MANAGEMENT DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") of Swiss Water Decaffeinated Coffee Inc. ("Swiss Water" or the "Company"), dated as of March 13, 2024, provides a review of the financial results for the quarter and year ended December 31, 2023 relative to the comparable periods of 2022. The quarter period represents the fourth quarter ("Q4") of our *2023 fiscal year. This MD&A should be read in conjunction with Swiss Water's audited consolidated financial statements for the year ended December 31, 2023, and in conjunction with the Annual Information Form ("AIF"), which are available on* www.sedar.com.

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

FORWARD-LOOKING STATEMENTS

This MD&A contains forward-looking statements, including statements regarding the future success of our business and market opportunities. Forward-looking statements typically contain words such as "believes", "expects", "anticipates", "continue", "could", "indicates", "plans", "will", "intend", "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 upgrades to production lines; 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, any new equipment upgrades 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 (ix) the potential impact on any labour union disputes (x) potential impact of environmental changes or unexpected acts of God. We cannot assure readers that the actual results will be consistent with the statements contained in this MD&A. The forward-looking statements and financial outlook information contained herein are made as of the date of this MD&A and are expressly qualified in their entirety by this cautionary statement. Except to the extent required by applicable securities law, Swiss Water undertakes no obligation to publicly update or revise any such statements to reflect any change in our expectations or in events, conditions, or circumstances on which any such statements may be based, or that may affect the likelihood that actual results will differ from those described herein.

EXECUTIVE SUMMARY

The following selected information, other than Adjusted EBITDA was derived from the financial statements for the year ended December 31, 2023, prepared in accordance with IFRS. For the definition of Adjusted EBITDA, refer to the Non-IFRS Measures section of this MD&A.

In $000s except per share amounts (unaudited)	3 months ended December 31, 2023	3 months ended December 31, 2022	Year ended December 31, 2023	Year ended December 31, 2022
Revenue	$ 41,237	$ 43,998	$ 166,277	$ 176,935
Gross Profit	6,916	5,759	18,798	26,088
Operating income	3,372	2,792	5,630	13,381
Net income (loss)	961	(254)	(528)	2,387
Adjusted EBITDA[1]	5,008	3,087	13,354	16,659
Net income (loss) per share – basic[2]	$ 0.10	$ (0.03)	$ (0.06)	$ 0.26
Net income (loss) per share – diluted[2]	$ 0.10	$ (0.03)	$ (0.06)	$ 0.26

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

[2] Per-share calculations are based on the weighted average number of shares outstanding during the periods. Diluted earnings per share take into account shares that may be issued upon the exercise of warrants and RSUs.

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 into one site, and the end of the transition away from our legacy production assets in Burnaby, BC. Production volumes and quality metrics on the new line increased during the three months ended December 31, 2023, and enabled the delivery of a very strong fourth quarter.
- As expected, total sales volume for the three months ended December 31, 2023 increased by 17% compared to the fourth quarter of 2022. The consolidation of production in Delta was completed during the third quarter, and as a result, we are no longer capacity constrained. This enabled us to maximize organic growth opportunities and clear a small backlog of orders with existing customers during the fourth quarter. For the full year, volume decreased by 7%, primarily due to anticipated capacity limitations realized during the second and third quarters of 2023.
- In anticipation of the consolidation of production in Delta, BC, and the temporary reduction in capacity driven by this change, we proactively communicated with customers and suppliers regarding the availability of decaffeinated coffee. As a result, many of our customers moved orders ahead into the first half of the year, or delayed deliveries into the fourth quarter. These decisions necessitated some higher than normal working capital investments during the first half of the year, and yielded some higher than normal reductions in working capital during the fourth quarter. The proactive communication of the transition successfully minimized disruption to our customers and to our business.
- Full-year sales volumes in each of our major geographic markets were down from the 2022 level due to the temporary capacity constraints we experienced during the transition out of our legacy Burnaby facility. Although sales volumes delivered to North America and International markets decreased during the first three quarters of the year, this was not unexpected. During the fourth quarter, North American sales volumes recovered and grew by 11%, compared to Q4 of 2022. In Europe, acute inflationary pressures,

together with concerns regarding the conflicts in Ukraine and the Middle East, contributed to reduced coffee consumption in 2023. It is difficult to forecast how these factors will affect European demand patterns in 2024.

- Our largest geographical market by volume in 2023 was the United States, followed by Canada and international markets. By dollar value, 50% of our sales were to customers in the United States, 29% were to Canadian customers, and the remaining 21% were to international customers. Overall, we recorded sales of $166.3 million for the full year, which represents a $10.7 million, or 6%, decrease from the 2022 level.

- Regarding customer mix, full-year commercial and specialty roaster volumes decreased 1% and 15% respectively, when compared to 2022. During 2023, some of our specialty customers proactively managed their order flows as they tried to reduce inventory levels in response to rising interest rates, falling coffee quality differentials, and uncertainty around coffee consumption patterns. The temporary capacity constraint we managed through during our transition from Burnaby also had a negative impact on annual volumes delivered to all customer categories. However, during the fourth quarter, our commercial and roaster volumes returned to growth, increasing by 26% and 8% respectively when compared to the fourth quarter of 2022.

- As expected, our inventory levels fell during the second half of 2023 due to the consumption of the coffee inventories we built up to bridge the production constraints we experienced during the transition from Burnaby and the consolidation of all processing in Delta. We remained focused on optimizing inventory levels and our year-end volumes on hand were rebalanced at levels not recorded since the first quarter of 2021. Moving forward, we are well positioned with green coffee inventory and can react to short-term demand increases in most coffee origins. Although we saw a marked reduction in the disruption to green coffee deliveries and supply chain bottlenecks during the year, some shipping delays and increased freight rates 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 as we move into 2024.

- Looking back, the NY'C' coffee commodity price for Arabica coffee increased rapidly beginning 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. Although the NY'C' came down, beginning in the fourth quarter of 2022, coffee prices remain relatively high. The effects of this elevated coffee market continued to be felt throughout 2023, and its impact moving forward will depend on the futures market remaining at, or below, the current level for a sustained period.

- Throughout 2023, we continued to feel inflationary pressures within other components of our variable cost structure. These persist and include: higher costs for natural gas, carbon, packaging, shipping, and labour. To help maintain margins, we last 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.

Financial highlights

- Revenue for the quarter and year ended December 31, 2023, was $41.2 million and $166.3 million respectively. This represents a $2.8 million decrease in Q4 and a $10.7 million decrease for the full year, when compared to the 2022 result. The drop in full-year revenue was an expected result of the temporary reduction in capacity we experienced during the second and third quarters as we transitioned production out of Burnaby. Higher than normal volumes shipped in the first and fourth quarters helped mitigate the impact of the capacity constraint. A decline in the NY'C' also contributed to the year-over-year drop in revenue.
- Effective January 1, 2023, Swiss Water reduced the estimated useful life of the non-salvaged assets at our legacy 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, these non-salvaged assets were fully depreciated and an expense of $3.0 million is reflected within the $6.8 million of total depreciation expenses for the 2023 fiscal year. The financial impact of the change in estimate was a one-time incremental depreciation expense of $2.5 million for the year. There was no such change in estimate during the comparative period in 2022.
- Gross profit for the fourth quarter was $6.9 million, an increase of $1.2 million from Q4 of 2022. For the full year, gross profit of $18.8 million was down by $7.3 million from the 2022 level. The fourth quarter increase in gross profit was primarily due to higher volumes and efficiencies of scale leveraged from within our production process. During Q4, the consolidation of all Swiss Water production into a single facility also started to generate savings from reduced building maintenance, utilities consumption, staffing, and transportation between locations. As anticipated, the year-over-year drop in gross profit was due to the temporary production constraint described above, as well as materially lower green coffee differential margins and the one-time incremental depreciation expense of $2.5 million. In addition, we experienced inflationary pressures on variable production costs, including natural gas, carbon and labour, as well as freight and storage costs.
- Net income of $1.0 million for the fourth quarter was up by $1.2 million from 2022. For the full year, we recorded a net loss of $0.5 million, down by $2.9 million from net income of $2.4 million in 2022. The differences in net income for both periods were driven by the same factors influencing gross profit, as described above, as well as a material increase in finance expenses due to higher borrowings. These negative factors were partially offset by gains on risk management activities, higher finance income, reduced losses on foreign exchange, and lower income tax expense.
- Fourth quarter adjusted EBITDA[1] was $5.0 million, an increase of $1.9 million over Q4 of 2022. For the full year, adjusted EBITDA was $13.4 million down by $3.3 million, when compared to 2022. The fourth quarter increase is reflective of high production volumes and scale efficiencies, while the decrease in annual adjusted EBITDA was primarily driven by lower volume due to the capacity constraint during the third quarter transition from Burnaby, and reduced green coffee differential margins as noted above.

  During the first half of 2023, we increased inventory levels significantly, primarily to address anticipated capacity gaps and uphold high levels of customer service. The commissioning of our second production line in Delta led to an acceleration in raw materials usage and increased shipments of finished goods

[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.

during the third and fourth quarters of the year. As a result, inventories closed 2023 at their lowest levels since Q1 of 2021 and generated a material release of working capital back into the business. By the end of the fourth quarter, the value of our inventory on hand had dropped to $30.3 million from $60.2 million at December 31, 2022. This provided an opportunity for us to pay down debt while leaving adequate inventory on hand to support our operations and near-term growth.

NON-IFRS MEASURES

Adjusted EBITDA

Adjusted EBITDA is a Non-GAAP measure that is often used by publicly traded companies as a measure of cash from operations, as it excludes financing costs, taxation, and non-cash items. We believe that disclosing this Non-IFRS measure provides readers of this MD&A with important information regarding Swiss Water's financial performance and our ability to pay distributions to stakeholders. By considering Adjusted EBITDA in combination with IFRS, we believe that readers are provided with additional and more useful information about Swiss Water than readers would have if they simply considered IFRS measures alone. Reported Adjusted EBITDA is intended to assist readers with their own financial analysis. However, since this measure does not have a standardized meaning prescribed by IFRS, it is unlikely to be comparable to similar measures presented by other entities.

We define Adjusted EBITDA as net income before interest, depreciation, amortization, impairments, share-based compensation, gains/losses on foreign exchange, gains/losses on disposal of property and equipment, fair value adjustments on embedded options, gains/losses on extinguishment of debt, adjustment for the impact of IFRS 16 – Leases, other gains/loss 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 quarter and year ended December 31, 2023, was $5.0 million and $13.4 million respectively, compared to $3.1 million and $16.7 million for the same periods in 2022. The decrease in Adjusted EBITDA was primarily driven by temporary constraints on production capacity and a reduction in green coffee differential margin.

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

In $000s (unaudited)	3 months ended December 31, 2023	 2022	Year ended December 31, 2023	 2022
Operating income	$ 3,372	$ 2,792	$ 5,630	$ 13,381
Depreciation and amortization	1,752	1,686	9,188	7,018
Share-based compensation	130	173	597	552
(Gain) loss on risk management activities	356	(65)	457	(1,560)
Unrealized (gain) loss on foreign exchange forwards	38	(796)	127	44
Impact of IFRS 16 Leases	(640)	(703)	(2,645)	(2,776)
Adjusted EBITDA	$ 5,008	$ 3,087	$ 13,354	$ 16,659

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

In $000s (unaudited)	3 months ended December 31, 2023	3 months ended December 31, 2022	Year ended December 31, 2023	Year ended December 31, 2022
Net income (loss) for the period	$ 961	$ (254)	$ (528)	$ 2,387
Income tax expense (recovery)	430	(130)	(4)	819
Income (loss) before tax	$ 1,391	$ (384)	$ (532)	$ 3,206
(Gain) loss on the embedded option	126	(513)	(76)	(513)
(Gain) on the extinguishment of debt	-	(583)	-	(583)
Other gains	-	-	(175)	-
Finance income	(492)	(174)	(1,629)	(509)
Finance expense	2,326	1,577	8,265	5,567
Impairment of plant and equipment	-	2,470	-	2,470
Loss on foreign exchange	377	334	234	2,183
Depreciation and amortization	1,752	1,686	9,188	7,018
Unrealized loss (gain) on foreign exchange forwards	38	(796)	127	44
Share-based compensation	130	173	597	552
Impact of IFRS 16 Leases	(640)	(703)	(2,645)	(2,776)
Adjusted EBITDA	$ 5,008	$ 3,087	$ 13,354	$ 16,659

OUTLOOK

The 12 months ended December 31, 2023, was a transformational period for Swiss Water. During the third quarter we completed construction of our new second production line in Delta, BC and shortly thereafter successfully decaffeinated our first batch of commercial coffee on the new line. These milestone events were the culmination of a decade-long project to relocate, modernize and expand the capacity of our state-of-the-art production assets from Burnaby. It also signaled the end of a temporary period of restricted capacity that we managed with our customers during the second and third quarters of the year as we demolished the Burnaby site and commissioned the new line.

Although Swiss Water's volume growth in 2023 was limited by restricted capacity, we continued to see strong demand for our chemical free decaffeinated coffee offerings. Our sales and logistics teams managed our customers' needs and volume allocations remarkably well throughout 2023. This enabled the delivery of strong volume growth and financial results during Q4, following the consolidation of production in Delta, BC. All order backlogs built up over the summer were processed and shipped during the final three months of the year.

Looking ahead into 2024, Swiss Water is well positioned with two modern processing lines, including our newly installed second production line, enabling us to optimize our operational processes and produce premium decaffeinated coffee of consistently high quality. The performance of all our Delta production assets has been good and we are optimistic that we can utilize what we've learned from operating Line 1 to unlock further efficiency gains on our new Line 2. Furthermore, we will take advantage of the larger processing capacity on our newest line to establish base lines on longer runs and enable future quality improvements.

Operationally, Swiss Water has been running at very high utilization rates over the last two years. The consolidation of operations in Delta, BC has released this pressure somewhat, and medium-term growth is not expected to be constrained by available capacity. Furthermore, the consolidation of production in one location has unlocked some value creation efficiencies that will be fully realized in 2024.

Current production rate and capacity utilization metrics at our consolidated production facility indicate, that with some modest targeted investment, we have adequate capacity to satisfy our anticipated medium-term growth needs.

Volatility in the coffee futures market persisted throughout 2023 as roasters reset their inventories following a prolonged period of logistical challenges. Looking forward into 2024 we are cautiously optimistic that the reset of the coffee supply chain is materially complete, and we don't anticipate that further supply chain disruptions will effect our 2024 performance materially.

Despite the underlying strength of our business, uncertainty persists. Inflationary pressures and interest rates remain high. Furthermore, geo-political tension across the world increased during 2023 and looks set to persist throughout 2024. We cannot reliably predict the ultimate effect these factors will have on global supply chains and customer demand. However, our chemical-free decaffeination services remain highly valued by our customers and are becoming increasingly relevant to health conscious coffee consumers across the globe. With this in mind, and carrying momentum from a strong final quarter of 2023, we are optimistic that we will deliver volume growth and improved profitability in 2024.

During the second half of 2023, we made good progress in reducing inventory levels and subsequently reducing working capital investments. These movements enabled us to start reducing borrowings during the fourth quarter of 2023. We anticipate that this trend will continue as we move through 2024. In Q4 2024 Swiss Water is scheduled to fully repay a Debenture with Warrants, held by Mill Road Capital (MRC). This repayment will further reduce overall debt. We anticipate the repayment of this debt will primarily be funded using, but not limited to, available cash reserves and proceeds from operations, supplemented by incremental borrowings on our existing debt facilities, as needed.

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[1] 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.

[1] The Company is a registered owner of this trademark.

Swiss Water Decaffeinated Coffee's Business

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

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

Our cost of sales is comprised primarily of the cost of green coffee purchased for our regular business, plant labour and other processing costs directly associated with our production facility. This incorporates an allocation of fixed overhead costs, which includes depreciation of our production equipment and amortization of our proprietary process technology. For our regular business, we work with coffee importers to source premium-grade green coffees from coffee-producing countries located in Central and South America, Africa, and Asia. The purchase price is based on the NY'C' coffee futures price on the Intercontinental Exchange, plus a quality differential. The NY'C' component typically makes up more than 80% of the total cost of green coffee, while the quality differential typically accounts for less than 20%. Both the NY'C' price and the quality differential fluctuate in response to fundamental commodity factors that affect supply and demand.

CAPACITY TO DELIVER RESULTS

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

- Chemical Free Production Lines – We have two production lines that produce chemical free decaffeinated coffee. Both lines are located in Delta, BC. The first line (Line 1) was commissioned in Q3 2020, and the second line (Line 2) was completed and started to produce coffee in Q3 2023. Our production assets provide opportunities to easily flex production capacity rates against fluctuations in demand. This flexibility allows us to optimize variable costs as demand for our services changes.

- Production Capacity – Our production assets are able to satisfy current demand and provide enough unused capacity to support our medium term growth ambitions.

- Branding – Our Consumer Branding as the Premium, 100% Chemical Free Method of Decaffeinating Green Coffee has proven to be a success. We've effectively positioned our brand as a leading, chemical-free processor of green decaffeinated coffee. The awareness among consumers and participants in the coffee trade regarding the value of the chemical-free Swiss Water® Process has been steadily growing, reinforced by its exceptional quality and taste. We are confident in the significant potential to further broaden consumer awareness, emphasizing the inherent benefits of the Swiss Water® Process.

- Established Customer Base – The Swiss Water® Process has an established customer base across North America and in many international markets. Our customers include some of North America's largest roasters, roaster-retailers and leading coffee brands.

- Broad Distribution Channels – Green coffee decaffeinated using the Swiss Water® Process is sold through the coffee market's key distribution channels: roaster retailers, commercial roasters and coffee importers. This diversity ensures that we access all key segments of the specialty coffee trade and consumer coffee markets.

- Working Capital and Expansion Capital – Between 2015 and 2022 we raised capital, which was used to fund the construction of our two production lines in Delta. The first production line in Delta was commissioned in 2020, and the second production line was commissioned during the third quarter of 2023. We expect future working capital investments to be financed by a combination of internally generated funds and external capital sources.

- Management Expertise – Swiss Water is highly regarded in the coffee industry for our senior management team's substantial experience, our close attention to consumer trends in the specialty coffee market, and our in-depth knowledge of green and roasted coffee. In particular, our intense focus on premium product quality and commitment to science-driven insight is well recognized. To maximize these strengths, we continue to invest resources to enhance our team's industry-related skills and talents. Going forward, we intend to leverage our exceptional experience with and knowledge of, the specialty coffee industry to continue to build our business.

SELECTED ANNUAL INFORMATION

In $000s except per share amounts (unaudited)	December 31, 2023	December 31, 2022	December 31, 2021
Balance Sheet			
Total assets	200,335	219,039	168,245
Total non-current liabilities	108,098	123,405	70,783
Income Statement			
Revenue	166,277	176,935	125,076
Net income (loss)	(528)	2,387	496
Adjusted EBITDA[1]	13,354	16,659	10,533
Dividends paid	-	-	-
Per share, basic [2]			
Net income	(0.06)	0.26	0.05
Adjusted EBITDA[1]	1.45	1.82	1.15
Dividends declared	-	-	-
Per share, diluted [2]			
Net income	(0.06)	0.26	0.05
Adjusted EBITDA [1]	1.45	1.82	1.15

[1] Adjusted EBITDA is defined in the 'Non-IFRS Measures' section of this MD&A and is a "Non-GAAP Financial Measure" as defined by CSA Staff Notice 52-306.
[2] Per-share calculations are based on the weighted average number of shares outstanding during the periods.

Our total assets and our total long-term liabilities increased in each of the last three years as we were building our new facility and the two production lines in Delta, BC.

KEY PERFORMANCE DRIVERS

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

Internal Factors

- Processing Volumes – Our decaffeination facility incurs fixed operating costs regardless of the volume of coffee processed. Accordingly, our profitability and cash flow from operations will increase as process volumes increase. Process volume is a key performance indicator ("KPI") that we monitor and track.

- Process Consistency – We manage our operations in order to reduce variability in production and drive continuous improvement. Production consistency results in improved product quality. We have developed a number of KPIs designed to monitor process consistency and have set targets for continuous process improvement.

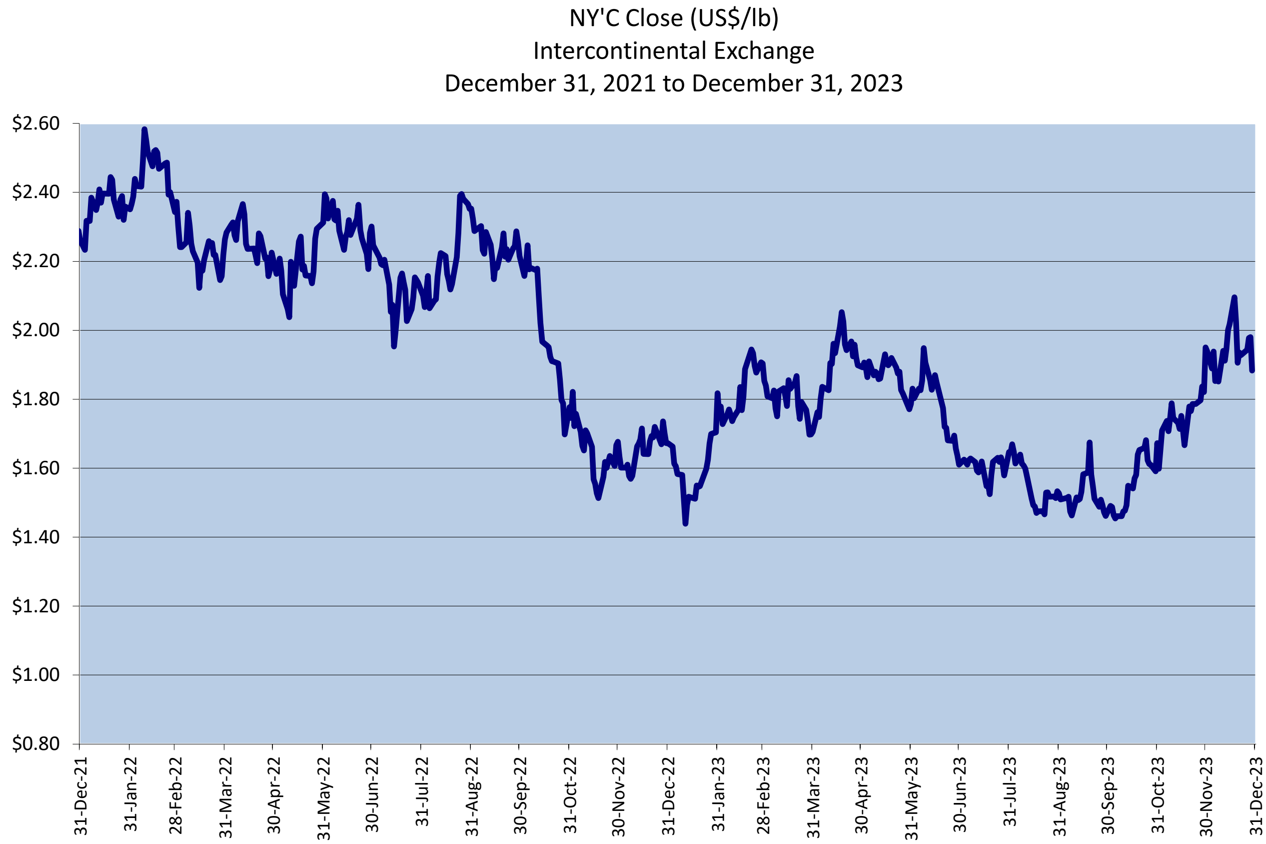
- Product Quality – Quality control is a key part of our operations. We operate under the Food Safety Systems Certification (FSSC) 22000, which manages our food safety, as well as HACCP (Hazard Analysis Critical Control Points) and quality assurance programs. All green coffees delivered to our processing facility are weighed and inspected and are subject to rigorous internal quality-control evaluations. Each lot of green coffee processed is monitored throughout the decaffeination process, and a certificate of analysis is prepared for each lot. A sample from each production lot is also roasted, brewed and cupped to ensure quality. In addition, our focus on reducing the size of production lots and increasing inventory turnover results in fresher coffee being provided to our customers. Production batch size and inventory turnover are two other KPIs that we monitor regularly.
- Order Fulfillment – Our integrated supply chain management strategy includes maintaining inventories of finished goods at various coffee warehouses throughout North America, and of raw goods for improved inventory replenishment times. Our order fulfillment rates are monitored regularly. An improved order fulfillment rate contributes to our volume growth and improved customer service levels.
- Employee Safety – We are focused on operating our business in a safe manner, and reducing the likelihood that employees will be injured at work. We track employee safety metrics by department, and our safety committee proactively seeks ways to reduce the risks inherent in our operating environment. While we cannot completely eliminate the risk of workplace incidents or accidents, we have significantly reduced the number of safety-related incidents over the past few years. We believe that ensuring employee safety leads to improved employee retention and morale, increased efficiency, and lower operating costs.
- Sustainability and Environmental Responsibility – The Swiss Water® Process, a 100% chemical-free decaffeination method, enables us to deliver premium-quality decaffeinated coffee to our customers. Our sustainability efforts focus on providing a fully chemical solvent free decaffeination method and facility, while also enhancing and innovating this process for greater efficiency and responsibly managing resources in a safe and environmentally conscious manner. In addition to optimizing our operations, we procure sustainably certified and organic coffees to ensure a sustainable coffee supply. We also engage in social sustainability initiatives, such as supporting programs like Grounds for Health, which promotes the well-being of women and their families in coffee-growing communities, and contributing to research-based approaches for advancing coffee cultivation through organizations like World Coffee Research.

External Factors

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

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

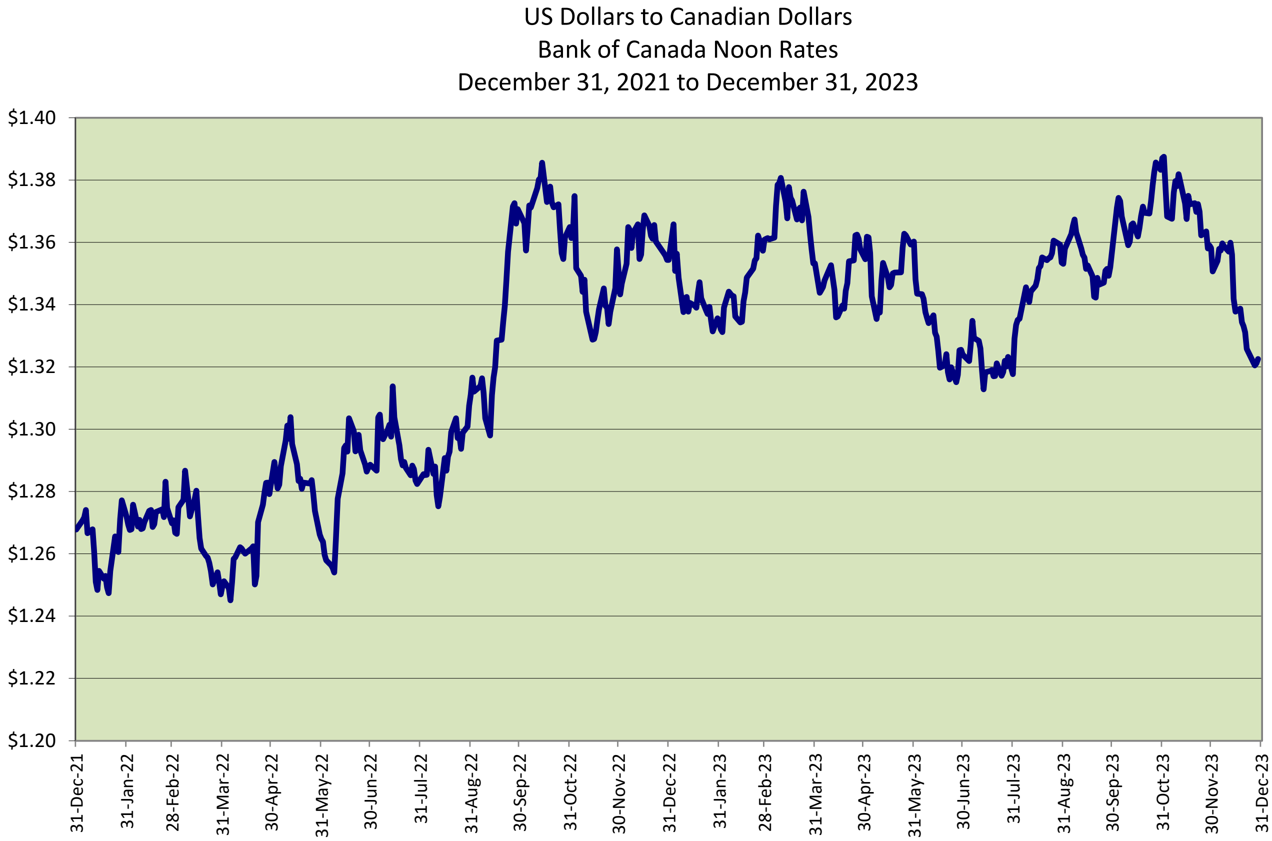
The chart below shows the movement in the NY'C' for the last eight quarters:



In Q4 2023, the NY'C' averaged US$1.74/lb compared to an average of US$1.77/lb in Q4 2022. Throughout 2023, the NY'C' averaged US$1.72/lb compared to an average of US$2.13/lb in 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.

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

The chart below shows the US$ to C$ exchange rates for the last eight quarters:



In Q4 2023, the US$ averaged C$1.36 compared to an average of C$1.36 in Q4 2022. In 2023, the US$ averaged C$1.35 compared to an average of C$1.30 in 2022. When the US$ 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)	3 months ended December 31,		Year ended December 31,	
(unaudited)	2023	2022	2023	2022
Process revenue	$ 10,211	$ 8,405	$ 35,425	$ 36,952
Green revenue	28,003	32,248	119,051	128,039
Distribution revenue	3,023	3,345	11,801	11,944
Total revenue	$ 41,237	$ 43,998	$ 166,277	$ 176,935

For the quarter and year ended December 31, 2023, sales totaled $41.2 million and $166.3 million respectively, a decrease of $2.8 million or 6% and $10.7 million or 6% compared to the same periods in 2022.

The decrease for the full year was 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, compounded by a material decline in coffee differentials and the NY'C'. However, this year to date decline was mitigated with an increased volume demand from customers in Q1, when we proactively managed our customer's coffee in anticipation of the transition to Delta, growth in volumes in Q4, and the appreciation of the US dollar compared to the same period in 2022.

In Q4 2023, both of our new production lines were fully operational, and our volumes increased by 17% when compared to the same period last year. The upswing in growth partially relates to customers moving volumes out of Q3 into Q4. Encouragingly, the balance of the increase relates to growth from new and existing customers.

Our sales for the quarter and year ended December 31, 2023, by revenue category, are as follows:

- Process revenue increased $1.8 million or 21% in Q4 and decreased $1.5 million or 4% year to date. The decrease reflects the expected period of reduced production capacity during Q2 and Q3, largely offset by increased volume processed in Q1 and Q4.
- Green revenue decreased $4.2 million or 13% in Q4 and $9.0 million or 7% year to date. The decrease is reflective of reduced production capacity, lower NY'C', and sustained erosion of coffee differentials during 2023. Year to date, this was partially offset by increased demand from customers in Q1 and Q4 of 2023, and the appreciation of the US dollar since the second quarter of 2022. Our Q4 green revenue also declined due to a higher mix of sales from toll business versus regular business. Our toll business decaffeinates customer owned coffee without the use of our green coffee, as such, we bill for the process and distribution services without the green coffee sales, whereas regular business generates revenue from green coffee, process, and distribution revenue.
- Distribution revenue decreased by $0.3 million or 10% in Q4 and $0.1 million or 1% for the full year. The decrease for the year and for the fourth quarter of 2023 primarily reflects the impact of a reduction of volumes stored and handled at our warehouse during the transition to our Delta location. The year to date results were partially offset by increased volume demand from customers in Q1 and Q4 2023, and inflationary price adjustments on freight rates.

Our sales volumes for the year ended December 31, 2023, by geographical segment, are as follows:

- Sales volume in North America for the year decreased by 5% and increased in Q4 by 11%;
- Sales volume in Asia-Pacific decreased for the year by 11% and increased in Q4 by 128%.

Cost of Sales

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

For the quarter and year ended December 31, 2023, cost of sales totaled $34.3 million and $147.5 million respectively. A decrease of $3.9 million or 10% and $3.4 million or 2%, compared to the same periods in 2022. These year over year movements were primarily driven by reduced process volumes due to a temporary production capacity limitation, green coffee costs, and less freight activity. This was partially offset by a one-time incremental depreciation expense of $2.5 million booked during the first half of 2023 due to the retirement of production assets located in Burnaby.

Gross Profit

For the quarter and year ended December 31, 2023, gross profit totalled $6.9 million and $18.8 million respectively, an increase of $1.2 million or 20% and a decrease of $7.3 million or 28%, compared to the same periods in 2022.

The decrease in year to date gross profit for 2023 was primarily driven by reduced volumes due to the temporary production capacity limitation during the transition out of Burnaby, as previously described. Also, we experienced materially bearish green coffee differential margins and a one-time incremental depreciation expense of $2.5 million. Moreover, inflationary pressures on variable production costs, such as natural gas, carbon, and labor, as well as freight and warehousing costs, further negatively impacted our gross profit. These inflationary pressures were partially mitigated by operating efficiencies stemming from the consolidation of operations into one location, and a reduction in inbound and outbound transportation costs associated with decreased inventory on hand during the latter part of the year.

In Q4, our gross profit increased primarily due to high volumes and scale efficiencies leveraged from within our production process. The consolidation of our production into a single facility has also started to generate savings. Specifically reduced building maintenance, utilities consumption, staffing efficiencies, and lower local freight costs.

Administration Expenses

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

For the quarter and year ended December 31, 2023, administration expenses totaled $2.3 million and $9.1 million, an increase of $0.6 million and $0.2 million, compared to the same periods in 2022. the primary drivers of the overall increase were general inflationary pressure, and increased headcount and salaries. These increases were partially offset by lower administrative costs following the consolidation of operations on one site during the second half of 2023, including year on year savings on depreciation and rental expenses.

Sales and Marketing Expenses

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

For the quarter and year ended December 31, 2023, sales and marketing expenses totaled $1.2 million and $4.1 million respectively, an increase of $0.3 million or 8% for the year and no material change for the quarter, compared to the same periods in 2022. The main driver of the year over year change was 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’ section). Thus, any gain or loss on risk management activities includes only those gains and losses on derivative financial instruments or portions of such instruments that are not designated as hedging instruments.

For the quarter and year ended December 31, 2023, we recorded a gains on risk management activities of $0.4 million and $0.5 million respectively, an improvement of $0.4 million and $2.0 million, compared to the same periods in 2022. The main drivers of the movements were unrealized gains due to fluctuations in the Canadian versus US dollar and fluctuations in NY’C’.

Finance Income and Finance Expenses

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

For the quarter and year ended December 31, 2023, net finance expense totaled $1.8 million and $6.6 million respectively, an increase of $0.4 million or 31% and $1.6 million or 31%, compared to the same periods in 2022. The overall increase primarily relates to a higher outstanding balance on our construction loans and credit facility, higher variable interest rates, and full year impact of higher interest rates on our debenture with warrants. Also, since Q3 2023, with the utilization of the second production line, we no longer capitalize interest related to construction to property, plant, and equipment.

Gains and Losses on Foreign Exchange

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

For the quarter and year ended December 31, 2023, we recorded a loss on foreign exchange of $0.3 million and $0.2 million respectively, with no variance from last quarter and a reduced loss of $1.9 million compared to 2022. The large year over year swing in foreign exchange is due to fluctuation in the Canadian versus US dollar as the exchange rate averaged C$1.35 in 2023, compared to C$1.30 in 2022.

Gains and Losses on Fair Value of Embedded Option

The fair value of the embedded option relates to the valuation of warrants embedded in our debenture with Mill Road Capital, which was amended effective November 22, 2022. 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 loss of $0.1 million and a gain of $0.1 million for the three months and the year ended December 31, 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 13.2 in the consolidated financial statements for more details.

Gain on Extinguishment of Debt

Gains on extinguishment of debt relate to debt renegotiations, including professional fees and the release of gains and losses related to the embedded option within a debenture. In 2022 the gain relates to the amendment of the Mill Road debenture with warrants where-by the amendment introduced a cashless exercise option that no longer limited an exchange of a fixed amount of cash for a fixed amount of common shares. During the years ended December 31, 2023 and 2022, there were no such gains or losses on the extinguishment of debt.

Other gains

Other gains are an adjustment to the asset retirement obligation estimate following the conclusion of our lease for the Burnaby location in June 2023. The actual cost of fulfilling our contractual obligations and restoring the property, as per the lease terms, was $1.3 million, compared to an asset retirement obligation estimate of $1.5 million. As a result, during the year ended December 31, 2023, Swiss Water recognized other gains totalling $0.2 million. No such gain was recorded during the previous year, 2022.

Impairment of Plant and Equipment

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

Income Before Taxes and Net Income

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

For the quarter and year ended December 31, 2023, we recorded a net income before taxes of $ 1.4 million and net loss before tax of $0.5 million respectively, compared to a net loss before taxes of $0.4 million and net income of $3.2 million for the same periods in 2022.

Overall, we recorded net income of $1.0 million and a net loss of $0.5 million for the quarter and year ended December 31, 2023, respectively, compared to a net loss of $0.3 million and net income of $2.4 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 quarter and year ended December 31, 2023, was income of $1.4 million and $1.1 million respectively, compared to a loss of $2.0 million and $1.5 million for 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

Basic earnings per share are calculated by dividing net income by the basic weighted average number of shares outstanding during the period. Similarly, diluted earnings per share are calculated by dividing net income adjusted for the effects of all dilutive potential common shares, by the diluted weighted average number of shares outstanding. For the purposes of the calculation, under IFRS we are required to assume that the maximum number of shares issuable under the warrant agreement will be issued.

For the quarter and year ended December 31, 2023 and 2022, all potential common shares issuable under the RSU Plan and debenture with warrants were anti-dilutive and excluded from the dilution calculation.

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

In 000s except for shares and per share data (unaudited)	3 months ended December 31, 2023	3 months ended December 31, 2022	Year ended December 31, 2023	Year ended December 31, 2022
Basic and diluted earnings per share				
Net income (loss) attributable to shareholders	$ 961	$ (254)	$ (528)	$ 2,387
Weighted average number of shares	9,212,955	9,165,815	9,206,368	9,158,161
	$ 0.10	$ (0.03)	$ (0.06)	$ 0.26

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 transition out of our Burnaby production facilities during the second quarter impacted the typical seasonality pattern in 2023.

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

In $000s except for per share amounts (unaudited)	8 Quarter Average	Q4 2023	Q3 2023	Q2 2023	Q1 2023	Q4 2022	Q3 2022	Q2 2022	Q1 2022
Revenue	42,902	41,237	32,627	43,368	49,045	43,998	46,154	48,368	38,415
Gross Profit	5,611	6,916	3,576	3,412	4,894	5,759	6,614	7,952	5,763
Operating income	2,376	3,372	758	76	1,424	2,792	3,293	4,416	2,880
Adjusted EBITDA[1]	3,751	5,008	1,539	1,825	4,982	3,087	4,346	5,335	3,882
Net income (loss)	232	961	(417)	(371)	(701)	(254)	(204)	1,460	1,385
Per Share[2]									
Net income (loss) - basic	0.02	0.10	(0.05)	(0.04)	(0.08)	(0.03)	(0.02)	0.16	0.15
Net income (loss) - diluted	0.02	0.10	(0.05)	(0.06)	(0.08)	(0.03)	(0.02)	0.16	0.15

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

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

LIQUIDITY AND CAPITAL RESOURCES

Operating Activities

For the quarter and year ended December 31, 2023, net cash proceeds from operating activities amounted to $9.3 million and $30.5 million respectively, marking a significant improvement from the net cash used of $0.7 million and $1.0 million recorded for the same periods in 2022. In 2022, cash inflows from operations were largely offset by cash outflows required for increased green inventory purchases. This temporarily increased inventory was made in advance of our move from Burnaby to Delta. This strategic decision was proactively planned with our customers to minimize disruption of deliveries during a short period of capacity limitation in 2023. Following the successful consolidation of production in Delta inventory levels dropped sharply as we processed and shipped our excess inventory. Consequently, during Q3 and Q4 of 2023, positive cash inflows from working capital were generated.

Investing Activities

For the quarter and year ended December 31, 2023, net cash used in investing activities was $2.0 million and $19.6 million respectively, compared to net cash used of $7.3 million and $24.6 million for the same periods in 2022. In both years, this was driven by capital expenditures associated with the construction of the second production line in Delta. During 2023, we recovered $0.4 million in cash from vendor reimbursements, which was related to equipment on the first production line in Delta (2022: $1.4 million). These proceeds were recorded as a reduction in plant and equipment.

Financing Activities

For the quarter and year ended December 31, 2023, net cash used in financing activities was $2.9 million and $3.7 million respectively, compared to net cash generated of $8.9 million and $25.2 million for the same periods in 2022. In both years, this was driven by proceeds, net of repayment, from our credit facility and construction loans. In 2023, less green coffee was purchased which released working capital back into the business during the third and fourth quarters. The excess cash generated was used to repay borrowings from our credit facilities. These repayments were largely offset by an expansion of borrowings drawn against our construction loan to fund the completion of the second production line in Delta, BC. In 2022, cash outflows for green coffee purchases were higher in order to support customer commitments during our period away from our Burnaby factory. This investment in inventories during the prior year was funded using drawdowns from our credit facilities.

During the year 2022, we renegotiated Swiss Water's credit facilities, construction loan, and debenture with warrants with the purpose of expanding on available funding for capital expansions in Delta, BC and to support growth and operations. Swiss Water successfully completed the expansion of our credit facilities with our existing senior lenders, resulting in $33.25 million of incremental capital availability, consisting of $21.25 million of expanded revolving credit capacity and $12.0 million of incremental senior term financing. Swiss Water incurred financing expenditures in the amount of $0.8 million of which $0.4 million was paid by December 31, 2022. There were no such transactions in 2023.

Inventory

Our inventory decreased by $29.9 million or 50% between December 31, 2022, and December 31, 2023. The decrease reflects a reduced volume of coffee inventory on hand partially offset by the impact of a higher 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 December 31, 2023, was an increase of $8.2 million to a total of $0.8 million as at December 31, 2023.

Accounts Receivable

Our accounts receivable decreased by $1.3 million or 8% between December 31, 2022, and December 31, 2023. In total 86% of Swiss Water accounts receivable was current as at December 31, 2023. The majority of past due amounts were collected shortly after the year end. Accounts receivable consist of receivables from customers.

Credit Facilities

We have two credit facilities, one with a major Canadian bank and the other with Export Development Canada ("EDC"). These facilities are secured by general security agreements over all of Swiss Water's assets and a floating hypothecation agreement over cash balances. As of December 31, 2023, the outstanding balance on the credit facility with the Canadian bank is $26.9 million, Swiss Water incurred $2.5 million in interest expense in 2023 (compared to an outstanding balance of $38.4 million and $1.4 million in interest expense, in 2022). No funds were drawn from the EDC credit facility. The material decrease in borrowings on our credit facilities in 2023 was primarily driven by using cash generated from reduced working capital investments and strengthening cashflows from operating activities generated during the fourth quarter. This year over year movement is reflective of our commitment to reduce debt levels.

We have certain bank covenants that relate to the maintenance of specified financial ratios, and as of December 31, 2023, we were in compliance with all covenants.

<u>Credit Facility with Canadian Bank</u>

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

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

Swiss Water is not required to repay the Credit Facility, 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 our market-to-market gains, which are netted against any losses in the commodity account and foreign exchange contract facility. Amounts can be drawn in either Canadian or in US dollars and can be borrowed, repaid, and re-borrowed to fund operations, capital expansions, letters of credit, a security lien bond, and for general corporate purposes.

The Credit Facility has multiple interest rate options that are based on the Canadian Prime Rate, Base Rate, LIBO Rate, Bankers' Acceptance Rate plus an acceptance fee, in addition to an Applicable Margin for each of these rates. Fees apply to outstanding letters of credit and the unused portion of the credit.

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

Credit Facility with EDC

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

Effective November 22, 2022, Swiss Water entered into a revolving credit facility agreement with EDC (the "EDC Credit") for borrowings of up to $6.25 million. The EDC Credit is to be used for the purpose of providing additional liquidity to finance Swiss Water'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 second anniversary of the effective date of November 22, 2024, and (iii) the maturity date under the Credit Facility. Bank may in its sole discretion, renew the EDC Credit for a maximum of five successive one-year periods after the first anniversary of the effective date. As at December 31, 2023 and 2022, no amounts were drawn on EDC Credit.

On June 1, 2020, Swiss Water entered into a foreign exchange facility guarantee with EDC to cover margin requirements in relation to the foreign exchange facility. On August 4, 2020, Swiss Water'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.

Construction Loan with BDC and FCC

In Q4 2018, we completed a transaction with the Business Development Bank of Canada ("BDC") for a term loan facility ("Term Loan") of up to $20.0 million. The purpose of the Term Loan was to assist in the financing of new equipment for the first production line built in Delta, British Columbia. The interest rate for the Term Loan was 4.95% per annum over 12 years. Principal repayment was scheduled to begin on July 1, 2021 and matures on June 1, 2033.

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

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

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

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

Both loans are secured by a general security agreement and a first security interest on all existing equipment and machinery plus new equipment and machinery financed with the BDC and FCC construction loans. Seaforth has provided a guarantee for construction loans to FCC and BDC.

Effective November 22, 2022, Swiss Water entered into an amendment (the "Amended Senior Facility") to the 2021 senior debt facility with our two lenders, BDC and FCC, which provided an additional $12.0 million of senior debt financing at a favourable payment, interest rate and amortization schedule by increasing the senior debt facility from $45.0 million to $57.0 million. The incremental funds available under the Amended Senior Facility, together with our existing available credit and internally generated cash flow were sufficient to fund the completion of the second production line in Delta. Each lender funded 50% of available funds. As of December 31, 2023, the construction loan principal amount outstanding was $57.0 million plus one month of accrued interest of $0.3 million (2022: $44.6 million of principal and accrued interest).

We have certain bank and creditor covenants that relate to the maintenance of specified financial ratios, and as of December 31, 2023, we were in compliance with all covenants.

Debenture with Warrants / Convertible Debenture with Mill Road Capital

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

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

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

During the year ended December 31, 2022, Swiss Water recognized a $0.6 million gain on the extinguishment of debt in net income and it includes financing transaction costs in the amount of $0.2 million.

The option for cashless exercise of warrants embedded in the debenture with warrants was recognized as a derivative financial liability "Borrowings embedded option" on the Consolidated Statements of Financial Position and it is valued at $1.4 million as at December 31, 2023, using the Black Scholes model (2022: $1.4 million).

We have certain bank and creditor covenants that relate to the maintenance of specified financial ratios, and as of December 31, 2023, we were in compliance with all covenants.

Share Capital

On May 9, 2022, at the Annual and Special Meeting of Shareholders, the Shareholders approved the amendment to the Articles of Amalgamation of the Company to create two new classes of shares, Class A Preferred Shares and Class B Preferred Shares. As at December 31, 2023 and 2022, there were no preferred shares issued and outstanding.

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

Contractual Obligations

The following table sets forth our contractual obligations and commitments as at December 31, 2023:

In $000s (unaudited)	Total	Less than 1 year	2-3 years	4-5 years	Over 5 years
Long-term debt[1]	$ 72,849	$ 18,309	$ 11,400	$ 11,400	$ 31,740
Financing leases[2]	10,488	2,558	5,163	2,718	49
Credit facility[3]	26,858	26,858	-	-	-
Purchase obligations[4]	44,917	44,917	-	-	-
Total contractual obligations	$ 155,112	$ 92,642	$ 16,563	$ 14,118	$ 31,789

[1] Long-term debt represents the principal amounts of the debenture with warrants and construction loans.
[2] Minimum obligations for our finance leases.
[3] Credit facility matures in 2024, where the maturity date can be extended subject to lenders' approval.
[4] Purchase obligations represent outstanding capital, and coffee and purchase commitments.

Swiss Water leases the following offices, warehouses, and equipment:

On August 26, 2016, we signed a lease agreement for a build-to-suit production facility in Delta. From the lease commencement date, the lease has an initial term of five years and can be renewed at our option in five-year increments up to a total of 30 years. The lease commencement date was in July 2018. Under the lease, Swiss Water has multiple options to buy out the lease starting at the end of the second five-year term. The buy-out value will be equal to the fair market value of the property as determined by an appraisal process, subject to specified maximum and minimum values. During 2022 we exercised the first option to renew Swiss Water's lease in Delta for another five years until July 2028.

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

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

Seaforth leases a truck. The lease expires in February 2028.

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

Two leases expired in 2023. Swiss Water's facility in Burnaby expired in June 2023, and Seaforth's truck lease expired in April 2023. Only the Seaforth truck lease was renewed.

OFF-BALANCE SHEET ARRANGEMENTS

Swiss Water has no off-balance sheet arrangements.

RELATED PARTY TRANSACTIONS

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

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

In $000s (unaudited)	Year ended December 31, 2023	2022
Sales	$ 1,078	$ 1,728
Purchases of raw materials	$ 6,705	$ 9,007

All transactions were in the normal course of operations and were measured at the fair value of the consideration received or receivable, which was established and agreed to by the related parties. As at December 31, 2023, our accounts receivable balance with this company was nil while our accounts payable balance with this company was $1.1 million (2022: nil and $2.2 million respectively).

On October 26, 2021, the Company and a member of key management entered into a promissory note in the amount of $0.07 million. For as long as the borrower remains an employee, the obligation to repay the principal is forgiven against current and future awards under the RSU plan, by forfeiture of awards. The loan is interest free other than in the event of default, in which case the promissory note would bear simple interest at a rate of 10% per annum. As at December 31, 2023, the loan balance of $0.01 million was included in other current receivables (2022: $0.04 million in non-current receivables).

Mill Road, is a shareholder of Swiss Water, and under the terms of the debenture with warrants agreement, Mill Road added a senior executive to Swiss Water's board of directors. Also, as a holder of the debenture with warrants, Mill Road has the right to a cashless exercise of warrants to obtain an additional 2.25 million shares of Swiss Water. As such Mill Road is considered a related party. Refer to Note 13.2 in the audited consolidated financial statements for more details on the amended debt agreement with Mill Road.

RISKS AND UNCERTAINTIES

Cash from operations may fluctuate with the performance of the business, which can be susceptible to a number of risks. These risks may include, but are not limited to, foreign exchange fluctuations, labour relations, coffee prices (notwithstanding hedging programs, as exact hedging correlation is not attainable), the availability of coffee, competition from existing chemical and other natural or chemical free coffee decaffeinators, competition from new entrants with alternate processing methods or agricultural technologies, regulatory risks, terms of credit agreements, customer concentration, commodity futures losses, ability to maintain organic certification, adequacy of insurance, risks related to information technology and cyber crime, dependence on key personnel, product liability, uncollectable debts, liquidity risk, timing and costs of capital projects, 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, geopolitical risks, 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 effects 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. The supply of some commodities from Russia, such as natural gas, has been interrupted. Potential consequences of these sanctions and commodity interruptions that could impact our business are not limited to: 1) demand for our products 2) delays in transportation to customers within Europe, 3) increase of costs in fertilizers or supply components, thus increasing the costs of our coffee inventory, 4) decaffeinating coffee in Europe may become more expensive if traditional fuel sources are curtailed. Some North American customers, currently sourcing from European suppliers, may consider switching to Swiss Water as it can be sourced closer to their market, and 5) overall supply chain interruptions. At this time there is uncertainty over the full impact of the conflict in Europe, as such, we cannot provide assurance that this conflict will not affect our business and further expansions into the European market.

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

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

ENVIRONMENTAL RISKS

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

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

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

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

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

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

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

We believe that the trend toward increased environmental awareness and social consciousness 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, and living healthier lifestyles. As one of the few chemical free decaffeinators in the world, we believe that an increased focus on environmental matters and health will allow us to win more business from decaffeinators that use chemicals such as methylene chloride to decaffeinate coffee.

CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

Measurement of Uncertainty

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

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

Property, Plant, Equipment and Intangible Asset

Property, plant and equipment, and intangible assets with finite lives that are subject to depreciation or amortization are tested for impairment indicators at the end of each reporting period. If any such indicator exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. In 2022, Swiss Water performed an assessment of the salvageable assets associated with the Burnaby location ahead of the expiry of the lease, in June 2023. In accordance with IAS 36, Impairment of Assets, Swiss Water identified qualitative and quantitative indicators of impairment and it was determined that a $2.5 million impairment of plant and equipment was required, as shown in the non-operating section of the Consolidated Statements of Income.

After recognizing the impairment, the amortization of the remaining salvaged assets was adjusted in future periods to allocate the assets' revised carrying amount on a systematic basis over its remaining useful life. Those assets were fully depreciated in 2023 and salvaged assets were subsequently put to use. During 2023, there was no such impairment to property plant and equipment.

Useful lives of depreciable assets – change in accounting estimates

In 2022, Swiss Water reduced the estimated useful life of our abovementioned production line machinery and equipment at the Burnaby location from 10 years to the expiry of the lease term, in June 2023. This change in accounting estimate was accounted for prospectively and resulted from the decision to cease the two production lines in Burnaby, BC, when we exited the lease in June 2023. Those Burnaby assets were fully depreciated in 2023 and salvaged assets were subsequently put to use at the Delta location. During 2023, there was no such changes to accounting estimates for depreciable assets.

Provision for Asset Retirement Obligation

Analysis and estimates are performed by Swiss Water in order to determine the amount of restoration costs to be recognized as a provision in our consolidated financial statements. The estimates consider the contract language in the lease, the expected useful lives of Swiss Water's equipment, inflation rates, discount rates, and the expected costs that would be paid to a third party to remove property and equipment.

The amount that we recognized as a provision in asset retirement obligation is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When the final determination of such obligation amounts differs from the recognized provisions, Swiss Water's financial statements will be impacted.

The present value of future cash flows for asset retirement obligation with respect to our leased decaffeination facility in Delta is estimated at $3.8 million. This estimate assumes that we restore the current location upon the expiry of the lease for the two lines in Delta, BC at an estimated undiscounted cash flow of $6.0 million. Further, the estimate reflects the expected costs of vacating the leased facility in 2038 having regard for the contract language in the lease, the expected useful lives of our plant and equipment, and the expected costs that would be paid to a third party to remove the equipment.

Income Taxes

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

Deferred tax assets also reflect estimates of the recoverability of non-capital loss carry forwards. We have recognized the benefit of loss carry forwards to the extent that it is probable that taxable income will be available in the future against which our non-capital loss carry forwards can be utilized. As at December 31, 2023, Swiss Water and its subsidiaries had combined non-capital tax loss carryforwards totalling $69.8 million, which can be used to reduce income taxes payable in future years.

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

Leases and Right-of-Use Assets

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

Debenture with Warrants with Embedded Option

Effective November 22, 2022, the amended debenture with warrants contains an embedded cashless option feature. This embedded option is a financial liability and was recognized initially at $1.9 million effective on November 22, 2022, and is subsequently revaluated at each reporting date. As at December 31, 2023, Swiss Water recognized the fair value of the embedded option in the debenture with warrants in the amount of $1.4 million and recorded a gain of $0.1 million (2022: $1.4 million and $0.5 million respectively).

At initial recognition, in the calculation of the fair value of the liability portion of the Debenture with warrants, management estimated the interest rate on a similar instrument of comparable credit status providing for substantially the same cash flows, on the same terms, but without the warrants exercise option. We estimate the fair values of the borrowings embedded option liability related to the debenture with warrants at initial recognition and at the end of each reporting period using the Black-Scholes option pricing model which requires management estimates. Pricing models require the input of highly subjective assumptions including the expected share price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore the existing models do not necessarily provide a reliable single measure of the fair value of the Company's warrants.

The fair value of the embedded option in the debenture with warrants was determined using the Black Scholes option pricing model. The variables and assumptions used in computing the fair value are based on management's best estimate, as discussed the audited consolidated financial statements.

		December 31, 2023		December 31, 2022
Share price	$	2.78	$	2.31
Exercise price	$	3.33	$	3.33
Option life		2.33 years		3.33 years
Volatility		42%		49%
Risk-free interest rate		3.91%		4.07%
Dividend yield		0.00%		0.00%

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 Swiss Water did not have a material impact on our consolidated financial statements.

- IFRS 1 *First–time adoption of IFRS* 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 *Presentation of Financial Statements* contains changes to accounting policy disclosures in changes in estimates vs accounting policies also IAS 1 replaced the requirement to disclose 'significant' accounting policies with a requirement to disclose 'material' accounting policies.
- IAS 8 *Accounting policies, changes in accounting estimates and errors* 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 *Income taxes* was amended by IASB to require companies to recognize deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences.

The following standards are effective for periods beginning after January 1, 2024, and Swiss Water does not anticipate a material impact on our financial statements:

- IAS 7 *Statement of Cash flows* and IFRS 7 Financial instruments disclosures contain amendments that 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.
- IFRS 10 *Consolidated financial statements* and IAS 28 *Investments in associates and joint ventures* 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 *Leases* has amended guidance over accounting for lease liability in a sale and leaseback transaction, effective after January 1, 2024.
- IAS 1 *Presentation of financial statements* was amended to clarify the classification of non-current liabilities with covenants, depending on the rights that exist at the end of the reporting period. Liabilities should be classified as non-current if a company has a substantive right to defer settlement for at least 12 months at the end of the reporting period. This standard defers the effective date of previous amendments to IAS 1 to years beginning after January 1, 2024, with early adoption permitted. Retrospective application is required on adoption.
- IAS 21 *The effects of changes in foreign exchange rates* was amended to specify how to determine whether a currency is exchangeable into another currency and how to determine the spot exchange rate when a currency lacks exchangeability, effective after January 1, 2025.

HEDGE ACCOUNTING

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

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

Commodity Hedges

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

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

Revenue Hedges

We enter into forward contracts to sell US$ at future dates to hedge the foreign exchange cash flow variability of expected US$ processing fee revenue up to 60 months in advance. The hedged process revenue includes both process revenue from tolling arrangements (processing of customer-owned coffee) as well as the US$ processing fee layer of inventory sales agreements. This enables us to more reliably predict how much

Canadian currency we will receive for our US$ process revenue. Cash flows in the immediate 12-month period are hedged at a higher percentage of expected future revenues than those farther out, reflecting greater uncertainty in the 13 to 60-month period.

At each period end, revenue hedges are re-measured to their fair value. Under hedge accounting, unrealized gains/losses for open revenue hedges are recorded in other comprehensive income. When a revenue hedge matures, the realized gain/loss on that contract is reclassified from accumulated other comprehensive income to process revenue.

Purchase Hedges

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

The hedge accounting allows for 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 and other liabilities are classified as other financial liabilities and are measured at amortized cost using the effective interest rate method. Interest expense is recorded in the consolidated statement of income, as applicable.

Commodity Price Risk

Commodity price risk is the risk that the fair value of inventory will fluctuate as a result of changes in commodity prices. Swiss Water utilizes futures contracts to manage our commodity price exposure. We buy and sell futures contracts for coffee on the Intercontinental Exchange in order to offset our inventory position and fix the input cost of green coffee. As at December 31, 2023, Swiss Water had futures contracts to buy 9.3 million lbs of green coffee with a notional value of US$17.1 million, and contracts to sell 13.8 million lbs of green coffee with a notional value of US$25.5 million. The furthest contract matures in December 2024 (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 December 31, 2023, Swiss Water had forward currency contracts to buy US$9.9 million and sell US$51.3 million (2022: buy US$7.1 million and sell US$54.8 million) from January 2024 through to January 2027 at various Canadian exchange rates ranging from $1.28 to $1.38. An estimated CAD 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.

INTERNAL CONTROLS OVER FINANCIAL REPORTING & DISCLOSURE CONTROLS AND PROCEDURES

The Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") of Swiss Water are responsible for establishing and maintaining adequate internal control over financial reporting ("ICFR") to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Under the supervision and with the participation of management, we conducted an evaluation of the design and effectiveness of our ICFR as of December 31, 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 December 31, 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 December 31, 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 December 31, 2023, that have materially affected or are reasonably likely to materially affect, Swiss Water's ICFR.