



SWISS WATER DECAFFEINATED COFFEE INC.
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(unaudited)

For the Three and Six Months Ended June 30, 2023

SWISS WATER DECAFFEINATED COFFEE INC.

Condensed Consolidated Interim Statements of Financial Position as at

(Tabular amounts are in thousands of Canadian dollars)

(Unaudited)

		June 30, 2023	December 31, 2022
Assets			
Note			
Current assets			
Cash		\$ 4,338	\$ 3,761
Accounts receivable	4	18,489	20,732
Inventories	5	38,048	60,248
Prepaid expenses and other receivables		1,057	1,081
Income tax receivable		142	-
Derivative assets and hedged firm commitments	6, 19	4,518	4,590
Total current assets		66,592	90,412
Non-current assets			
Receivables		159	209
Property, plant and equipment	7	137,018	128,123
Intangible assets		-	110
Deferred tax assets		136	139
Derivative assets	6, 19	277	46
Total non-current assets		137,590	128,627
Total assets		\$ 204,182	\$ 219,039
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable and accrued liabilities	8	\$ 12,787	\$ 35,371
Borrowings	9	266	191
Asset retirement obligation	11	87	1,334
Other liabilities		1,040	554
Lease liabilities	10	1,634	1,671
Derivative liabilities and hedged firm commitments	6, 19	810	1,607
Total current liabilities		16,624	40,728
Non-current liabilities			
Other liabilities		30	208
Borrowings	9	105,457	95,563
Borrowings embedded option	9	1,538	1,429
Lease liabilities	10	17,558	18,256
Asset retirement obligation	11	2,937	2,846
Deferred tax liabilities		5,094	4,758
Derivative liabilities	6, 19	25	345
Total non-current liabilities		132,639	123,405
Total liabilities		149,263	164,133
Shareholders' equity			
Share capital	12	\$ 44,318	\$ 44,194
Share-based compensation reserve		465	375
Accumulated other comprehensive (loss) income		174	(697)
Retained earnings		9,962	11,034
Total equity		54,919	54,906
Total liabilities and shareholders' equity		\$ 204,182	\$ 219,039

Commitments (Note 20)

Approved on behalf of the Board: (signed) "**Alan Wallace**", Director

(signed) "**Frank Dennis**", Director

– The accompanying notes form an integral part of these condensed consolidated interim financial statements. –

SWISS WATER DECAFFEINATED COFFEE INC.

Condensed Consolidated Interim Statements of Income

(Tabular amounts are in thousands of Canadian dollars, except for per share amounts)

(Unaudited)

	Note	3 months ended		6 months ended	
		June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
Revenue	13, 17	\$ 43,368	\$ 48,368	\$ 92,413	\$ 86,783
Cost of sales		(39,956)	(40,416)	(84,107)	(73,068)
Gross profit		3,412	7,952	8,306	13,715
Operating expenses					
Administration expenses		(2,182)	(2,555)	(4,879)	(4,660)
Sales and marketing expenses		(1,154)	(981)	(1,927)	(1,759)
Total operating expenses		(3,336)	(3,536)	(6,806)	(6,419)
Operating income		76	4,416	1,500	7,296
Non-operating or other					
Gain (loss) on risk management activities		350	(505)	461	(539)
Gain (loss) on fair value of embedded option	9.2 (iii)	860	-	(108)	-
Other gains	11	175	-	175	-
Finance income		426	140	863	211
Finance expense		(2,075)	(1,460)	(3,912)	(2,669)
Loss on foreign exchange		(38)	(659)	(122)	(453)
Total non-operating or other		(302)	(2,484)	(2,643)	(3,450)
(Loss) income before tax		(226)	1,932	(1,143)	3,846
Income tax (expense) recovery		(145)	(472)	71	(1,001)
Net (loss) income		\$ (371)	\$ 1,460	\$ (1,072)	\$ 2,845
(Loss) earnings per share					
Basic earnings per share	16	\$ (0.04)	\$ 0.16	\$ (0.12)	\$ 0.31
Diluted earnings per share	16	\$ (0.06)	\$ 0.16	\$ (0.12)	\$ 0.31

– The accompanying notes form an integral part of these condensed consolidated interim financial statements. –

SWISS WATER DECAFFEINATED COFFEE INC.

Condensed Consolidated Interim Statements of Comprehensive (Loss) Income and Condensed Consolidated Interim Statements of Changes in Equity

(Tabular amounts are in thousands of Canadian dollars except for amounts of shares)

(Unaudited)

Condensed Consolidated Interim Statements of Comprehensive (Loss) Income For the

	3 months ended June 30, 2023	3 months ended June 30, 2022	6 months ended June 30, 2023	6 months ended June 30, 2022
Net (loss) income	\$ (371)	\$ 1,460	\$ (1,072)	\$ 2,845
Other comprehensive (loss) income, net of tax				
Items that may be subsequently reclassified to income:				
Unrealized gain (loss)				
Derivatives designated as cash flow hedges - currency risk hedges on US\$ future revenue	771	(807)	770	(411)
Items reclassified to income:				
Realized gain (loss) recognized in income				
Derivatives designated as cash flow hedges				
- currency risk hedges on US\$ future revenue, recognized in revenue	140	(36)	453	(144)
Other comprehensive income (loss) related to hedging activities	911	(843)	1,223	(555)
Tax expense on other comprehensive income relating to hedging activities	(246)	228	(330)	150
Cumulative translation adjustment	(24)	(11)	(22)	-
Other comprehensive income (loss), net of tax	641	(626)	871	(405)
Net income (loss) and other comprehensive income (loss)	\$ 270	\$ 834	\$ (201)	\$ 2,440

Condensed Consolidated Interim Statements of Changes in Equity

	Note	Share capital			Warrants	Share-based compensation reserve	Accumulated other comprehensive income	Retained earnings	Total equity
		Shares	Amount						
Balance at December 31, 2021		9,129,673	\$ 43,992	\$ 1,773	\$ 351	\$ 832	\$ 8,647	\$ 55,595	
Shares issued for restricted share units		36,142	201	-	(201)	-	-	-	
Settlement of loan with restricted share units		-	-	-	(39)	-	-	(39)	
Share-based compensation		-	-	-	111	-	-	111	
Net income and other comprehensive income		-	-	-	-	(405)	2,845	2,440	
Balance at June 30, 2022		9,165,815	\$ 44,193	\$ 1,773	\$ 222	\$ 427	\$ 11,492	\$ 58,107	
Balance at December 31, 2022		9,165,815	\$ 44,194	\$ -	\$ 375	\$ (697)	\$ 11,034	\$ 54,906	
Shares issued for restricted share units	12.4	47,140	124	-	(124)	-	-	-	
Settlement of loan with restricted share units		-	-	-	(27)	-	-	(27)	
Share-based compensation		-	-	-	241	-	-	241	
Net loss and other comprehensive income		-	-	-	-	871	(1,072)	(201)	
Balance at June 30, 2023		9,212,955	\$ 44,318	\$ -	\$ 465	\$ 174	\$ 9,962	\$ 54,919	

– The accompanying notes form an integral part of these condensed consolidated interim financial statements. –

SWISS WATER DECAFFEINATED COFFEE INC.

Condensed Consolidated Interim Statements of Cash Flows For the

(Tabular amounts are in thousands of Canadian dollars)

(Unaudited)

	Note	3 months ended June 30, 2023	3 months ended June 30, 2022	6 months ended June 30, 2023	6 months ended June 30, 2022
Operating activities					
Net (loss) income		\$ (371)	\$ 1,460	\$ (1,072)	\$ 2,845
Items not affecting cash:					
Depreciation and amortization		2,438	1,940	6,020	3,492
Share-based compensation expense		(190)	20	303	209
Unrealized loss (gain) on risk management activities		(176)	150	(102)	141
Unrealized loss on fair value of embedded option 9.2 (iii)		(860)	-	108	-
Other gains		(175)	-	(175)	-
Finance income		(426)	(140)	(863)	(211)
Finance expense		2,075	1,460	3,912	2,669
Income tax (recovery) expense		145	472	(71)	1,001
Other		230	(147)	281	(210)
		2,690	5,215	8,341	9,936
Change in non-cash working capital relating to operating activities	18	6,893	(5,775)	865	(8,715)
Net cash generated from operations		9,583	(560)	9,206	1,221
Interest received		422	145	719	188
Interest paid	18	(1,509)	(1,121)	(2,735)	(2,019)
Income taxes paid		(206)	(34)	(206)	(34)
Net cash generated from (used in) operating activities		8,290	(1,570)	6,984	(644)
Investing activities					
Additions to plant and equipment	18	(4,656)	(7,242)	(12,956)	(13,475)
Recovery of costs related to equipment	7	-	-	-	1,250
Net cash used in investing activities		(4,656)	(7,242)	(12,956)	(12,225)
Financing activities					
Payment of lease liabilities		(434)	(428)	(889)	(853)
Proceeds from credit facility		800	4,300	3,400	5,500
Repayments of credit facility		(6,000)	-	(6,000)	(1,000)
Proceeds from construction loans		4,615	3,261	10,457	6,251
Transaction costs related to debt financing activities		(67)	-	(419)	-
Net cash generated from financing activities		(1,086)	7,133	6,549	9,898
Increase (decrease) in cash and cash equivalents		2,548	(1,679)	577	(2,971)
Cash and cash equivalents, beginning of the period		1,790	2,958	3,761	4,250
Cash and cash equivalents, end of the period		\$ 4,338	\$ 1,279	\$ 4,338	\$ 1,279

Supplemental cash flow information (Note 18)

– The accompanying notes form an integral part of these condensed consolidated interim financial statements. –

SWISS WATER DECAFFEINATED COFFEE INC.

Notes to the Condensed Consolidated Interim Financial Statements For the Three and Six Months ended June 30, 2023

(Tabular amounts are in thousands of Canadian dollars, except shares and per share amounts)
(Unaudited)

1. NATURE OF BUSINESS AND LIQUIDITY

Swiss Water Decaffeinated Coffee Inc., (“Swiss Water” or the “Company”), is an entity incorporated under the Canada Business Corporations Act (“CBCA”). The common shares of the Company are listed on the Toronto Stock Exchange under the symbol ‘SWP’. The Company’s head office is located at 7750 Beedie Way, Delta, British Columbia, V4G 0A5, Canada.

Swiss Water is primarily involved in the decaffeination of green coffee without the use of chemicals by employing the proprietary SWISS WATER® Process. The Company leverages science-based systems and quality controls to produce coffee that is 99.9% caffeine free.

Swiss Water owns all of the interests of Seaforth Supply Chain Solutions Inc. (“Seaforth”), which is incorporated under CBCA and operates in Delta, British Columbia, Canada; Swiss Water Decaffeinated Coffee Company USA, Inc. (“SWUS”), an entity registered in Washington State, USA, and; Swiss Water Decaffeinated Coffee Europe SARL (“SWEU”), an entity registered in Bordeaux, France.

Seaforth provides a complete range of green coffee handling and storage services, while SWUS and SWEU act as marketing and sales companies and do not have significant assets.

2. BASIS OF PREPARATION

The Company’s condensed consolidated interim financial statements for the three and six months ended June 30, 2023 have been prepared in accordance with International Accounting Standards 34 – Interim Financial Reporting (“IAS 34”) as issued by the International Accounting Standards Board (“IASB”). Accordingly, certain disclosures included in the annual financial statements prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the IASB have been condensed or omitted. These condensed consolidated interim financial statements should be read in conjunction with the Company’s audited consolidated financial statements for the year ended December 31, 2022.

The accounting policies applied in the preparation of these condensed consolidated interim financial statements are consistent with those applied and disclosed in the Company’s audited consolidated financial statements for the year ended December 31, 2022.

These condensed consolidated interim financial statements are presented in Canadian dollars. Except for per share amounts, all amounts are expressed in thousands of Canadian dollars, unless otherwise stated. References to US\$ are to the United States dollars.

These condensed consolidated interim financial statements for the three and six months ended June 30, 2023 were approved for issuance by the Company’s Directors on August 8, 2023. There were no significant non-adjusting events that occurred between the reporting date and the date of authorization.

2.1 New and amended standards

The following amendments to accounting standards became effective for annual periods beginning on or after January 1, 2023. The adoption of these revised standards by the Company did not have a material impact on its condensed consolidated interim 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.

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- IAS 1 contains changes to accounting policy disclosures in changes in estimates vs accounting policies.
- 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.

2.2 New and amended standards not yet effective

These standards are effective for periods beginning after January 1, 2024 and the Company does not anticipate a material impact on its financial statements:

- IFRS 10 and IAS 28 relate to the sale or contribution of assets between an investor and its associate or joint venture, and the amendments clarify accounting for a subsidiary when a parent company loses control of the subsidiary. IAS 28 amended equity method procedures. The amendments' effective date is not yet determined, early adoption is permitted.
- IFRS 16 has amended guidance over accounting for lease liability in a sale and leaseback transaction, effective after January 1, 2024.
- IAS 1 was amended to clarify the classification of non-current liabilities with covenants, effective after January 1, 2024.
- 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.

3. CAPITAL MANAGEMENT

The Company's policy is to maintain a strong capital base to maintain investor, creditor and market confidence and to sustain the future development of the business. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. The Company considers its capital structure to include shareholders' equity and indebtedness. In order to maintain or adjust the capital structure, the Company may from time-to-time issue common shares, issue additional debt, adjust its capital spending, modify its dividend policy, and/or dispose of certain assets to manage current and projected debt levels.

4. ACCOUNTS RECEIVABLE

Accounts receivable are amounts due from customers for goods sold or services performed in the ordinary course of business. Information about the Company's exposure to foreign currency risk, interest rate risk and credit risk can be found in the 'Financial risk management' note. The Company monitors lifetime expected credit losses using the simplified approach, which is determined based on historic and adjusted relevant forward-looking information. The Company's customers have a negligible default rate and the Company's experience in both frequency and amount of losses are not significant. As a result, the expected credit losses provision as at June 30, 2023 was \$0.1 million (December 31, 2022: \$0.1 million).

5. INVENTORIES

During the three and six months ended June 30, 2023, the cost of inventories recognized in cost of sales was \$38.2 million and \$77.8 million (2022: \$38.3 million and \$69.4 million). The hedge accounting component represents the derivative adjustment related to designated hedges for inventory on hand as

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at each period. As at June 30, 2023, the inventory provision was \$0.5 million (December 31, 2022: \$0.2 million).

	June 30, 2023	December 31, 2022
Raw materials	\$ 26,735	\$ 38,177
Finished goods	13,520	28,517
Carbon	510	496
Packaging	418	490
Hedge accounting component	(3,135)	(7,432)
	\$ 38,048	\$ 60,248

6. DERIVATIVE FINANCIAL INSTRUMENTS

The Company's derivative financial instruments were carried at fair value through profit or loss as follows:

	June 30, 2023	December 31, 2022
Net coffee futures contracts	\$ 3,477	\$ 3,288
Net US dollar forward contracts, current	(39)	455
Net US dollar forward contracts, long-term	-	(285)
Borrowings embedded option	Note 9.2 (1,538)	(1,429)
	\$ 1,900	\$ 2,029

The Company's derivative financial instruments were carried at fair value through other comprehensive income as follows:

	June 30, 2023	December 31, 2022
Net US dollar forward contracts, current	\$ (33)	\$ (991)
Net US dollar forward contracts, long-term	251	(14)
	\$ 218	\$ (1,005)

7. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment comprise owned and leased right-of-use assets.

	June 30, 2023	December 31, 2022
Property, plant and equipment	\$ 120,480	\$ 110,694
Right-of-use assets	16,538	17,429
	\$ 137,018	\$ 128,123

7.1 Property, plant and equipment

Property, plant and equipment additions during the six months ended June 30, 2023 consisted of \$14.4 million (2022: \$14.7 million).

SWISS WATER DECAFFEINATED COFFEE INC.

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For the Three and Six Months ended June 30, 2023

(Tabular amounts are in thousands of Canadian dollars, except shares and per share amounts)

(Unaudited)

For the three and six months ended June 30, 2023, the total depreciation expense was \$1.9 million and \$4.9 million respectively (2022: \$1.4 million and \$2.3 million), of which, \$1.6 million and \$4.5 million was depreciation charged to cost of sales (2022: \$1.4 million and \$2.2 million), where \$0.3 million and \$0.3 million was allocated from inventory to cost of sales (2022: \$0.6 million of depreciation was allocated to inventory), while a total of \$0.1 million and \$0.1 million of depreciation charges was included in administrative expense (2022: \$0.1 million and \$0.1 million).

Effective January 1, 2023, the Company reduced the estimated useful life of the non-salvaged assets located at its production facility in Burnaby, BC, by 12 years. The useful life of these assets was re-aligned against the final production date at the site, which was in April 2023. At the time of the change in estimate, these assets had a carrying value of approximately \$3.0 million. As such, during the three and six months period ended June 30, 2023, these non-salvaged assets were fully depreciated and during the period, an expense of \$0.8 and \$3.0 million related to these non-salvaged assets is reflected within the \$1.9 million and \$4.9 million of total depreciation expense. The financial impact of the change in the estimate for the non-salvaged assets was an incremental depreciation expense of \$0.4 million and \$2.5 million for the three and six months ended June 30, 2023. There was no such change in estimate during the comparative three and six month period in 2022.

During the three and six months ended June 30, 2023, the Company disposed of \$33.7 million of fully amortized non-salvaged plant and equipment which was located at the production facility in Burnaby, BC. The net effect of the removal of asset cost and accumulated amortization was nil as the assets were fully amortized by the time the assets were decommissioned.

During the six months ended June 30, 2022, the Company received from a vendor \$1.3 million in cash, which related to reimbursements received following the construction of the first production line in Delta. These proceeds were recorded as a reduction in plant and equipment. There were no such proceeds in 2023.

7.2 Right-of-use assets

For the three and six months period ended June 30, 2023, total depreciation expense was \$0.5 million and \$1.0 million respectively (2022: \$0.6 million and \$1.1 million), of which \$0.4 million and \$0.9 million was charged to cost of sales (2022: \$0.5 million and \$1.0 million) and \$0.1 million and \$0.1 million was included in administrative expense respectively (2022: 0.1 million and \$0.1 million).

During the three months ended June 30, 2023, the property lease for the production facility in Burnaby, BC, expired. The Company disposed of the property lease and the net effect of the removal of asset cost and accumulated amortization was nil.

During the three and six months period ended June 30, 2023, a lease for a truck expired. The Company disposed of the equipment lease and the net effect of the removal of asset cost and accumulated amortization was nil. During the three months period ended June 30, 2023, the Company entered into a new lease for a truck and the Company recognized \$0.2 million in new right-of-use assets for the new truck. There was no such transaction in 2022.

SWISS WATER DECAFFEINATED COFFEE INC.

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8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities comprise the following:

	June 30, 2023	December 31, 2022
Accounts payable	\$ 7,133	\$ 27,043
Accrued liabilities	5,654	8,186
Income tax payable	-	142
	\$ 12,787	\$ 35,371

9. BORROWINGS

As at and during the six months ended June 30, 2023, the Company was in compliance with all banks' and creditor's covenants. The Company's borrowings are as follows:

		June 30, 2023	December 31, 2022
Construction loans with BDC and FCC	Note 9.1	\$ 54,690	\$ 44,131
Debenture with warrants with MRC	Note 9.2	14,026	13,477
Credit facility	Note 9.3	37,007	38,146
Borrowings, total		\$ 105,723	\$ 95,754
Less current portion			
Construction loans interest	Note 9.1	(266)	(191)
Borrowings, current		\$ (266)	\$ (191)
Borrowings, non-current		\$ 105,457	\$ 95,563

9.1 Construction loans with BDC and FCC

As at June 30, 2023 and December 31, 2022, the construction loan balances due to BDC and FCC are as follows:

	June 30, 2023	December 31, 2022
Construction loans interest, current	\$ 266	\$ 191
Construction loan with BDC, non-current, fixed 4.45%	22,500	22,173
Construction loan with BDC, non-current, variable 7.42%	4,877	-
Construction loan with FCC, non-current, fixed 4.38%	10,000	10,000
Construction loan with FCC, non-current, variable 7.34%	17,538	12,285
Financing costs	(491)	(518)
	\$ 54,690	\$ 44,131

9.1 (i) BDC/FCC – Agreements and transaction costs

In 2018, the Company completed a transaction with the Business Development Bank of Canada ("BDC") for a term loan facility ("Term Loan") of up to \$20.0 million. The purpose of the Term Loan is to assist in the financing of new equipment for the first production line built in Delta, BC. The interest rate for the Term Loan was 4.95% per annum over 12 years. Principal repayments were to commence on July 1, 2021 until the Term Loan maturity date of June 1, 2033.

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(Tabular amounts are in thousands of Canadian dollars, except shares and per share amounts)
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In 2021, the Company completed a financing transaction by increasing the existing term loan to \$45.0 million to fund the planned construction of a second production line at the Delta location. The financing was provided by Business Development Corp (“BDC”), the existing creditor, and Farm Credit Canada (“FCC”) in a pari passu structure. Each lender will fund 50% of the \$45.0 million total loan value. The existing borrowing capacity with BDC increased 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, the Company’s outstanding debt to each party, FCC and BDC, was \$10.0 million each where the fixed interest rates were 4.38% and 4.45%, respectively. FCC paid \$10.0 million to BDC on the Company’s behalf to ensure that existing borrowings were restructured on a pari passu basis.

Effective November 22, 2022, as the Company continued constructing its second production line in Delta, BC, the Company entered into an amendment (the “Amended Senior Facility”) to the existing senior debt facilities with BDC and FCC. Both lenders agreed to provide the Company with up to an additional \$12.0 million, in total, of senior debt financing, at variable rates, funded equally between lenders.

Only interest will be paid on the outstanding balances monthly prior to July 1, 2024, for both the BDC and FCC Term Loans. 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. Early principal repayment is available subject to conditions.

The FCC Term Loans consist of a fixed term and a variable loan, where, until maturity, the fixed term loan bears an interest rate of 4.38% and the variable loan bears an interest rate of the variable personal property rate minus 0.75%. The BDC Term Loans consist of a fixed term and a variable loan, where, until maturity, the fixed term loan bears an interest rate of 4.45%, while the variable loan bears an interest rate of the variable BDC floating rate minus 1.5%.

The Company incurred deferred financing costs associated with the above loans. These costs are recorded in non-current borrowings and amortized until the loan maturity date. As at June 30, 2023, deferred financing costs were \$0.5 million (December 31, 2022: \$0.5 million).

9.1 (ii) BDC/FCC – Borrowing capacity

After the amendments on November 22, 2022, the Company’s borrowing capacity with BDC and FCC increased from \$45.0 million to \$57.0 million with the purpose to fund capital expansions in Delta, BC. As at June 30, 2023 and December 31, 2022, the Company’s available borrowing was as follows:

	June 30, 2023	December 31, 2022
Construction loan, BDC, fixed 4.45%	\$ 22,500	\$ 22,500
Construction loan, BDC, variable BDC floating rate minus 1.5%	6,000	6,000
Construction loan, FCC, fixed 4.38%	10,000	10,000
Construction loan, FCC, variable personal property minus 0.75%	18,500	18,500
Gross borrowing capacity available	\$ 57,000	\$ 57,000
Advances, repayments, fees and interest from inception	(54,690)	(44,131)
Available borrowing	\$ 2,310	\$ 12,869

SWISS WATER DECAFFEINATED COFFEE INC.

Notes to the Condensed Consolidated Interim Financial Statements For the Three and Six Months ended June 30, 2023

(Tabular amounts are in thousands of Canadian dollars, except shares and per share amounts)
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9.1 (iii) BDC/FCC – Finance expense and interest paid

For both lenders, interest is based on the outstanding loan balance and is paid monthly. Interest incurred and paid on the BDC and FCC loans was \$0.7 million and \$1.3 million for the three and six months ended June 30, 2023 (2022: \$0.2 million and \$0.4 million). Of that, a total of \$0.4 million was expensed and \$0.9 million was capitalized in property plant and equipment during the construction of the second production line in Delta (2022: \$0.1 million and \$0.3 million). The year to date BDC and FCC variable rate loan effective interest rates were 7.42% and 7.34% respectively. The finance costs and the effective interest rates are based on the average balance drawn on each loan. The average capitalization rate for interest expense included in the cost of property plant and equipment was 7.35% (2022: 3.90%).

9.1 (iv) BDC/FCC – Security

The construction 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 construction loans for both BDC and FCC. Seaforth provided a guarantee for construction loans to both BDC and FCC.

9.2 Debenture with warrants with MRC

The debenture with warrants consists of the principal amount due to Mill Road Capital LLC (“MRC”), a related party, and accrued interest, net of an unamortized bond discount. As at June 30, 2023 and December 31, 2022, the debenture with warrants was as follows:

		June 30, 2023	December 31, 2022
Principal amount due to MRC, 9%+1.5%	\$	15,000	\$ 15,000
Unamortized bond discount		(1,418)	(1,853)
Accrued interest		444	330
	\$	14,026	\$ 13,477

9.2 (i) MRC – Agreements and transaction costs

In 2016, the Company issued an unsecured subordinated convertible debenture to MRC for gross proceeds of \$15.0 million. The convertible debenture maturity date was October 11, 2023. The Company paid financing costs of \$0.5 million in respect of issuing the convertible debenture. Until the debt extinguishment on July 20, 2021, the Company used the residual value method to allocate the fair value of the convertible debenture between the liability component and the derivative liability.

In 2021, Swiss Water amended a convertible debenture agreement with MRC to a 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, and (iii) the debt to shares conversion feature was amended. 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 MRC to purchase up to 2.25 million common shares at a price of \$3.33 per share. The warrants expire on October 31, 2024. This amendment was accounted for as an extinguishment of debt and a new debenture with warrants was established. The Company incurred financing costs of \$0.2 million associated with the amendment in 2021.

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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 security on the debenture. 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 warrant 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 MRC 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. This amendment was accounted for as an extinguishment of debt and a new debenture with warrants was established. The Company incurred financing costs of \$0.2 million associated with the amendment in 2022.

9.2 (ii) MRC – Finance expense and interest paid

The debenture with warrants interest rate is 9% per annum, paid quarterly in arrears. The 9% is subject to reaching a specific covenant threshold, in excess of this, the interest rate increases to 12.5% per annum. The Company also incurs an additional 1.5% of interest in kind, which accrues quarterly and is due at the maturity date. Interest expensed and paid for the three and six months ended June 30, 2023 was \$0.7 million and \$1.2 million, and \$0.3 million and \$0.6 million respectively (2022: \$0.6 million and \$1.1 million, \$0.3 million and \$0.7 million).

9.2 (iii) MRC – Embedded option within the debenture with warrants

Effective November 22, 2022, the amended debenture with warrants contains an embedded option, where if MRC were to elect, it would result in fewer than the maximum of 2.25 million of common shares being issued upon the exercise of the warrants. This embedded option is a financial liability revaluated at each reporting date. As at June 30, 2023, the Company determined the fair value of the embedded option to be \$1.5 million (December 31, 2022: \$1.4 million). For the three and six months ended June 30, 2023, this revaluation resulted in a gain of \$0.9 million and a loss of \$0.1 million (2022: nil).

The fair value of the embedded option was determined using the Black-Scholes Option Pricing Model. The variables and assumptions used in computing the fair value are based on management's best estimate.

The inputs to the Black-Scholes Option Pricing Model were as follows:

	June 30, 2023	December 31, 2022
Share price	\$ 2.76	\$ 2.31
Exercise price	\$ 3.33	\$ 3.33
Option life	2.84 years	3.33 years
Volatility	41%	49%
Risk-free interest rate	4.54%	4.07%
Dividend yield	0.00%	0.00%

9.2 (iv) MRC – Security

Effective November 22, 2022, the debenture with warrants is secured by a secondary general security agreement, after primary lenders ranking senior to MRC for the construction loans and credit facility, over all Swiss Water present and newly acquired personal property and proceeds. Prior to this, the debenture with warrants was unsecured.

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9.3 Credit Facility with a Canadian Bank

As at June 30, 2023 and December 31, 2022, the Credit Facility due to a Canadian Bank comprises:

	June 30, 2023	December 31, 2022
Credit Facility with effective interest rate of 6.73%, 4.37%	\$ 37,233	\$ 38,414
Less unamortized transaction costs	(226)	(268)
	\$ 37,007	\$ 38,146

9.3 (i) Credit Facility – Agreements and transaction costs

In 2019, Swiss Water entered into a revolving credit facility agreement (“Credit Facility”), with a Canadian Bank, for borrowings up to the lower of the Borrowing Base (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 Export Development Canada “EDC”, as discussed below. The maturity date of October 18, 2022 was extended to the earlier of the maturity of the debenture with warrants, which is on October 31, 2024, and October 19, 2025. The Company 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 Company incurred deferred financing costs associated with the above loan. These costs are recorded in non-current borrowings and amortized until the loan maturity date. As at June 30, 2023 deferred financing costs were \$0.2 million (December 31, 2022: \$0.3 million).

9.3 (ii) Credit Facility – Finance expense and interest paid

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. The year to date Credit Facility variable rate loan effective interest rate was 6.73%. For the three and six months ended June 30, 2023, finance expenses on the Credit Facility were \$0.7 million and \$1.4 million (2022: \$0.2 million and \$0.4 million), which were added to the loan balance.

9.3 (iii) Credit Facility – Security

The Company has pledged substantially all of its assets, except for assets pledged to BDC and FCC, as collateral for the Credit Facility, including a first priority security interest over all inventory, accounts receivable, excess margin and gains on the commodity account, gains in the foreign exchange line of credit and other assets of the Company.

9.3 (iv) Credit Facility – Borrowing base

The Credit Facility’s Borrowing Base margins the Company’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 US dollars and can be borrowed, repaid, and re-borrowed to fund operations, capital expansions, letters of credit, and for general corporate purposes.

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As at June 30, 2023 and December 31, 2022, the Company's borrowing availability was as follows:

	June 30, 2023	December 31, 2022
Gross borrowing base availability	\$ 44,872	\$ 45,000
Advances, repayments, fees and interest from inception	(37,233)	(38,414)
Outstanding letter of credit and security lien bond	(837)	(837)
Interests and fees accrued	237	212
	\$ 7,039	\$ 5,961

9.3 (v) Credit Facility – Foreign exchange and commodity futures contract facilities

As part of the Credit Facility, the Company has a US\$8.0 million foreign exchange and commodity futures contract facility, which allows the Company 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.

9.4 Credit Facility with EDC

Effective November 22, 2022, the Company 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 above mentioned 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. The lender of the Credit Facility 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 June 30, 2023, no amounts were drawn on EDC Credit (2022: nil).

9.5 Foreign exchange facility guarantee with EDC

On June 1, 2020, the Company 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, 2024. This guarantee provides additional borrowing capacity within the referenced credit facility.

10. LEASE LIABILITIES

For the three and six months ended June 30, 2023 lease liabilities interest expense recognized in profit and loss was \$0.2 million and \$0.5 million respectively (2022: \$0.2 million and \$0.5 million). The minimum lease payments recognized in the financing component of the statement of cash flows were \$0.7 million and \$1.4 million respectively (2022: \$0.7 million and \$1.4 million).

During the three and six months ended June 30, 2023, the property lease for the production facility in Burnaby, BC, expired and the Company returned the leased property to the landlord.

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During the three months ended June 30, 2023, a lease for a truck expired and the Company entered into a new lease for a truck, which will expire in February 2028. The total value of lease liabilities added was \$0.2 million. There was no such transaction in 2022.

11. ASSET RETIREMENT OBLIGATION

In June 2023, a lease for the Burnaby location concluded and the property was fully restored, as per contractual terms, and returned back to the landlord. Of the estimated \$1.5 million asset retirement obligation, the actual cost was \$1.3 million. As such, during the three and six months period ended June 30, 2023, the Company recognized other gains in the amount of \$0.2 million (2022: nil).

During the three and six months ended June 30, 2023, the Company paid \$0.1 million and \$1.1 million respectively, which was related to the decommissioning of assets and restoration of the leased property. There were no such payments made during the same periods last year.

	June 30, 2023		December 31, 2022	
Balance, open	\$	4,180	\$	1,911
Remeasurement recognized in other gains		(175)		-
Remeasurement recognized in property plant and equipment		35		2,389
Payments		(1,086)		(164)
Accretion		70		44
Balance, end	\$	3,024	\$	4,180
Less current portion		(87)		(1,334)
Balance, non-current	\$	2,937	\$	2,846

12. SHARE CAPITAL

12.1 Common Shares

Swiss Water is authorized to issue an unlimited number of common shares without par value. Each share is equally eligible to receive dividends when declared and represents one vote at meetings of shareholders.

As at June 30, 2023, there were 9,212,955 common shares issued and outstanding (2022: 9,165,815).

12.2 Preferred Shares

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 June 30, 2023, there were no preferred shares issued and outstanding (2022: nil).

12.3 Warrants

In 2021, the Company issued 2.25 million warrants to MRC. Each warrant was exercisable for one common share at a price of \$3.33, expiring on October 31, 2024. The warrant's initial value was recorded as a component of equity and subsequently was not remeasured.

Effective November 22, 2022, the debenture with warrants agreement was amended to (i) extend the maturity date of the warrants from October 31, 2024 to April 30, 2026, and (ii) provide for a cashless exercise whereby MRC may elect to receive, upon exercise, such number of shares that is equal to the

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difference between the \$3.33 exercise price and the fair market value of the shares. There was no change to the number of shares issuable under the agreement or the exercise price of the warrants. As the agreement now allows for a cashless option for a variable number of shares, the warrants were reclassified from equity to financial liability. Refer to Note 9.2 for further details.

12.4 Restricted share units

As at each reporting date, for RSUs that are cash settled, the Company values these RSUs using the volume based weighted average share price ("VWAP"). VWAP is based on the Canadian dollar trading price of the Company's common shares on the Toronto Stock Exchange for the five trading days immediately preceding that relevant date, calculated by dividing the total value by the total volume of common shares traded, according to the RSU Plan. As at each reporting date, for RSUs that are equity settled, these RSUs are not revaluated.

The movement in RSUs was as follows:

	Number of RSUs	Volume based weighted average share price	Average remaining vesting period in years	Performance based
Balance at January 1, 2022	439,747	\$ 3.07	1.56	
RSUs granted	63,000	\$ 2.25	2.13	No
RSUs granted - performance	158,300	\$ 2.63	1.21	Yes
RSUs cash-settled	(50,164)	\$ 3.14	-	No
RSUs exercised	(36,142)	\$ 5.11	-	No
Balance at December 31, 2022	574,741	\$ 2.55	1.11	
Balance at January 1, 2023	574,741	\$ 2.55	1.11	
RSUs granted	95,000	\$ 2.48	2.62	No
RSUs granted - performance	158,300	\$ 2.70	0.71	Yes
RSUs cash-settled	(64,000)	\$ 2.69	-	No
RSUs exercised	(47,140)	\$ 2.95	-	No
Balance at June 30, 2023	716,901	\$ 2.71	1.05	

12.5 Deferred share units

On the reporting date, the Company values the DSUs using fair market value ("FMV"). The FMV of DSUs is defined in the DSU Plan as the weighted average closing price of Swiss Water shares for the five business days immediately preceding the relevant date.

The movement in DSUs was as follows:

	Number of DSUs	Weighted average share price	Performance based
Balance at January 1, 2022	99,861	\$ 3.11	
DSUs issued	85,590	\$ 2.83	No
Balance at December 31, 2022	185,451	\$ 2.31	
Balance at January 1, 2023	185,451	\$ 2.31	
DSUs issued	44,433	\$ 2.64	No
Balance at June 30, 2023	229,884	\$ 2.76	

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13. REVENUE

13.1 Disaggregation of revenue

Revenue disaggregated by geographical markets is disclosed in Note 17. The Company also disaggregates revenue by major products and services: decaffeinated coffee sales, decaffeination services, and distribution with the following results:

	3 months ended June 30, 2023		3 months ended June 30, 2022		6 months ended June 30, 2023		6 months ended June 30, 2022	
Decaffeinated coffee sales	\$	38,818	\$	41,529	\$	81,093	\$	75,174
Decaffeination services		1,516		3,472		4,788		5,720
Distribution		3,034		3,367		6,532		5,889
	\$	43,368	\$	48,368	\$	92,413	\$	86,783

13.2 Contract balances

As at June 30, 2023, the accounts receivable balance of \$18.5 million (December 31, 2022: \$20.7 million) consists of amounts due from customer contracts and reflects the Company's right to a consideration that is unconditional. The Company did not have other contract assets or liabilities from contracts with customers.

14. EMPLOYEE BENEFITS EXPENSES

Expenses recognized for employee benefits are detailed below:

	3 months ended June 30, 2023		3 months ended June 30, 2022		6 months ended June 30, 2023		6 months ended June 30, 2022	
Short-term benefits	\$	3,114	\$	3,404	\$	6,554	\$	6,364
Long-term benefits		(190)		20		303		209
Post-employment benefits		369		304		722		608
	\$	3,293	\$	3,728	\$	7,579	\$	7,181

Employee's long-term benefits are share based compensation expenses related to RSUs and DSUs, which are valued using the Company's share price at each period end.

15. RELATED PARTY TRANSACTIONS

The Company's related parties include its subsidiaries, key management personnel and a company related to a director. Details of transactions between the Company and related parties are discussed below. All intercompany transactions, balances, income and expenses are eliminated on consolidation.

15.1 Compensation of Key Management Personnel

The remuneration of directors and key management personnel is as follows:

	3 months ended June 30, 2023		3 months ended June 30, 2022		6 months ended June 30, 2023		6 months ended June 30, 2022	
Short-term benefits	\$	585	\$	644	\$	1,118	\$	1,131
Long-term benefits		(214)		(12)		233		136
Post-employment benefits		94		68		166		133
	\$	465	\$	700	\$	1,517	\$	1,400

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Key management long-term benefits are share based compensation expenses related to RSUs and DSUs, which are valued using the Company's share price at each period end.

Also, during the three and six months ended June 30, 2023, \$0.4 million related to vesting RSUs performance grants was added to construction in progress within property plant and equipment. There were no such additions during the same periods in 2022.

15.2 Trading transactions

During the three and six months ended June 30, 2023 and 2022, the Company entered into the following transactions with a company that is related to a director of the Company:

	3 months ended June 30, 2023	3 months ended June 30, 2022	6 months ended June 30, 2023	6 months ended June 30, 2022
Sales	\$ 296	\$ 484	\$ 451	\$ 839
Purchases of raw materials	\$ 649	\$ 2,918	\$ 3,335	\$ 4,949

As at the June 30, 2023 and December 31, 2022, the Company had the following balances receivable from and payable to a company that is related to a director:

	June 30, 2023	December 31, 2022
Accounts receivable	\$ 5	\$ 3
Accounts payable	\$ -	\$ 2,170

These transactions were in the normal course of operations and were measured at the fair value of the consideration or receivable, which was established and agreed to by both parties.

15.3 Employee Loan

On October 26, 2021, the Company and a key management member entered into a promissory note in the amount of \$0.07 million. For as long as the person remains an employee, the obligation to repay the principal is forgiven against current and future awards under the RSU Plan, by forfeiture of their RSU 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 June 30, 2023 the loan balance of \$0.02 million was included in other current receivables (December 31, 2022: \$0.04 million included in other long term receivables).

16. BASIC AND DILUTED EARNINGS PER SHARE ("EPS")

The Company presents basic and diluted EPS for its common shares. Basic EPS is calculated by dividing income or loss attributable to shareholders of the Company by the weighted average number of common shares outstanding during the reporting period. Diluted EPS is calculated by dividing income or loss attributable to shareholders of the Company by the weighted average number of common shares outstanding, adjusted for the effects of all dilutive potential common shares. The weighted average number of shares outstanding on a diluted basis takes into account the additional shares for the assumed exercise of RSUs and warrants, if dilutive. The number of additional shares is calculated by assuming that outstanding warrants were exercised and that the proceeds from such exercises were used to acquire common stock at the average market price during the reporting period. When the effects of a potential issuance of shares under warrants and RSUs would be anti-dilutive, basic and diluted loss per share are the same. Basic and dilutive earnings per share are as follows:

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	3 months ended June 30, 2023	3 months ended June 30, 2022	6 months ended June 30, 2023	6 months ended June 30, 2022
Basic earnings per share				
Net income attributable to shareholders	\$ (371)	\$ 1,460	\$ (1,072)	\$ 2,845
Weighted average number of shares	9,212,955	9,158,794	9,199,672	9,150,381
Basic earnings per share	\$ (0.04)	\$ 0.16	\$ (0.12)	\$ 0.31
Diluted earnings per share				
Net income attributable to shareholders	\$ (371)	\$ 1,460	\$ (1,072)	\$ 2,845
Effect of diluted securities: RSUs	(131)	-	-	-
Interest on debenture with warrants	627	-	-	-
Fair value of borrowings embedded option	(859)	-	-	-
Net income after effect of diluted securities	\$ (734)	\$ 1,460	\$ (1,072)	\$ 2,845
Weighted average number of shares - basic	9,212,955	9,158,794	9,199,672	9,150,381
Effect of diluted securities: RSUs	622,944	-	-	-
Effect of diluted securities: Warrants	2,250,000	-	-	-
Weighted average number of shares - diluted	12,085,899	9,158,794	9,199,672	9,150,381
Diluted earnings per share	\$ (0.06)	\$ 0.16	\$ (0.12)	\$ 0.31

The following potential common shares are anti-dilutive in one or more periods and are therefore excluded from the weighted average number of common shares outstanding for the purposes of calculating the diluted earnings per share for such periods:

	3 months ended June 30, 2023	3 months ended June 30, 2022	6 months ended June 30, 2023	6 months ended June 30, 2022
Weighted average number of RSUs granted	-	366,930	618,757	387,677
Weighted average number of Warrants issued	-	2,250,000	2,250,000	2,250,000

17. SEGMENT REPORTING

The Company's sales are primarily generated by the decaffeination of green coffee segment, and in three geographic areas: Canada, the United States and other international markets. The Company's revenue from external customers and its non-current assets (not including deferred tax assets), by location, are detailed below.

17.1 Revenue

	3 months ended June 30, 2023	3 months ended June 30, 2022	6 months ended June 30, 2023	6 months ended June 30, 2022
Canada	\$ 11,411	\$ 10,442	\$ 23,370	\$ 19,715
United States	22,539	23,195	50,612	39,688
International and other	9,418	14,731	18,431	27,380
	\$ 43,368	\$ 48,368	\$ 92,413	\$ 86,783

17.2 Non-Current Assets (excluding deferred tax assets)

	June 30, 2023	December 31, 2022
Canada	\$ 137,327	\$ 128,341
United States	17	22
Europe	110	125
	\$ 137,454	\$ 128,488

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18. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital are as follows:

	3 months ended June 30, 2023	3 months ended June 30, 2022	6 months ended June 30, 2023	6 months ended June 30, 2022
Accounts receivable	\$ 7,121	\$ (835)	\$ 2,444	\$ (6,900)
Inventories	21,871	(10,056)	25,881	(20,604)
Other assets and liabilities	(117)	(93)	(95)	(89)
Prepaid expenses and other receivables	12	(183)	24	(197)
Accounts payable and accrued liabilities	(19,779)	4,989	(22,055)	15,496
Payments for asset retirement obligation	(1,002)	-	(1,086)	-
Derivative assets, liabilities and hedged firm commitments at fair value through profit and loss	(1,213)	403	(4,248)	3,579
	\$ 6,893	\$ (5,775)	\$ 865	\$ (8,715)

As at June 30, 2023, \$6.2 million in additions to construction in progress was accrued in accounts payable and accrued liabilities (December 31, 2022: \$6.2 million). These are operating and investing transactions that did not require the use of the Company's cash.

During the three and six months ended June 30, 2023, \$0.5 million and \$0.9 million of interest paid on construction loans was capitalized during the construction of new manufacturing equipment (2022: \$0.2 million and \$0.3 million). The capitalized interest is an item affecting the operating and investing sections of the cash flow statement.

During the first six months of 2023, the Company capitalized \$0.4 million of share based compensation in property plant and equipment (2022: nil). These are investing and operating activities that did not require the use of cash.

During the six months ended June 30, 2022, Swiss Water collected a \$1.3 million cash reimbursement from a construction company. There was no such reimbursement in 2023. The Company reports such as proceeds within investing activities.

During the three and six months ended June 30, 2023, Swiss Water paid \$1.0 million and \$1.1 million related to asset retirement obligation for the Burnaby location, whereas no such costs were paid in the same periods in 2022. Also, during the six months of 2023 the Company recognized a \$0.2 million non cash gain on remeasurement of asset retirement obligation related to the Burnaby property (2022: nil). This non cash gain is a non cash item affecting changes in non cash working capital within operating activities.

As at June 30, 2023, \$0.4 million of depreciation on manufacturing equipment was included in inventory (December 31, 2022: \$0.6 million). This is a non-cash item within cash flows from operating and investing activities.

During the three and six months ended June 30, 2023, Swiss Water added a new leased truck and added \$0.2 million to right-of-use assets and leased liabilities. This is a non-cash item affecting financing and investing activities.

In 2022, Swiss Water incurred \$0.8 million in financing transaction costs related to the renegotiation of the Company's borrowings. Of these costs, the Company paid \$0.4 million by December 31, 2022, while the remainder \$0.4 million was settled during the three and six months ended June 30, 2023. There were

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no such payments in the comparative periods in 2022. These items are components of the operating and financing sections of the cash flow statement.

Lease payments for short-term leases and leases of low value, which are not included in the measurement of the lease liability are classified as cash flows from operating activities. The Company has classified the principal portion of lease payments within financing activities and the interest portion within operating activities.

19. FINANCIAL RISK MANAGEMENT

The Company's risk management program focuses on the unpredictability of commodity prices and foreign exchange rates and seeks to minimize potential adverse effects on the Company's financial performance and cash flows. The Company uses derivative financial instruments to hedge these risk exposures. In addition, the Company monitors other financial risks on a regular basis.

Risk management is carried out under policies approved by the Board of Directors. The Company's exposure to and management of financial risks is discussed in more detail below.

19.1 Commodity price risk hedges on purchase commitments and inventory

Commodity price risk is the risk that the fair value of inventory or future cash flows will fluctuate as a result of changes in commodity prices. The Company utilizes futures contracts to manage its commodity price exposure. The Company buys and sells futures contracts for coffee on the Intercontinental Exchange in order to offset its inventory position and fix the input cost of green coffee. As at June 30, 2023, the Company had futures contracts to buy 15.5 million lbs of green coffee with a notional value of US\$24.7 million, and contracts to sell 23.1 million lbs of green coffee with a notional value of US\$36.6 million. The furthest contract matures in March 2024. (December 31, 2022: 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). An estimated 1% decrease in the mark-to-market rate applied to coffee futures would have resulted in an estimated gain of \$0.1 million to the net income, and vice versa (December 2022: \$0.1 million gain to the net income).

The following tables provide a summary of commodity hedges designated as hedging instruments:

Carrying amount of hedging instruments	June 30, 2023		December 31, 2022	
Fair value hedge	Commodity price risk Coffee futures		Commodity price risk Coffee futures	
Nominal amount of hedging instruments (in US\$'000)	\$	11,853	\$	16,267
Line item in the statement of financial position where hedging instrument is located				
Derivative Assets	\$	3,477	\$	3,288
Changes in fair value used for calculating hedge ineffectiveness		-		-

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Accumulated amount of fair value hedge adjustment on hedged item included in the carrying amount of the hedged items	June 30, 2023	December 31, 2022
Fair value hedge	Purchase commitments and coffee inventory	Purchase commitments and coffee inventory
Nominal amount of hedged item (in '000 lbs)	7,619	10,045
Line items in the statement of financial position where hedged item is located	Inventories & hedged firm commitments	Inventories & hedged firm commitments
Assets	\$ 496	\$ 1,056
Liabilities	3,516	8,014
Changes in fair value used for calculating hedge ineffectiveness	-	-

19.2 Foreign exchange currency risk hedges

The Company realizes a significant portion of its sales in US\$, and purchases green coffee in US\$ which is, in some cases, sold to customers in Canadian dollars. The Company enters into forward foreign currency contracts to manage its exposure to currency rate fluctuations and to minimize the effect of exchange rate fluctuations on business decisions. These contracts relate to the Company's future net cash flows in US\$ from sales. In addition, the Company enters into forward contracts to buy US\$ for coffee that it resells in Canadian dollars.

As at June 30, 2023, the Company had forward currency contracts to buy US\$8.2 million and sell US\$41.1 million (December 31, 2022: buy US\$7.1 million and sell US\$54.8 million) from July 2023 through to September 2025 at various Canadian exchange rates ranging from \$1.28 to \$1.37. An estimated Canadian 1 cent decrease in the value of US dollar would have resulted in an estimated gain of \$0.2 million to the net income and other comprehensive income, and vice versa (December 2022: \$0.3 million gain to the net income and other comprehensive income).

The following tables provide a summary of amounts related to foreign currency forward contracts designated as hedging instruments. Not included in the tables below are fair value changes for swap contracts, as these are not designated hedge instruments.

Currency risk hedges related to US\$ purchases

As at June 30, 2023, the Company designated as hedging instruments US\$7.7 million in forward contracts to buy US dollars, which relate to coffee purchases (December 31, 2022: US\$7.1 million).

Carrying amount of hedging instruments	June 30, 2023	December 31, 2022
Fair value hedge	Foreign currency purchase forwards	Foreign currency purchase forwards
Nominal amount of hedging instruments (in US\$'000)	\$ 7,696	\$ 7,124
Line item in the statement of financial position where hedging instrument is located		
Derivative Assets	\$ -	\$ 138
Derivative Liabilities	223	50
Changes in fair value used for calculating hedge ineffectiveness	-	-

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Accumulated amount of fair value hedge adjustment on hedged item included in the carrying amount of the hedged items	June 30, 2023	December 31, 2022
Fair value hedge	Firm purchase commitments & inventories	Firm purchase commitments & inventories
Nominal amount of hedged item (in US\$'000)	\$ 7,696	\$ 7,124
Line item in the statement of financial position where hedged item is located	Inventories & hedged firm commitments	Inventories & hedged firm commitments
Assets	\$ 205	\$ -
Liabilities	16	244
Changes in fair value used for calculating hedge ineffectiveness	-	-

Currency risk hedges related to US\$ sales

As at June 30, 2023, the Company designated as hedging instruments US\$31.1 million in forward contracts to sell US dollars, which relate to highly probable forecasted sales revenue (December 31, 2022: US\$40.2 million).

Carrying amount of hedging instruments	June 30, 2023	December 31, 2022
Cashflow hedge	Currency risk Foreign currency forwards	Currency risk Foreign currency forwards
Nominal amount of hedging instruments (in US\$'000)	\$ 31,120	\$ 40,205
Line items in the statement of financial position where hedging instrument is located		
Derivative Assets	\$ 431	\$ 67
Derivative Liabilities	213	1,072
Changes in fair value used for calculating hedge ineffectiveness	-	-

Accumulated amount of fair value hedge adjustment on hedged item included in the carrying amount of the hedged items	June 30, 2023	December 31, 2022
Cashflow hedge	Currency risk Foreign currency forwards	Currency risk Foreign currency forwards
Nominal amount of hedged item (in US\$'000)	\$ 31,120	\$ 40,205
Line items in the statement of financial position where hedged item is located	Accumulated other comprehensive income	Accumulated other comprehensive income
Assets	\$ n/a	\$ n/a
Liabilities	n/a	n/a
Changes in fair value used for calculating hedge ineffectiveness	-	-
Cashflow hedge reserve	218	(1,005)

19.3 Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company believes that interest rate risk is low as all cash equivalents are made in fixed-rate instruments. The Company does have interest rate risk related to its credit facilities and variable construction loans, where a 1% increase in the Canadian Prime Rate loan, holding all other variables constant, would result in a \$0.4 million decrease to net income (December

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2022: \$0.4 million decrease to the net income). There is no interest rate risk on the debenture with warrants and fixed construction loans as the interest rates are fixed.

19.4 Credit risk

The Company is exposed to credit risk with respect to its cash and cash equivalents, accounts receivable and derivative financial instruments.

The Company does not have significant credit risk related to cash and cash equivalents as amounts are held with major financial institutions.

The Company follows a program of credit evaluations of customers. A customer's credit check is performed in advance of providing credit to a customer and by reviewing their external credit ratings and interviewing customers' reputable vendors and then customer's credit check is reviewed periodically.

The Company follows a program of credit evaluations of customers and limits the amount of credit extended when deemed necessary. For the six months ended June 30, 2023, revenues from three major customers of \$34.2 million (2022: \$28.8 million) represented 37% (2022: 33%) of total revenues for the period. Three customers represented 53% of total accounts receivable as at June 30, 2023 (December 31, 2022: 50%).

The Company had 16% of its accounts receivable past due but not impaired as at June 30, 2023 (December 31, 2022: 16%). Of the accounts receivable that are past due, 85% are 1-30 days past due, while 15% are over 31 days past due (December 31, 2022: 92% and 1% respectively).

The Company manages the credit risk related to its derivative financial instruments by entering into such contracts only with high credit quality institutions.

19.5 Liquidity risk

Non-derivative financial liabilities are as follows:

	Carrying Amount		Contractual Cash Flows			
	June 30, 2023	2023	2024 to 2025	2026 to 2027	Thereafter	
Accounts payable	\$ 7,133	\$ 7,133	\$ -	\$ -	-	
Other liabilities	1,070	1,040	30	-	-	
Lease liabilities	19,192	1,269	5,119	4,554	967	
Credit facility	37,007	-	37,233	-	-	
Construction loans and interest	54,690	266	9,759	13,012	32,144	
Debenture with warrants	14,026	-	15,444	-	-	
Total	\$ 133,118	\$ 9,708	\$ 67,585	\$ 17,566	\$ 33,111	

The Company has in place a planning and budgeting process to assist in determining the funds required to support the Company's normal operating requirements on an ongoing basis, the construction of its second production line in Delta, and its future plans. The Company ensures that there are sufficient committed financing facilities to meet its short-term business requirements, taking into account its anticipated cash flows from operations, its existing bank indebtedness and additional borrowing capacity. The Company has maintained compliance with its banking covenants and remains able to satisfy its liabilities as they become due.

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19.6 Fair value of financial instruments

The Company classifies and discloses the fair value measurements of its financial instruments using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- a) Level 1 includes financial instruments where the valuation is based on quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 1 captures the Company's cash and commodity futures.
- b) Level 2 includes financial instruments where the valuation techniques are based on inputs other than quoted prices that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices). Level 2 captures the Company's foreign exchange forward contracts, derivative financial liabilities, borrowings embedded option, construction loans, credit facilities and other liabilities.
- c) Level 3 includes financial instruments where the valuation techniques use inputs for the asset or liability that are not based on observable market data (unobservable inputs). The Company does not have level 3 financial instruments.

Financial instruments that are measured at fair value are categorized as follows. During the six months ended June 30, 2023, there were no transfers between level 1 and level 2 instruments.

	June 30, 2023		Level 1		Level 2		Level 3	
Financial assets								
Cash	\$	4,338	\$	4,338	\$	-	\$	-
Derivative assets		4,094		3,478		616		-
	\$	8,432	\$	7,816	\$	616	\$	-
Financial liabilities								
Derivative liabilities	\$	438	\$	-	\$	438	\$	-
Borrowings embedded option		1,538		-		1,538		-
	\$	1,976	\$	-	\$	1,976	\$	-
	December 31, 2022		Level 1		Level 2		Level 3	
Financial assets								
Cash	\$	3,761	\$	3,761	\$	-	\$	-
Derivative assets		3,580		3,289		291		-
	\$	7,341	\$	7,050	\$	291	\$	-
Financial liabilities								
Derivative liabilities	\$	1,126	\$	-	\$	1,126	\$	-
Borrowings embedded option		1,429		-		1,429		-
	\$	2,555	\$	-	\$	2,555	\$	-

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20. COMMITMENTS

In addition to lease liabilities, the Company has the following commitments:

The Company has provided a standby letter of credit in the amount of \$0.3 million as security to a landlord, as well as a standby letter of credit in the amount of \$0.5 million as security for a construction bond. Both commitments are restricting available borrowing base draws as highlighted in Note 9.3, 'Credit Facility – Borrowing base'.

The Company has also, in the normal course of business, entered into various contracts. As at June 30, 2023, these contracts related to the purchase of green coffee in the amount of \$41.7 million (December 31, 2022: \$34.6 million) and equipment purchase commitments of nil (December 31, 2022: \$5.1 million). Of these contracts, \$41.7 million will become payable within twelve months from June 30, 2023.