at 9% and there is still an additional 1.5% interest calculated quarterly to be paid at the debt maturity date. Refer to Note 12.2 of the audited consolidated financial statements for more details.

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.

For the quarter and year ended December 31, 2022, we recorded a loss on foreign exchange of $0.3 million and $2.2 million respectively, an increase of $0.1 million and $2.2 million, compared to the same periods in 2021. The large swing in foreign exchange is due to fluctuation in the Canadian versus US dollar as the exchange rate averaged C$1.30 in 2022, compared to C$1.25 in 2021. The majority of the foreign exchange loss was recorded in Q3 2022.

Fair Value of Embedded Option

Before the agreement amendment on July 20, 2021, Swiss Water had a convertible debenture with Mill Road. Under IFRS, this instrument was deemed to contain an embedded option, or derivative liability, that was 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 calculating the fair value are based on management's best estimate at each balance sheet date.

In 2021, Swiss Water extinguished the Mill Road convertible debenture and the embedded option was written off, as such there was no revaluation of the embedded option in Q4 2021. For the year 2021, there was a small loss of $0.05 million. In 2021 until extinguishment, the share price did not fluctuate as much, and as such the year to date figure was less significant.

Effective November 22, 2022, we amended our debenture with warrants with Mill Road. Under IFRS, the warrants are deemed to contain an embedded option that is 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 our best estimate at each balance sheet date.

The revaluation of this embedded option resulted in a gain of $0.5 million in Q4 2022. The fluctuations are due to swings in Swiss Water's share price and the risk-free interest rate that are used as inputs in the Black Scholes model. Refer to Note 12.2 in the audited consolidated financial statements for more details on the amended debt agreement with Mill Road.

Extinguishment of Debt

On July 20, 2021, Swiss Water amended the convertible debenture agreement with Mill Road to a debenture with warrants. Under IFRS 9, the accounting for the transaction depends on whether the debt restructuring is considered an extinguishment or an adjustment to the existing liability ("extinguishment accounting" vs "modification accounting").

Given there is a 2.15% change in the interest rate and a replacement of the debt conversion to shares with warrants, we determined that the terms within the convertible debenture and the terms within the debenture with warrants are substantially different. As such, this debt restructuring transaction was accounted for using the extinguishment method of accounting for debt reconstruction. During the year ended December 31, 2021, Swiss Water recognized a loss on extinguishment of the convertible debenture in the amount of $1.4 million. The loss consists of a $0.2 million cash payment for professional fees, a loss of $1.6 million on the extinguishment of the liability component of the convertible debenture net of a gain of $0.4 million on the embedded derivative related to the conversion.

Effective November 22, 2022, we amended our debenture with warrants with Mill Road. Under IFRS 9, the accounting for the transaction depends on whether the debt restructuring is considered an extinguishment or an adjustment to the existing liability ("extinguishment accounting" vs "modification accounting").

Given the amendments included a cashless exercise option where the agreement no longer limits an exchange of a fixed amount of cash for a fixed amount of common shares (option allows a variable number of shares and no cash), this debenture with warrants restructuring transaction was accounted for using the extinguishment method of accounting for debt reconstruction.

During the year ended December 31, 2022, Swiss Water recognized a gain on extinguishment of the debenture with warrants in the amount of $0.6 million. The gain consists of a $2.4 million gain on the embedded derivative related to the conversion, net of a $1.6 million loss on the extinguishment of the equity component of the debenture with warrants and $0.2 million in professional fees. Refer to Note 12.2 in the audited consolidated financial statements for more details on the amended debt agreement with Mill Road.

Impairment of Plant and Equipment

In 2022, Swiss Water performed an assessment of the salvageable assets associated with the Burnaby location following the expiry of the lease, in June 2023. In accordance with IAS 36, Impairment of Assets, we identified indicators of impairment at the Burnaby location. While reviewing plans to dismantle the plant and equipment, we considered the cost and benefit and related cash flows to salvage equipment from the Burnaby location. It was determined that only a portion of the equipment should be salvaged for future use. We also quantified the recoverable amount of the cash-generating unit's fair value less the cost of disposal using the "value-in-use" method. It was determined that a $2.5 million impairment of plant and equipment was required. There was no such impairment in 2021.

Income Before Taxes and Net Income

Net income consists of income before tax less deferred and current income taxes. Swiss Water and its subsidiaries are subject to tax in Canada, USA, and France. The current income tax expense arises as a reflection of increases and decreases in net income before taxes, adjusted for non-tax items. The deferred income tax arises from temporary differences between the depreciation and amortization expenses deducted for accounting purposes and related capital cost allowances deducted for tax purposes, timing differences on the deductibility of derivatives, accruals such as asset retirement obligation, cash liabilities of the DSU and RSU, bond value warrants, leases, 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 tax loss carry forwards.

For the quarter and year ended December 31, 2022, we recorded a net loss before taxes of $ 0.4 million and net income before tax of $3.2 million respectively, compared to a net income before taxes of $0.4 million and $1.0 million for the same periods in 2021. Overall, we recorded a net loss of $0.3 million and a net income of $2.4 million for the quarter and year ended December 31, 2022, respectively, compared to net income of $0.2 million and $0.5 million for the same periods in 2021.

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 or loss, net of tax, for the quarter and year ended December 31, 2022, was income of $0.8 million and a loss of $1.5 million respectively, compared to a loss of $0.5 million and income of $0.1 million for the same periods in 2021. 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 in 2022, under IFRS we are required to assume that the maximum number of shares issuable under the warrant agreement will be issued.

For the quarter and year ended December 31, 2022 and 2021, all potential common shares issuable under the RSU Plan and debenture with warrants were anti-dilutive and excluded from the dilution calculation.

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

In 000s except for shares and per share data (unaudited)	3 months ended December 31, 2022	2021	Year ended December 31, 2022	2021
Basic and diluted earnings per share				
Net income (loss) attributable to shareholders	$ (254)	$ 241	$ 2,387	$ 496
Weighted average number of shares	9,165,815	9,129,673	9,158,161	9,122,283
	$ (0.03)	$ 0.03	$ 0.26	$ 0.05

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, however, this trend re-emerged in 2021 and was sustained through 2022.

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 2022	Q3 2022	Q2 2022	Q1 2022	Q4 2021	Q3 2021	Q2 2021	Q1 2021
Revenue	37,751	43,998	46,154	48,368	38,415	35,129	35,496	28,759	25,692
Gross Profit	5,462	5,759	6,614	7,952	5,763	4,389	6,018	3,652	3,552
Operating income	2,508	2,792	3,293	4,416	2,880	1,517	3,325	1,106	738
Adjusted EBITDA[1]	3,398	3,087	4,346	5,335	3,882	2,111	3,974	2,461	1,987
Net income (loss)	360	(254)	(204)	1,460	1,385	241	135	216	(96)
Per Share[2]									
Net income (loss) - basic	0.04	(0.03)	(0.02)	0.16	0.15	0.03	0.01	0.02	(0.01)
Net income (loss) - diluted	0.04	(0.03)	(0.02)	0.16	0.15	0.03	0.01	0.02	(0.01)

[1] Adjusted 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] 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, 2022	December 31, 2021	December 31, 2020
Balance Sheet			
Total assets	219,039	168,245	139,233
Total non-current liabilities	123,405	70,783	70,262
Income Statement			
Revenue	176,935	125,076	97,571
Net income	2,387	496	2,949
Adjusted EBITDA[1]	16,659	10,533	7,042
Dividends paid [2]	-	-	566
Per share, basic [3]			
Net income	0.26	0.05	0.32
Adjusted EBITDA[1]	1.82	1.15	0.78
Dividends declared	-	-	-
Per share, diluted [3]			
Net income	0.26	0.05	0.25
Adjusted EBITDA [1]	1.82	1.15	0.65

[1] Adjusted 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] Dividend paid in 2020 was for dividend declared in Q4 2019.

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

Our total assets and our total long-term liabilities increased in each of the last three years as we were building our new facility in Delta, BC along with our first production line. The second production line is currently in the construction phase.

LIQUIDITY AND CAPITAL RESOURCES

Operating Activities

For the quarter and year ended December 31, 2022, net cash used in operating activities was $0.7 million and $1.0 million respectively, compared to net cash used of $6.5 million and $6.4 million for the same periods in 2021. In both years, cash inflows from operations were mainly offset by cash outflows required for green inventory purchases.

Investing Activities

For the quarter and year ended December 31, 2022, net cash used in investing activities was $7.3 million and $24.6 million respectively, compared to net cash used of $3.0 million and $13.7 million for the same periods in 2021. In both years, this was driven by capital expenditures associated with the second production line in Delta. During the first half of 2022, we also recovered $1.3 million in cash from vendor reimbursements, which is related to equipment on the first production line in Delta (2021: nil). During the third quarter of 2022, we received a $0.1 million energy efficiency cash incentive from a gas utility company (2021: nil).

Financing Activities

For the quarter and year ended December 31, 2022, net cash generated from financing activities was $8.9 million and $25.2 million respectively, compared to net cash generated of $11.6 million and $21.6 million for the same periods in 2021. In both years, this was driven by proceeds, net of repayment, from our credit facility and construction loans.

During the year 2022, Swiss Water renegotiated its credit facilities, construction loan and debenture with warrants with the purpose to expand on available funding for capital expansions in Delta, BC and to support growth and operations. Swiss Water has successfully completed the expansion of its credit facilities with its existing senior lenders, resulting in $33.25 million of incremental capital availability, consisting of $21.25 million of expanded revolving credit capacity and $12.0 million of incremental senior term financing. Swiss Water incurred financing expenditures in the amount of $0.8 million of which $0.4 million was paid by December 31, 2022.

In Q4 2021, Swiss Water renegotiated its Mill Road borrowings from convertible debenture to debenture with warrants. The Company recognized an extinguishment of debt related to the convertible debenture, of which $1.2 million was a non-cash write-off of the convertible debenture bond value and the value of non-cash derivative related to the conversion option. Associated with this, Swiss Water paid $0.2 million in debt financing transaction costs. No cash was received for the $2.5 million of warrants issued for debenture with warrants and financing costs to issue these warrants were $0.03 million.

Inventory

Our inventory increased by $24.9 million or 71% between December 31, 2021, and December 31, 2022. The increase reflects a higher NY'C combined with a higher volume of coffee inventory on hand and a higher exchange rate. Inventory consists of coffee, hedges related to NY'C, and foreign exchange, as well as carbon used in production, and packaging.

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, 2022, was a reduction of $7.4 million compared to an increase of $3.8 million as at December 31, 2021.

Accounts Receivable

Our accounts receivable increased by $6.7 million or 47% between December 31, 2021, and December 31, 2022. 84% of Swiss Water accounts receivable are current as at December 31, 2022. The majority of past due amounts were collected shortly after quarter end. Accounts receivable consist of receivables from customers.

Credit Facilities

We have arranged for two credit facilities, one with a major Canadian Bank and the other with Export Development Canada ("EDC"). Our facilities are collateralized by general security agreements over all of the assets of Swiss Water and a floating hypothecation agreement over cash balances. As at December 31, 2022, the balance due on the Credit facility with a Canadian bank is $38.1 million and the Swiss Water incurred $1.4 million in interest expense (2021: $23.3 million and $$0.4 million). Meanwhile, no funds were drawn from the EDC credit facility.

We have certain bank covenants that relate to the maintenance of specified financial ratios, and as of December 31, 2022, we were in compliance with all covenants.

Credit Facility with Canadian Bank

In 2019, Swiss Water entered into a revolving credit facility agreement ("Credit Facility"), with a major Canadian bank, for borrowings up to the lower of the Borrowing Base (defined below) and $30.0 million.

Effective November 22, 2022, the available credit was increased from $30.0 million to $45.0 million with the purpose to support operations and growth. In tandem, this Credit facility lending provided additional lending of up to $6.25 million credit facility through EDC. The maturity date of October 18, 2022, was extended to the earlier of October 19, 2025, and the maturity of the debenture with warrants, October 31, 2024.

Swiss Water is not required to repay any balance outstanding until maturity, as long as the outstanding balance is not in excess of the Borrowing Base.

The Credit Facility's Borrowing Base margins Swiss Water's 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, a security lien bond, and for general corporate purposes.

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.

As part of the Credit Facility, Swiss Water has a US$8.0 million foreign exchange and commodity futures contract facility, which allows Swiss Water to enter into spot, forward and other foreign exchange rate transactions and commodity futures transactions with the bank with a maximum term of up to 60 months.

Credit Facility with EDC

EDC offers two services, a credit facility of up to $6.25 million and a $6.0 million foreign exchange guarantee.

Effective November 22, 2022, Swiss Water entered into a revolving credit facility agreement with EDC (the "EDC Credit") for borrowings of up to $6.25 million. The EDC Credit is to be used for the purpose of providing additional liquidity to finance the Company's operations, should it be needed. The lender of the abovementioned Credit Facility with a Canadian bank is the administrative agent for the EDC Credit and all security and guarantees held by the lender of the Credit Facility as security for the Credit Facility are also held as security for the EDC Credit. Amounts drawn on the EDC Credit bear interest at the Canadian Prime Rate plus 1.5% per annum. The EDC Credit is subject to certain fees. The EDC Credit facility will terminate on the earliest of: (i) demand by the lender of the Credit Facility for repayment, (ii) the first anniversary of the effective date, and (iii) the maturity date under the Credit Facility. Bank may in its sole discretion, renew the EDC Credit for a maximum of five successive one-year periods after the first anniversary of the effective date. As at December 31, 2022, no amounts were drawn on EDC Credit.

On June 1, 2020, Swiss Water entered into a foreign exchange facility guarantee with EDC to cover margin requirements in relation to the foreign exchange facility. On August 4, 2020, the Company's Credit Facility Lender amended the credit agreement to recognize the foreign exchange facility guarantee provided by the third party. The facility guarantees a maximum aggregate liability of up to $6.0 million and it is valid until May 31, 2023. This guarantee provides additional borrowing capacity within the referenced credit facility.

Construction Loan with BDC and FCC

In Q4 2018, we 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 was to assist in the financing of new equipment for the first production line built in Delta, British Columbia. The interest rate for the Term Loan was 4.95% per annum over 12 years. Principal repayment was scheduled to begin on July 1, 2021 and matures on June 1, 2033.

On June 3, 2021, we completed a financing transaction by increasing the existing term to $45.0 million from the existing $20.0 million to provide funding for the planned construction of a second production line at the Delta location. The financing was provided by Business Development Corp ("BDC") and Farm Credit Canada ("FCC") in a Pari Passu structure. Each lender will fund 50% of the $45.0 million total loan value. The original borrowing with BDC will increase from $20.0 million to $22.5 million ("BDC Amended Term Loan") and FCC will also fund $22.5 million ("FCC Term Loan"). Upon closing of the transaction, Swiss Water's outstanding debt to each party, FCC and BDC, was $10 million. FCC paid $10.0 million to BDC on Swiss Water's behalf to ensure that existing borrowings were restructured on a Pari Passu basis.

Only interest will be paid on the outstanding balance on a monthly basis prior to July 1, 2024, for both the BDC Amended Term Loan and FCC Term Loan. Principal repayments for both loans commence on July 1, 2024 and will be repaid in monthly installments until both loans mature on June 1, 2034.

The FCC Term Loan consists of a fixed term loan and a variable loan. Until maturity, the fixed term loan bears an interest rate of 4.38% and the variable loan bears an interest rate of a variable rate minus 0.75%.

The BDC Amended Term Loan bears an interest rate of 4.45% until maturity. The new terms in the BDC Amended Term Loan supersede the terms on the previous agreement.

Both loans are 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 BDC and FCC construction loans. Seaforth has provided a guarantee for construction loans to FCC and BDC. As of December 31, 2022, the construction loan amount outstanding was $38.3 million.

Effective November 22, 2022, Swiss Water entered into an amendment (the "Amended Senior Facility") to the existing senior debt facility with our two lenders, BDC and FCC, which will provide an additional $12.0 million of senior debt financing at a favourable payment, interest rate and amortization schedule by increasing the senior debt facility from $45.0 million to $57.0 million. The incremental funds available under the

Amended Senior Facility, together with our existing available credit and projected internally generated cash flow are anticipated to be sufficient to fund the completion of the second production line in Delta by the third quarter of 2023. Each lender will fund 50% of the additional $12.0 million.

We have certain bank and creditor covenants that relate to the maintenance of specified financial ratios, and as of December 31, 2022, we were in compliance with all covenants.

Debenture with Warrants / Convertible Debenture with Mill Road Capital

On July 20, 2021, Swiss Water amended the $15.0 million convertible debenture agreement with Mill Road to a $15.0 million debenture with warrants. Under the new terms of the agreement, the maturity date was extended by one year from October 11, 2023, to October 31, 2024. The other amended terms were: (i) the interest rate increased from a maximum of 7.85% to 9%, (ii) a 1.5% additional interest “payment in kind” was added, (iii) the debt to shares conversion feature was amended, and (iv) the senior debt covenant was increased from $45.0 million to $60.0 million. The debt to shares conversion was amended by (a) cancelling the existing conversion feature and (b) replacing the existing conversion feature with warrants to allow Mill Road to purchase up to 2.25 million common shares at a price of $3.33 per share. The warrants expire on October 31, 2024.

We determined that this modification should be considered an extinguishment as the terms of the agreement were substantially different given there was a 2.15% change in the interest rate and a replacement of the conversion shares with warrants and we recognized a loss on extinguishment of debt in the amount of $1.4 million for the year ended December 31, 2021.

The warrants were recorded as a component of equity as they would be settled by the exchange of a fixed amount of cash for a fixed number of Swiss Water’s equity and would not be subsequently remeasured. The warrants were valued at $2.5 million using the Black Scholes model.

Effective November 22, 2022, Swiss Water amended the debenture with warrants agreement to (i) expand on the Senior Debt restricted covenant; (ii) allow Swiss Water a right to prepay the principal, and (iii) add secondary security on the debenture (iv) increase the senior debt limit to $123.25 million. The original principal of $15.0 million and the maturity date of October 31, 2024 remain the same. Also, the interest on the debenture remains unchanged, at 9% paid quarterly plus 1.5% interest in kind accrued quarterly. Meanwhile, the warrants agreement to issue 2.25 million warrants, with an exercise price of $3.33 was amended (i) to extend the maturity date from October 31, 2024, to April 30, 2026; and (ii) to add a cashless exercise option whereby Mill Road may elect to receive, upon exercise, such number of shares that is equal to the difference between the $3.33 exercise price and the fair market value of the shares at the time of exercise.

Following the negotiations in 2022, Swiss Water extinguished the 2021 debenture with warrants with Mill Road. Given that amendments included a cashless exercise option where the agreement no longer limits an exchange of a fixed amount of cash for a fixed amount of common shares (subject to terms, the option allows a variable number of shares being issued), this debenture with warrants restructuring transaction was accounted for using the extinguishment method of accounting for debt reconstruction.

During the year ended December 31, 2022, Swiss Water recognized a $0.5 million gain on the extinguishment of debt in net income and it includes financing transaction costs in the amount of $0.2 million.

The option for cashless exercise of warrants embedded in the debenture with warrants was recognized as a derivative financial liability "Borrowings embedded option" on the Consolidated Statements of Financial Position and it is valued at $1.4 million as at December 31, 2022, using the Black Scholes model.

We have certain bank and creditor covenants that relate to the maintenance of specified financial ratios, and as of December 31, 2022, we were in compliance with all covenants.

Share Capital

On May 9, 2022, at the Annual and Special Meeting of Shareholders, the Shareholders approved the amendment to the Articles of Amalgamation of the Company to create two new classes of shares, Class A Preferred Shares and Class B Preferred Shares. As at December 31, 2022 there were no preferred shares issued and outstanding.

On May 9, 2022, at the Annual and Special Meeting of Shareholders, the Shareholders approved the amendment to the 2011 RSU Plan as previously amended in 2019. Under the 2022 amendment, the aggregate number of common shares that may be issuable pursuant to the plan shall not exceed 1,115,509 common shares. This represents an additional 300,000 RSU units.

Contractual Obligations

The following table sets forth our contractual obligations and commitments as at December 31, 2022:

(In $000s) (unaudited)	Total	Less than 1 year	2-3 years	4-5 years	Over 5 years
Long-term debt[1]	$ 59,979	$ 191	$ 25,295	$ 9,966	$ 24,527
Financing leases[2]	12,897	2,618	5,049	4,484	746
Credit facility[3]	38,414	-	38,414	-	-
Purchase obligations[4]	39,667	39,667	-	-	-
Total contractual obligations	$ 150,957	$ 42,476	$ 68,758	$ 14,450	$ 25,273

[1] Long-term debt represents the principal amounts of the debenture with warrants and construction loans.
[2] Minimum obligations for our finance leases.
[3] Credit facility matures in 2024, where the maturity date can be extended subject to lenders' approval.
[4] Purchase obligations represent outstanding capital, and coffee and 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 in Delta. From the lease commencement date, 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 commencement date was 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. During 2022 we exercised the first option to renew Swiss Water's lease in Delta for another five years until July 2028.

Seaforth leases a warehouse in Delta and the lease expires in June 2027. We have 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 our decaffeination plant and offices. The lease expires in June 2023.

Swiss Water Decaffeinated Coffee Company USA, Inc. leased a sales office in Seattle, Washington. During Q1 2022, we exited our Seattle Washington office lease, and the Company recognized a negligible loss in the statement of income. The lease was set to expire on October 31, 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, 2022		2021
Sales	$	1,728	$	648
Purchases of raw materials	$	9,007	$	5,344

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, 2022, our accounts receivable balance with this company was nil (December 31, 2021: $0.04 million) while our accounts payable balance with this company was $2.2 million (December 31, 2021: nil).

On October 26, 2021, Swiss Water and a member of key management ("Borrower") entered into a promissory note in the amount of $0.07 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 would bear simple interest at a rate of 10% per annum. As at December 31, 2022, the loan balance was $0.03 million (2021: $0.07 million).

Mill Road, is a shareholder of Swiss Water, and under the terms of the debenture with warrants agreement, Mill Road added a senior executive to Swiss Water's board of directors. Also, as a holder of the debenture with warrants, Mill Road has the right to a cashless exercise of warrants to obtain an additional 2.25 million shares of Swiss Water. As such Mill Road is considered a related party. Refer to Note 12.2 in the audited consolidated financial statements for more details on the amended debt agreement with Mill Road.

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 decaffeinators, competition from new entrants with alternate processing methods or agricultural technologies, environmental and regulatory risks, terms of credit agreements, customer concentration, 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, decommissioning of the Burnaby facilities, Swiss Water's ability to raise funds through either debt or equity, availability of labour force, equipment and supplies, global environmental change and climate effects on our products and supply chain, inflation, changes in interest rates, global pandemics, 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.

Following the emergence of conflict in Ukraine in late February 2022, many countries enacted sanctions against Russia and the supply of some commodities from Russia, such as natural gas, has been interrupted. Potential consequences of these sanctions and commodity interruptions that could impact our business are not limited to: 1) demand for our products 2) delays in transportation to customers within Europe, 3) increase of costs in fertilizers or supply components, thus increasing the costs of our coffee inventory, 4) decaffeinating coffee in Europe may become more expensive if traditional fuel sources are curtailed. Some North American customers, currently sourcing from European suppliers, may consider switching to Swiss Water as it can be sourced closer to their market, and 5) overall supply chain interruptions. At this time there is uncertainty over the full impact of the conflict in Europe, as such, we cannot provide assurance that this conflict will not affect our business and further expansions into the European market.

Swiss Water's operations may be negatively impacted in the event of a local or global outbreak of disease, such as the 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.

Risks are also discussed in detail in the 'Financial Risk Management' note in our audited consolidated financial statements. Furthermore, in this management discussion and analysis, we discuss risk under the headings 'Hedge Accounting' and 'Financial Instruments'.

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 and flooding. Any significant earthquake in the vicinity could have a material impact 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 decaffeinators in the world, we believe that an increased focus on environmental matters will allow us to win more business from decaffeinators 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, useful lives of depreciable assets, share-based compensation, debenture with warrants with embedded derivatives, 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 18 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.

Property, Plant, Equipment and Intangible Asset

Property, plant and equipment, and intangible assets with finite lives 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. In 2022, Swiss Water performed an assessment of the salvageable assets associated with the Burnaby location following the expiry of the lease, in June 2023. In accordance with IAS 36, Impairment of Assets, Swiss Water identified qualitative and quantitative indicators of impairment at the Burnaby location. While reviewing plans to dismantle the plant and equipment, we worked with a third-party engineering consultancy and considered the probability of near term future use, cost, benefit and related cash flows to salvage equipment from the Burnaby location. It was determined that only a portion of the equipment should be salvaged for future use. We also quantified the recoverable amount of the cash-generating unit's fair value less the cost of disposal using the "value in-use" method. It was determined that a $2.5 million impairment of plant and equipment was required, as shown in the non-operating section of the Consolidated Statements of Income.

After recognizing the impairment, the amortization of the remaining salvaged assets is to be adjusted in future periods to allocate the assets' revised carrying amount on a systematic basis over its remaining useful life.

Useful lives of depreciable assets – change in accounting estimates

The Company reduced the estimated useful life of its production line machinery and equipment at the Burnaby location from 10 years to the expiry of the lease term (June 2023). This change in accounting estimate was accounted for prospectively and results from the decision to cease the two production lines in Burnaby BC when the Company exits the lease in June 2023 and the impact of this change is de minimis in 2022.

Asset Retirement Obligation

The future value of the asset retirement obligation ("ARO") with respect to our leased decaffeination facilities is estimated at $6.2 million. This estimate assumes that we relocate from the current locations upon expiry of the lease in Burnaby, in 2023, at an estimated cost of $1.5 million, and the expiry of lease before renewal in 2038 for the two lines in Delta, BC at an estimated cost of $4.7 million. Further, the estimate reflects the expected costs of vacating the leased facility in 2023 and 2038 respectively, 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, 2022, Swiss Water and its subsidiaries had combined non-capital tax loss carryforwards totaling $19.8 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.

Leases and Right-of-Use Assets

The preparation of consolidated financial statements requires that Swiss Water'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 the estimation of the fair value of the leased properties at lease inception.

Debenture with Warrants with Embedded Option

Effective November 22, 2022, the amended debenture with warrants contains an embedded cashless option feature. This embedded option is a financial liability and was recognized initially at $1.9 million effective on November 22, 2022, and is subsequently revaluated at each reporting date. As at December 31, 2022, Swiss Water recognized the fair value of the embedded option in the debenture with warrants in the amount of $1.4 million and recorded a gain of $0.5 million.

During the year 2021, the embedded option within the debenture with warrants was recognized as a part of equity, refer to the Share Capital note disclosure, under Warrants, in the audited consolidated financial statements.

The fair value of the embedded option in the debenture with warrants 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, as discussed in Note 4 of the audited consolidated financial statements.

		December 31, 2022		November 22, 2022
Share price	$	2.31	$	2.70
Exercise price	$	3.33	$	3.33
Option life		3.33 years		3.44 years
Volatility		49%		48%
Risk-free interest rate		4.07%		3.90 %
Dividend yield		0.00%		0.00%

Convertible Debenture with Embedded Option

Management estimates the interest rate on a similar instrument of comparable credit status and provides for substantially the same cash flows, on the same terms, but without the equity conversion option in the calculation of the fair value of the liability portion of the convertible debenture upon initial recognition. Management also estimates the fair values of the derivative liability related to the convertible debenture at initial recognition and at the end of each reporting period using the Black-Scholes option pricing model which requires management estimates.

CHANGES IN ACCOUNTING STANDARDS

The following amendments to accounting standards became effective for annual periods beginning on or after January 1, 2022. The adoption of these revised standards by the Company did not have a material impact on its consolidated financial statements.

- IFRS 1 amended the exemption in IFRS 1.D16(a) to allow a subsidiary adopting IFRS at a later date than its parent to also measure cumulative translation differences using the amounts reported by the parent based on the parent's date of transition to IFRS.
- IFRS 3 – Reference to Conceptual Framework was amended to (i) replace references to the 2001 Conceptual Framework for Financial Reporting to the 2018 Conceptual Framework for Financial Reporting in order to determine what constitutes an asset or liability in a business combination, (ii) add a new exception for certain liabilities and contingent liabilities to refer to IAS 37 or IFRIC 21 rather than the 2018 Conceptual Framework, and (iii) clarify that an acquirer should not recognize contingent assets at the acquisition date.
- IFRS 9 was amended to address which fees should be included in the 10% test for a derecognition of financial liability.
- IFRS 16 amended illustrative example 13 to remove the illustration of payments from the lessor related to leasehold improvements.
- IAS 16 – Proceeds before intended use was 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.
- IAS 37 – Onerous contracts – Cost of fulfilling a contract was 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.

The following standards are effective for periods beginning after January 1, 2023 and Swiss Water does not anticipate a material impact on its financial statements:

- IFRS 1 was amended to require companies to recognize deferred tax on particular transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. The consequential amendment to IFRS 1 is to add an exception to retrospective application.
- IAS 1 has changes to accounting policy disclosures in changes in estimates vs accounting policies.
- IAS 1 was amended to clarify how to classify debt and other liabilities as either current or non-current. This standard defers the effective date of previous amendments to IAS 1 to years beginning after January 1, 2024.
- IAS 8 contains a narrow scope of amendments to improve accounting policy disclosures and to distinguish changes in accounting estimates from changes in accounting policies.

- IAS 12 was amended to require companies to recognize deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences.

HEDGE ACCOUNTING

There are risks 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");
3) Currency risk hedges related to US$ denominated purchases of green coffee ("purchase hedges");
4) Currency risk hedges related to US$ denominated purchases of property, plant and equipment ("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 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. Similarly, on occasions, we enter into forward contracts to buy US$ to be used to pay for purchases of equipment. 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 a 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. Similarly, hedges related to property plant and equipment are re-measured at each period end and once the hedges mature the gains and losses on these hedges are recorded in property plant and equipment.

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 debenture with warrants/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. Swiss Water utilizes futures contracts to manage our commodity price exposure. We buy 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, 2022, Swiss Water had futures contracts to buy 16.8 million lbs of green coffee with a notional value of US$27.1 million, and contracts to sell 26.8 million lbs of green coffee with a notional value of US$43.4 million. The furthest contract matures in September 2023 (2021: buy 1.7 million lbs of green coffee with a notional value of US$3.1 million, and contracts to sell 11.8 million lbs of green coffee with a notional value of US$25.1 million). An estimated 1% decrease in the mark-to-market rate applied to coffee futures would have resulted in an estimated gain of $0.2 million to the net income before tax, and vice versa.

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. Swiss Water enters into forward foreign currency contracts to manage our exposure to currency rate fluctuations and to minimize the effect of exchange rate fluctuations on business decisions.

As at December 31, 2022, Swiss Water had forward currency contracts to buy US$7.1 million and sell US$54.8 million (2021: buy US$8.0 million and sell US$47.7 million) from January 2023 through to September 2025 at various Canadian exchange rates ranging from $1.26 to $1.37. An estimated CAD 1 cent decrease in the value of US dollar would have resulted in an estimated gain of $0.5 million to the net income and other comprehensive income before tax, and vice versa.

As at December 31, 2022, Swiss Water designated as hedging instruments nil in forward contracts to buy US dollars, with the purpose to purchase equipment for the new production line (2021: US$1.0 million). As at December 31, 2022, we designated as hedging instruments US$40.2 million in forward contracts to sell US dollars, which relate to highly probable forecasted sales revenue (2021: US$27.3 million).

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, 2022, 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, 2022, 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, 2022, 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, 2022, and ended on December 31, 2022, that have materially affected or are reasonably likely to materially affect, Swiss Water's ICFR.

SUBSEQUENT EVENT

On February 25, 2023, a total of 111,140 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 and May 9, 2022. To date, 47,140 RSUs were elected to be converted to shares.