SWISS WATER DECAFFEINATED COFFEE INC.

Management Discussion and Analysis
For the third quarter ended September 30, 2023

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 November 8, 2023, provides a review of the financial results for the three and nine months ended September 30, 2023, relative to the comparable periods of 2022. The three month period represents the third quarter ("Q3") of our *2023 fiscal year. This MD&A should be read in conjunction with Swiss Water's condensed consolidated interim financial statements for the three and nine months ended September 30, 2023, the audited consolidated financial statements for the year ended December 31, 2022, and in conjunction with the Annual Information Form ("AIF"), which are available on SEDAR+.*

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, and ix) impact of climate changes. 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 unaudited condensed consolidated interim financial statements for the three and nine months ended September 30, 2023, prepared in accordance with IAS 34 as issued by the IASB. 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 September 30		9 months ended September 30	
	2023	2022	2023	2022
Revenue	$ 32,627	$ 46,154	$ 125,040	$ 132,937
Gross profit	3,576	6,614	11,882	20,329
Operating income	758	3,293	2,258	10,589
Net income	(417)	(204)	(1,489)	2,641
Adjusted EBITDA[1]	1,539	4,346	8,346	13,572
Net income per share – basic	$ (0.05)	$ (0.02)	$ (0.16)	$ 0.29
Net income per share – diluted[2]	$ (0.05)	$ (0.02)	$ (0.16)	$ 0.29

[1] Adjusted EBITDA is defined in the 'Non-IFRS Measures' section of this MD&A and is a "Non-IFRS 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 three and nine months ended September 30, 2023, was $32.6 million and $125.0 million respectively, which represents a $13.5 million and $7.9 million decrease compared to the same periods in 2022. The decrease was the result of a planned period of reduced production capacity, which limited the volume available to customers during the second and third quarters. This was due to the short gap between exiting our legacy Burnaby site, and the completion of our second production line at our new facility in Delta, BC. The last bag of coffee was decaffeinated at Burnaby in late April and the first production run of saleable coffee from the new Delta line was completed in late August. Higher than normal volumes shipped in the first quarter, as customers moved orders forward in anticipation of the transition, helped mitigate the impact on year to date revenue.

- Effective January 1, 2023, the Company reduced the estimated useful life of the non-salvaged assets located at its production facility in Burnaby, 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 nine months ended September 30, 2023, these non-salvaged assets were fully depreciated and an expense of 3.0 million is reflected within the $5.5 million of the total depreciation expense. The financial impact of the change in estimate was a one-time incremental depreciation expense of $2.5 million for the nine months ended September 30, 2023. There was no such change in estimate during the comparative period in 2022.

- Gross profit for the three and nine months ended September 30, 2023, was $3.6 million and $11.9 million respectively, which represents a $3.0 million and $8.4 million decrease compared to the same periods in 2022. Gross margin percent decreased from 15% to 10% compared to the same period in 2022. The decrease was primarily driven by reduced volumes due to the temporary production capacity limitation described above, as well as materially lower green coffee differential margins and a one-time incremental depreciation expense of $2.5 million for the nine months ended September 30, 2023. In addition, we experienced inflationary pressure on our variable production costs, including natural gas, carbon and labor, as well as on freight and warehousing.

- A net loss of $0.4 million was recorded for the third quarter, and of $1.5 million for the year-to-date representing a decline in profitability of $0.2 million and $4.1 million respectively, when compared to the 2022 result. The movements were driven by the same factors that impacted gross profit, as described above, as well as a material increase in finance expenses associated with higher borrowings. These negative factors were partially offset by improvements in risk management activities, revaluation of the embedded option, higher finance income, reduced loss on foreign exchange, and lower income tax expense.
- Adjusted EBITDA[1] for the three and nine months ended September 30, 2023, was $1.5 million and $8.3 million respectively, which represents a $2.8 million and $5.2 million decrease compared to the same periods in 2022. The decrease was primarily driven by lower volume due to the planned capacity limitations during Q3 and reduced green coffee differential margin, as described above.

Operational highlights

- During late Q3, commercial decaffeination on the second line in Delta, BC started for the first time. This marked the completion of the consolidation of production activities onto one site, and the end of the transition away from our legacy production assets in Burnaby, BC.
- As expected, total sales volumes for the three and nine months ended September 30, 2023, decreased by 31% and 14% respectively, compared to the same periods in 2022, due to expected capacity limitations. In anticipation of the consolidation of production in Delta and the resulting temporary reduction in capacity during the transition, we were 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 before the second new line in Delta began producing a commercially viable product. As a result, many of our customers moved orders ahead into the first quarter to ensure they would have sufficient coffee on hand to bridge the transition. This necessitated a front-loaded working capital investment to cover the elevated production volumes during Q1. To date, this proactive communication regarding the transition has minimized disruption to our customers and business.
- As a result of our capacity limitation, sales volumes to each of our major markets have experienced a temporary decrease when compared to the same periods in 2022. Although sales volumes to North America and international markets decreased, this was not unexpected and we are cautiously optimistic this can be partially offset by higher sales volumes in the fourth quarter. In Europe, acute inflationary pressures, together with concerns regarding the conflict in Ukraine, have led to reduced consumption. It is difficult to forecast how these factors will affect European buying patterns over the remainder of 2023.
- Our largest geographical market by volume in the third quarter of 2023 was the United States, followed by Canada and international markets. By dollar value, 51% of our sales were to customers in the United States, 28% were to Canadian customers, and the remaining 21% were to international customers. Overall, we recorded sales of $125.0 million for the nine months ended September 30, 2023, which represents a $7.9 million, or 6%, decrease over 2022.
- Year to date sales dollars to customers in the United States increased by $3.7 million, or 6%, when compared to the same period in 2022, while sales dollars to customers in Canada increased by $2.0 million, or 6%. Generally, we continue to see robust demand from existing customers. During Q1, this was supplemented by the fact that many of our customers moved orders ahead to manage their inventory

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

needs in advance of the transition from our Burnaby facility to our second production line in Delta. Ultimately, our performance reflects the strength of our relationships with our customer base and the growing recognition of the importance of drinking coffee decaffeinated without the use of harmful chemicals.

- Regarding customer mix, year to date commercial and specialty roaster volumes decreased 8% and 22% respectively when compared to 2022. The reduction in business is primarily the result of the temporary capacity constraint during the transition from Burnaby and we remain proactive in our communications with these customers, as the new capacity came online during the third quarter. Furthermore, some of our specialty customers are proactively managing their order flows as they try to reduce inventory levels in response to rising interest rates, falling coffee quality differentials, and uncertainty around coffee consumption over the remainder of the year.
- As expected, inventory levels fell during the third quarter due to the consumption of coffee inventories we built up to cover production constraints during the consolidation of manufacturing in Delta. Moving forward we remain well positioned with green coffee inventory and can react to short-term demand increases in most coffee origins. Although we have seen improvements to green coffee delivery disruptions and supply chain bottlenecks, shipping delays and increased freight rates do persist. As a recent example, the port strike in July 2023 affected more than 30 ports across BC, including the Port of Vancouver. We are cautiously optimistic that any current and future disruptions will not have a material impact on our operations during the remainder of the year.
- The NY'C' for Arabica coffee increased rapidly in the third quarter of 2021 and remained exceptionally high until the third quarter of 2022. During this period, the tight availability of exportable coffee due to crop shortages and logistical backlogs kept the pressure on the futures market and we saw spot availability of coffees fall substantially as a result. Although the NY'C' has fallen since the fourth quarter of 2022, the effects of this coffee market will continue to be realized over the balance of 2023, and its impact depends on the futures market remaining at, or below, the current level for a sustained period.
- We continue to feel inflationary pressures within other components of our variable cost structure. These include higher costs for natural gas, carbon, packaging, shipping, and labour. To help maintain margins, we increased our process price rates toward the end of the fourth quarter of 2021. Since then, we have worked diligently to maximize efficiencies across our value chain to limit the need for further price increases.

NON-IFRS MEASURES

Adjusted EBITDA

Adjusted EBITDA is a Non-IFRS 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. 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 borrowing's embedded option, gains/losses on extinguishment of debt, adjustment for the impact of IFRS 16 - Leases, other gains/losses related to asset retirement obligation, 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 three and nine months ended September 30, 2023, was $1.5 million and $8.3 million respectively, which represents a $2.8 million and $5.2 million decrease over the same periods in 2022. The decrease was anticipated and was driven mainly by limits on production capacity and reduced green coffee differential margin.

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

In $000s (unaudited)	3 months ended September 30 2023	2022	9 months ended September 30 2023	2022
Net (loss) income for the period	$ (417)	$ (204)	$ (1,489)	$ 2,641
Income tax expense (recovery)	(363)	(52)	(434)	949
(Loss) Income before tax	$ (780)	$ (256)	$ (1,923)	$ 3,590
Finance income	(274)	(124)	(1,137)	(335)
Finance expense	2,027	1,321	5,939	3,990
Depreciation & amortization	1,416	1,840	7,436	5,332
Unrealized loss on foreign exchange forward contracts	191	699	89	840
Fair value gain on the embedded option	(310)	-	(202)	-
Other gains	-	-	(175)	-
(Gain) loss on foreign exchange	(265)	1,396	(143)	1,849
Share-based compensation	164	170	467	379
Impact of IFRS 16 - Leases	(630)	(700)	(2,005)	(2,073)
Adjusted EBITDA	$ 1,539	$ 4,346	$ 8,346	$ 13,572

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 September 30 2023	2022	9 months ended September 30 2023	2022
Operating income	$ 758	$ 3,293	$ 2,258	$ 10,589
Depreciation & amortization	1,416	1,840	7,436	5,332
Share-based compensation	164	170	467	379
(Gain) loss on risk management activities	(360)	(956)	101	(1,495)
Unrealized loss on foreign exchange forward contracts	191	699	89	840
Impact of IFRS 16 - Leases	(630)	(700)	(2,005)	(2,073)
Adjusted EBITDA	$ 1,539	$ 4,346	$ 8,346	$ 13,572

OUTLOOK

During Q3 we successfully decaffeinated our first batch of commercial coffee on our new second line in Delta, BC. This milestone event was the culmination of a decade-long project to relocate, modernize and expand the capacity of our state-of-the-art production assets. It also signaled the end of the temporary capacity constraint that we have been managing with our customers in recent quarters.

Through the fourth quarter we will be processing order backlogs built up through the summer. Our sales and logistics teams managed our customers' needs and volume allocations remarkably well through the third quarter. We are well positioned with two brand new processing lines to optimize our premium quality and processing efficiencies going into 2024. We will utilize learnings from Line 1 to assist with Line 2 optimization and we will take advantage of the slightly larger processing capacity on our newest line to establish base lines on longer runs and future quality improvements.

We continue to see volatility in the coffee futures market and a re-setting of roaster inventories following significant logistics difficulties resulting from the return to “business as usual” following the pandemic. Some of this short term volatility and inventory rebalancing may affect late Q4 2023 demand but will reset the roaster environment for 2024 growth.

BUSINESS OVERVIEW

Swiss Water Decaffeinated Coffee Inc. is a premium green coffee decaffeinator located 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.

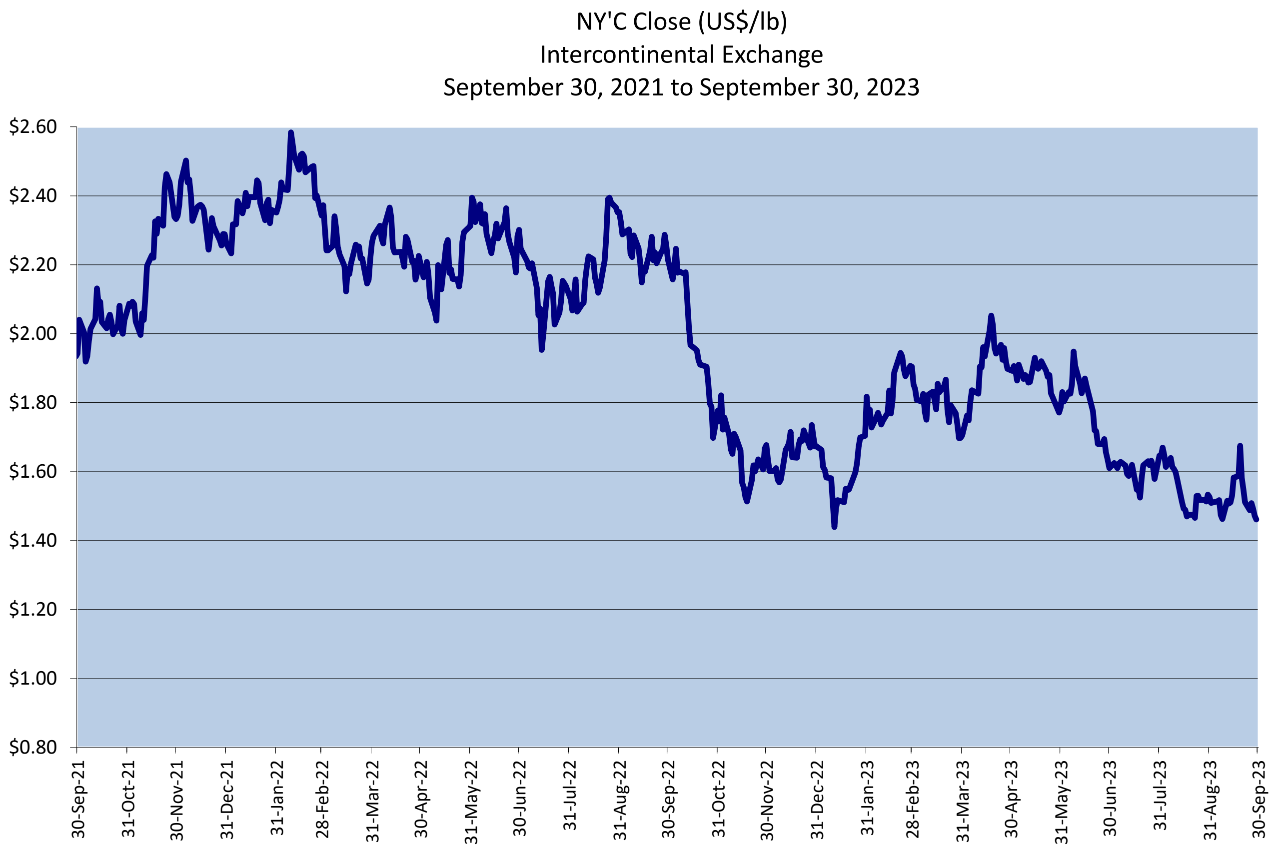
Swiss Water shares trade on the Toronto Stock Exchange under the symbol ‘SWP’. As at the date of this report, 9,212,955 shares were issued and outstanding.

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.

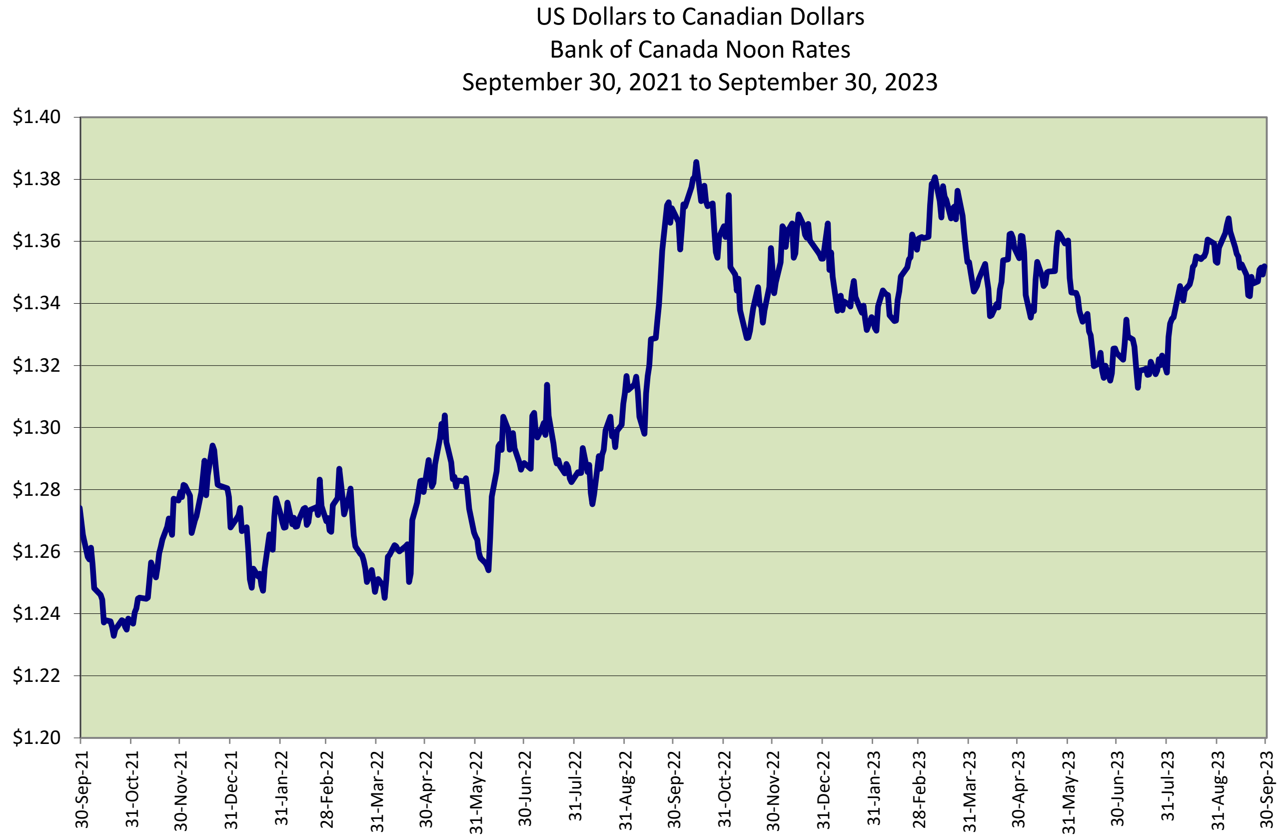
The chart below shows the movement in the NY'C' for the last eight quarters:



In Q3 2023, the NY'C' averaged US$1.56/lb compared to an average of US$2.19/lb in Q3 2022. 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.

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 Q3 2023, the US$ averaged C$1.34 compared to an average of C$1.31 in Q3 2022. When the US$ 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 (unaudited)	3 months ended September 30 2023	2022	9 months ended September 2023	2022
Process revenue	$ 6,986	$ 9,609	$ 25,214	$ 28,547
Green revenue	23,244	33,796	91,048	95,791
Distribution revenue	2,397	2,749	8,778	8,599
Total revenue	$ 32,627	$ 46,154	$ 125,040	$ 132,937

For the three and nine months ended September 30, 2023, sales totaled $32.6 million and $125.0 million respectively, representing a decrease of $13.5 million and $7.9 million when compared to the same periods in 2022. The decrease is the result of a material decline in the NY 'C', and an expected period of reduced production capacity associated with the exit from the Burnaby site and the completion of the second production line at Delta. Year to date, this was partially offset by increased volume demand from customers in Q1 2023, and the appreciation of the US dollar compared to the same period in 2022.

Our sales for the three and nine months ended September 30, 2023, by revenue category, are as follows:

- Process revenue decreased $2.6 million or 27% in Q3 and $3.3 million or 12% year to date. The decrease reflects the expected period of reduced production capacity. Year to date, this was partially offset by increased volume demand from customers in Q1 2023.
- Green revenue decreased $10.6 million or 31% in Q3 and $4.7 million or 5% year to date. The decrease reflects the expected period of reduced production capacity, and lower NY'C'. Year to date, this was partially offset by increased volume demand from customers in Q1 2023, and the appreciation of the US dollar following Q2 2022.
- Distribution revenue decreased $0.4 million or 13% in Q3 and increased $0.2 million or 2% year to date. The decrease in Q3 2023 reflects the expected period of reduced production capacity. Year to date, this was partially offset by increased volume demand from customers in Q1 2023, and inflationary price adjustments on freight rates.

Our year to date sales volume, by geographical segment, are as follows:

- Sales volume in North America decreased 11%;
- Sales volume in international markets decreased 28%.

The decreases are the result of the expected period of temporarily reduced production capacity.

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 three and nine months ended September 30, 2023, cost of sales totaled $29.1 million and $113.2 million, a decrease of $10.5 million or 27% and an increase of $0.6 million or 0%, compared to the same periods in 2022. The decrease in Q3 2023 is the result of an expected period of reduced production capacity associated with the exit from the Burnaby site and the completion of the second production line at Delta. Year to date, this was partially offset by increased volume demand from customers in Q1 2023.

Gross Profit

For the three and nine months ended September 30, 2023, gross profit totaled $3.6 million and $11.9 million, a decrease of $3.0 million or 46% and $8.4 million or 42%, compared to the same periods in 2022. The decrease was driven by reduced volumes due to production capacity limitations, materially lower green coffee differential margins and a one-time incremental depreciation expense of $2.5 million for the nine months ended September 30, 2023. In addition, the Company experienced inflationary pressure on variable production costs, including natural gas and carbon, reduced differential margin, as well as freight and warehousing.

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 three and nine months ended September 30, 2023, administration expenses totaled $1.9 million and $6.7 million, a decrease of $0.6 million or 25% and $0.4 million or 6%, compared to the same periods in 2022. The main driver for the decrease relates to reduced professional fees associated with the debt refinancing in 2022. The decrease was partially offset due to general inflationary pressure, increased insurance fees, and no credits for scientific research and experimental development in 2023.

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 three and nine months ended September 30, 2023, sales and marketing expenses totaled $1.0 million and $2.9 million, an increase of $0.1 million or 13% and $0.3 million or 11%, compared to the same periods in 2022. The increase is the result of an increase in headcount and salaries, together with increased travel and trade show activity.

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 three and nine months ended September 30, 2023, we recorded a loss on risk management activities of $0.4 million and a gain of $0.1 million, an improvement of $0.6 million and $1.6 million, compared to the same periods in 2022. The main drivers for this are unrealized gains 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 three and nine months ended September 30, 2023, net finance expenses totaled $1.8 million and $4.8 million, an increase of $0.6 million or 46% and $1.1 million or 31%, compared to the same periods in 2022. The increase primarily relates to a higher outstanding balance on our credit facility and construction loans, and higher variable interest rates.

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 three and nine months ended September 30, 2023, we recorded a gain on foreign exchange of $0.3 million and $0.1 million, an increase of $1.7 million and $2.0 million, compared to the same periods in 2022. The increase in foreign exchange is due to fluctuation in the Canadian versus US dollar as the exchange rate averaged C$1.34 in Q3 2023, compared to C$1.31 in Q3 2022.

Gains and Losses on Fair Value of Embedded Option

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 $0.3 million and $0.2 million for the three and nine months ended September 30, 2023. The fluctuations are due to movements 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 10.2 in the unaudited condensed consolidated interim financial statements for more details. There was no such gain or loss in the comparative periods.

Other gains

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

During the three and nine months ended September 30, 2023, the Company paid $0.1 million and $1.2 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.

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 three and nine months ended September 30, 2023, we recorded a net loss before taxes of $0.8 million and $1.9 million, compared to a net loss before taxes of $0.3 million and net income of $3.6 million for the same periods in 2022. The Company recorded net losses of $0.4 million and $1.5 million, compared to a net loss of $0.2 million and net income of $2.6 million for the same periods in 2022.

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 three and nine months ended September 30, 2023, was a loss of $1.1 million and $0.2 million, compared to a loss of $2.0 million and $2.4 million when compared to the same periods in 2022. Increases and decreases are related to fluctuations in the value of the Canadian dollar versus the US dollar.

Basic and Diluted Earnings per Share

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.

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

In 000s except for shares and per share data	3 months ended September 30		9 months ended September 30	
(unaudited)	2023	2022	2023	2022
Basic and diluted (loss) earnings per share				
Net (loss) income attributable to shareholders	$ (417)	$ (204)	$ (1,489)	$ 2,641
Weighted average number of shares	9,212,955	9,165,815	9,204,149	9,155,582
Basic and diluted (loss) earnings per share	**$ (0.05)**	**$ (0.02)**	**$ (0.16)**	**$ 0.29**

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 trend will be masked in 2023 by the period of reduced production capacity associated with the transition from our legacy plant in Burnaby to the new facility in Delta.

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	Q3 2023	Q2 2023	Q1 2023	Q4 2022	Q3 2022	Q2 2022	Q1 2022	Q4 2021
Revenue	42,138	32,627	43,368	49,045	43,998	46,154	48,368	38,415	35,129
Gross Profit	5,295	3,576	3,412	4,894	5,759	6,614	7,952	5,763	4,389
Operating income	2,145	758	76	1,424	2,792	3,293	4,416	2,880	1,517
Adjusted EBITDA[1]	3,388	1,539	1,825	4,982	3,087	4,346	5,335	3,882	2,111
Net income (loss)	142	(417)	(371)	(701)	(254)	(204)	1,460	1,385	241
Per Share[2]									
Net income (loss) - basic	0.02	(0.05)	(0.04)	(0.08)	(0.03)	(0.02)	0.16	0.15	0.03
Net income (loss) - diluted	0.01	(0.05)	(0.06)	(0.08)	(0.03)	(0.02)	0.16	0.15	0.03

[1] Adjusted EBITDA is defined in the 'Non-IFRS Measures' section of this MD&A and is a "Non-IFRS 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.

LIQUIDITY AND CAPITAL RESOURCES

Operating Activities

For the three and nine months ended September 30, 2023, net cash generated from operating activities was $14.3 million and $21.2 million compared to net cash generated from operating activities of $0.3 million and net cash used in operating activities of $0.3 million for the same periods in 2022. In 2023, reduced cash outflows required for green inventory purchases released working capital into the business and further supplemented cash from operations. As a part of operating activities, during the nine months of 2023 we paid for leasehold restoration costs in the amount of $1.1 million as we exited our legacy Burnaby location, which is an amount approximately $0.2 million lower than we originally estimated.

Investing Activities

For the three and nine months ended September 30, 2023, net cash used in investing activities was $4.6 million and $17.5 million compared to net cash used in investing activities of $5.1 million and $17.3 million for the same periods in 2022. In both periods, this was driven by capital expenditures associated with the construction of the second production line in Delta. During 2022, we also recovered from vendors $1.4 million in cash, which was related to funds reimbursed from 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.

Financing Activities

For the three and nine months ended September 30, 2023, net cash used in financing activities was a net repayment of $7.3 million and $0.8 million compared to net proceeds of $6.4 million and $16.3 million for the same periods in 2022. In 2023, reduced cash outflows required for green inventory purchases released working capital into the business, which was used to make repayments towards the credit facility. These repayments were partially offset by proceeds from our construction loans. In 2022, increased cash outflows required for green inventory purchases required proceeds from our credit facility. In addition, proceeds from our construction loans were used to fund the construction of our second production line at Delta.

During 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, 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 during Q4 2022 and the remainder was paid in Q1 2023. There were no such fees in Q2 and Q3 of 2023, nor in the first six months of 2022.

Inventory

Our inventory decreased by $26.2 million or 44% between December 31, 2022 and September 30, 2023. The decrease reflects a lower volume of coffee inventory on hand associated with the interim production constraint and a lower NY'C'. 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 September 30, 2023, was a reduction of $3.3 million compared to a reduction of $7.4 million as at December 31, 2022.

Accounts Receivable

Our accounts receivable increased by $0.5 million or 3% between December 31, 2022, and September 30, 2023. The increase is due to the timing of collections as the Company experienced an interim production constraint associated with the Burnaby exit. 75% of Swiss Water accounts receivable are current as at September 30, 2023. The majority of past due amounts were collected shortly after quarter end. Accounts receivable consist of receivables from customers.

Credit Facilities and Liquidity

We have 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 assets of Swiss Water and a floating hypothecation agreement over cash balances. As at September 30, 2023, the balance due on the credit facility with a Canadian bank is $28.8 million, while no funds were drawn from the EDC credit facility.

We have certain bank covenants that relate to the maintenance of specified financial ratios. As of September 30, 2023, 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 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 the maturity of the debenture with warrants, which is on October 31, 2024, and October 19, 2025.

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, 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 September 30, 2023, 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, 2024. This guarantee provides additional borrowing capacity within the referenced credit facility. These services can be extended, subject to EDC approval.

Construction Loan with BDC and FCC

In 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, BC. 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.

In 2021, we completed a financing transaction that increased 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.

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. This effectively increased the senior debt construction facility from $45.0 million to $57.0 million.

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%.

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 September 30, 2023, the construction loan amount outstanding was $57.0 million.

We have certain bank covenants that relate to the maintenance of specified financial ratios. As of September 30, 2023, we were in compliance with all covenants.

Debenture with Warrants / Convertible Debenture with Mill Road Capital

In 2021, Swiss Water amended the $15.0 million convertible debenture agreement with Mill Road 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, (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 expired on October 31, 2024.

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.

We have certain bank covenants that relate to the maintenance of specified financial ratios. As of September 30, 2023, we were in compliance with all covenants.

Share Capital

Swiss Water is authorized to issue an unlimited number of common shares. Each share is equally eligible to receive dividends when declared and represents one vote at meetings of shareholders. As at September 30, 2023, there were 9,212,955 common shares issued and outstanding.

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 September 30, 2023, there were no preferred shares issued and outstanding.

Contractual Obligations

The following table sets forth our contractual obligations and commitments as at September 30, 2023:

(In $000s) (unaudited)	Total	Less than 1 year	2-3 years	4-5 years	Over 5 years
Long-term debt[1]	$ 72,786	$ 1,709	$ 26,902	$ 11,400	$ 32,775
Financing leases[2]	11,277	2,555	5,146	3,363	213
Credit facility[3]	28,833	-	28,833	-	-
Purchase obligations[4]	34,038	34,038	-	-	-
Total contractual obligations	$ 146,934	$ 38,302	$ 60,881	$ 14,763	$ 32,988

[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 at the earliest of October 31, 2024, when the MRC debenture with warrants matures and October 19, 2025. The maturity date can be extended subject to lenders' approval.
[4] Purchase obligations represent outstanding capital, coffee, and other 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 leased a facility in Burnaby that housed a decaffeination plant and offices. The lease expired in June 2023 and the Company returned the leased property to the landlord on the expiry date.

Seaforth leased a truck. The lease expired in April 2023.

Seaforth entered into a new lease for a truck which expires in March 2028.

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)	3 months ended September 30 2023	2022	9 months September 30 2023	2022
Sales	$ 287	$ 605	$ 758	$ 1,444
Purchases of raw materials	$ 1,363	$ 1,582	$ 4,698	$ 6,531

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 September 30, 2023, our accounts receivable balance with this company was nil (December 31, 2022: nil) and our accounts payable balance with this company was $1.2 million (December 31, 2022: $2.2 million).

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 September 30, 2023, the loan balance was $0.02 million (2022: $0.04 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 during Q4 2022. 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 10.2 in the unaudited condensed consolidated interim financial statements for more details.

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 affected 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 affect demand for our products and services and the capability of our supply chains. It may also affect 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 for the year ended December 31, 2022, and the unaudited condensed consolidated interim financial statements for the period ended September 30, 2023. 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 effect 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 affect 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 affect 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 affected.

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 effects 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.

CHANGES IN ACCOUNTING 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.
- IAS 1 has 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.

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 the 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.
- IFRS 7 amendments require disclosures of the effects of supplier finance arrangements on an entity's liabilities and cash flows, as well as liquidity risk and risk management, effective after January 1, 2024.

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");

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 lock 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 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 September 30, 2023, the Company had futures contracts to buy 13.9 million pounds of green coffee with a notional value of US$20.3 million, and contracts to sell 18.6 million pounds of green coffee with a notional value of US$27.2 million. The furthest contract matures in May 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 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 September 30, 2023, the Company had forward currency contracts to buy US$8.3 million and sell US$45.0 million (December 31, 2022: buy US$7.1 million and sell US$54.8 million) from October 2023 through to January 2027 at various Canadian exchange rates ranging from $1.28 to $1.36. An estimated Canadian 1 cent decrease in the value of US dollar would have resulted in an estimated gain of $0.3 million to the net income and other comprehensive income before tax, and vice versa.

As at September 30, 2023, the Company designated as hedging instruments US$6.8 million in forward contracts to buy US dollars, which relate to coffee purchases (December 31, 2022: US$7.1 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 September 30, 2023, 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 September 30, 2023, 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 September 30, 2023, 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, 2023, and ended on September 30, 2023, that have materially affected or are reasonably likely to materially affect, Swiss Water’s ICFR.