MANAGEMENT DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") of Swiss Water Decaffeinated Coffee Inc. ("Swiss Water" or the "Company"), dated as of May 5, 2022, provides a review of the financial results for the three months ended March 31, 2022, relative to the comparable period of 2021. The three month period represents the first quarter ("Q1") of our *2022 fiscal year. This MD&A should be read in conjunction with Swiss Water's condensed consolidated interim financial statements for the three months ended March 31, 2022, the audited consolidated financial statements for the year ended December 31, 2021, and in conjunction with the Annual Information Form ("AIF"), which are available on www.sedar.com.*

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

FORWARD-LOOKING STATEMENTS

This MD&A contains forward-looking statements, including statements regarding the future success of our business and market opportunities. Forward-looking statements typically contain words such as "believes", "expects", "anticipates", "continue", "could", "indicates", "plans", "will", "intends", "may", "projects", "schedule", "would" or similar expressions suggesting future outcomes or events, although not all forward-looking statements contain these identifying words. Examples of such statements include, but are not limited to, statements concerning: (i) expectations regarding Swiss Water's future success in various geographic markets; (ii) future financial results, including anticipated future sales and processing volumes; (iii) future dividends; (iv) the expected actions of the third parties described herein; (v) factors affecting the coffee market including supplies and commodity pricing; (vi) the expected cost to complete production line currently under construction; and (vii) the business and financial outlook of Swiss Water. In addition, this MD&A contains financial outlook information that is intended to provide general guidance for readers based on our current estimates, which are based on numerous assumptions and may prove to be incorrect. Therefore, such financial outlook information should not be relied upon by readers. These statements are neither promises nor guarantees but involve known and unknown risks and uncertainties that may cause our actual results, level of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed in or implied by these statements. These risks include, but are not limited to, risks related to processing volumes and sales growth, operating results, supply of coffee, supply of utilities, general industry conditions, commodity price risks, technology, competition, foreign exchange rates, construction timing, costs and financing of capital projects, general economic conditions and those factors described herein under the heading 'Risks & Uncertainties'.

The forward-looking statements contained herein are also based on assumptions that we believe are current and reasonable, including but not limited to, assumptions regarding: (i) trends in certain market segments and the economic climate generally; (ii) the financial strength of our customers; (iii) the value of the Canadian dollar versus the US dollar ("US$"); (iv) the expected financial and operating performance of Swiss Water going forward; (v) the availability and expected terms and conditions of debt facilities; (vi) the expected level of dividends payable to shareholders; (vii) the potential impact of the COVID-19 pandemic (viii) the potential impact of any war and terrorist activity. We cannot assure readers that the actual results will be consistent with the statements contained in this MD&A. The forward-looking statements and financial outlook information contained herein are made as of the date of this MD&A and are expressly qualified in their entirety by this cautionary statement. Except to the extent required by applicable securities law, Swiss Water undertakes no obligation to publicly update or revise any such statements to reflect any change in our expectations or in events, conditions, or circumstances on which any such statements may be based, or that may affect the likelihood that actual results will differ from those described herein.

EXECUTIVE SUMMARY

The following selected information, other than Adjusted EBITDA was derived from the condensed consolidated interim financial statements for the three months ended March 31, 2022, prepared in accordance with IAS 34. 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 March 31, 2022		2021	
Revenue	$	38,415	$	25,692
Gross profit		5,763		3,552
Operating income		2,880		738
Net income (loss)		1,385		(96)
Adjusted EBITDA[1]		3,882		1,987
Net income (loss) per share – basic[2]	$	0.15	$	(0.01)
Net income (loss) per share – diluted[2]	$	0.15	$	(0.01)

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

[2] Per-share calculations are based on the weighted average number of shares outstanding during the periods. Diluted earnings per share take into account shares that may be issued upon conversion of convertible debenture (until July 20, 2021), the exercise of warrants, and RSUs, as well as the impact on earnings from changes in the fair market value of the embedded option in the convertible debenture (until July 20, 2021).

Financial highlights

- First quarter revenue was $38.4 million, an increase of 50% over Q1 2021, as a result of increased volume growth in the quarter, and higher green coffee prices compared to the same period in 2021.
- Gross profit was $5.8 million, an increase of $2.2 million over Q1 2021. The significant increase in gross profit was primarily driven by higher trading volume, which in turn helped generate capacity utilization efficiencies. In addition, we benefited from a higher green coffee differential margin.
- Operating income was $2.9 million, an increase of $2.1 million over Q1 2021. Operating expenses of $2.8 million were in line with Q1 2021. Non-operating expenses were higher mainly due to an increase in finance expense associated with our construction loans and working capital credit facility.
- Net income was $1.4 million, an increase of $1.5 million over Q1 2021. This change reflects the combination of improvements in gross margin and operating income, as described above.
- First quarter Adjusted EBITDA[1] was $3.9 million, an increase of $1.9 million or 95% over Q1 2021. The improvement in Adjusted EBITDA was mainly driven by the positive impact of increased sales volume and production efficiencies.

Operational highlights

- Total processing volumes increased by 23% in the first quarter when compared to the same period in 2021. Many of our customers are seeing strong consumer demand and in most cases are ordering ahead of pre-pandemic levels. Furthermore, our volume growth was enhanced during the first quarter of 2022 as we accelerate shipments of products to new out-of-home food service customers within North

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

America. Encouragingly, we recorded 18% and 37% volume growth in our North America and international regions, respectively.

- Our largest geographical market by volume in Q1 was the United States, followed by international markets, and Canada. By dollar value, 43% of our sales were to customers in the United States, 33% were international customers, and the remaining 24% were to Canada. Our international business continues to expand, and we anticipate revenues from our European and Asia-Pacific markets will continue to increase in both dollars and percentage over 2022.
- On April 22, 2022, the Company entered into an amended agreement with Mill Road Capital LLC ("MRC") to revise our senior debt limit from $60.0 million to $65.0 million.

Swiss Water achieved revenue of $38.4 million for the three months ended March 31, 2022, which is a quarterly record for Swiss Water, and represents a $12.7 million or 50% increase compared to the same period in 2021. Gross profit increased by $2.2 million or 62%. The increase in gross profit dollars was mainly due to an increase in volume of 23% compared to the same period in 2021. Gross profit percent for the three months ended March 31, 2022, increased from 14% to 15%, compared to the same period in 2021. This was due to a higher differential margin on green coffee and capacity utilization efficiencies due to increased processing volumes. In addition, our Seaforth subsidiary continues to operate at record levels of activity helping to drive overall profitability. Operating expenses remained flat. The result was an increase in operating income of $2.1 million or 290%, which flowed down to net income and was only partially offset by increases in finance expense, and income taxes. Net income of $1.4 million represents a $1.5 million increase over the same period in 2021. Adjusted EBITDA of $3.9 million represents a $1.9 million or 95% increase.

Momentum from the third and fourth quarters of 2021 continued into the first quarter of 2022, with strong volume increases seen across the business with the United States and international regions recording significant growth. Sales in dollar value to the United States increased by $5.6 million versus Q1 of 2021. International markets overtook Canada as the second largest geographical segment for the first time in Q1, with volumes increasing by 37% versus the same period in 2021. Within the international business, trading volumes to Asia increased by 63%, which translated to an increase in Asia-Pacific sales dollars of $3.2 million versus Q1 of 2021. We continue to see robust growth with existing customers and incremental volume from new customers switching to chemical free decaffeinated coffee. Ultimately, our strong volume performance is a reflection of our well-diversified customer base and the growing recognition of the importance of drinking coffee decaffeinated without the use of harmful chemicals.

In regard to customer mix, the first quarter of 2021 was still affected by the COVID-19 pandemic with many restaurants and out-of-home specialty coffee shops adhering to the government-imposed health restrictions. With vaccination rates up and COVID-19 cases down, many of these businesses are open and operating at a higher capacity. This was a key driver for our strong volume performance during the first quarter of 2022. This resurgent demand was evidenced by the 27% growth in our specialty roaster customers, coupled with the 20% growth in our commercial customers during the quarter. As in recent quarters, we continue to see new volume associated with the addition of new customers and brands to our North American customer list. A prime example is Peet's Coffee, a San Francisco-based specialty coffee roaster and retailer with commercial distribution across the United States (see our press release dated February 8, 2022).

Throughout 2021 and into the first quarter of this year, we have remained reasonably well positioned with green coffee inventory and able to react to short-term demand increases in most coffee origins. However, we continue to be affected by ongoing disruptions in deliveries of green coffee, particularly from Brazil, as supply chain bottlenecks and equipment shortages persist in many outbound ports, and container-ship service to the Port of Vancouver has been reduced substantially. This has led to significant increases in freight rates. While these costs are generally recoverable, they are nonetheless inflationary. We have kept in daily contact with our customers and suppliers regarding the movement of coffee. However, many of them have remained cautious of the time it will take for supply chains to return to normal operating efficiency. This caution is caused and continues to cause participants throughout the coffee supply chain to substantially increase their inventories despite a very high New York Futures contract coffee commodity price, or NY'C.

The NY'C for Arabica coffee increased rapidly in the third and fourth quarters of 2021 and has remained high in the first quarter of 2022. It is unusual for the NY'C to sustain such an elevated level for a sustained period. A rare double frost occurred last July in Brazil, the world's largest producer of coffee. This caused an immediate run-up in the NY'C with a peak of US$2.58 that occurred during the first quarter of 2022. The tight availability of exportable coffee due to crop shortages and ongoing logistical backlogs is keeping pressure on the futures market and we have seen spot availability of coffees fall substantially as a result. This, in turn, further supports a high futures market.

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

NON-IFRS MEASURES

Adjusted EBITDA

Adjusted EBITDA is a Non-GAAP measure and 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 distribution 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 capital equipment, fair value adjustments on embedded options, loss on extinguishment of debt, adjustment for the impact of IFRS 16 - Leases, and provision for income taxes. Our definition of Adjusted EBITDA also excludes unrealized gains and losses on the undesignated portion of foreign exchange forward contracts.

Adjusted EBITDA for the three months ended March 31, 2022, was $3.9 million, compared to $2.0 million for the same period in 2021. Operationally, the change in Adjusted EBITDA was driven by increased volumes, revenue growth, efficiency gains due to higher capacity utilization rates, and an increased financial contribution from Seaforth. These gains were partially offset by an increase in green coffee costs and inflationary pressures on our underlying cost structure.

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

(In $000s) (unaudited)	3 months ended March 31, 2022	 2021
Operating income	$ 2,880	$ 738
Depreciation & amortization	1,553	1,713
Share-based compensation expense	189	230
Loss on risk management activities	(34)	(146)
Unrealized (gain) loss on foreign exchange forward	(9)	154
Impact of IFRS 16 - Leases	$ (697)	$ (702)
Adjusted EBITDA	$ 3,882	$ 1,987

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

In $000s (unaudited)	3 months ended March 31, 2022	 2021
Net income (loss) for the period	$ 1,385	$ (96)
Income tax expense (recovery)	529	(11)
Income (loss) before tax	$ 1,914	$ (107)
Finance income	(71)	(115)
Finance expenses	1,209	1,022
Depreciation & amortization	1,553	1,713
Unrealized (gain) loss on foreign exchange forward contracts	(9)	154
Fair value loss (gain) on the embedded option	-	33
(Gain) loss on foreign exchange	(206)	(241)
Share-based compensation expense (recovery)	189	230
Impact of IFRS 16 leases	(697)	(702)
Adjusted EBITDA	$ 3,882	$ 1,987

OUTLOOK

For the first quarter of 2022, we continued to experience strong demand from commercial customers that service the retail grocery trade as many consumers chose to drink more coffee at home. The pivot to increased-at-home consumption first emerged during the early stages of the COVID-19 pandemic in the first half of 2020. Many organizations have now started to migrate away from the modified work-from-home model which has started to slow the growth of at-home consumption. However, in parallel to this, our sales to specialty roasters have grown significantly. During the first quarter, many of our specialty customers were ordering in-line, or exceeding pre-pandemic levels of activity.

We continue to see increased demand from customers that serve the out-of-home market through cafes and restaurants as many COVID-19 restrictions are relaxed or removed, and more and more people resume their normal activities. This has been particularly evident in North America where our food service customers have generally returned to normal operations.

Many countries and regions have seen their COVID-19 vaccination programs removed or they reduced their COVID restrictions. These jurisdictions include several states and major cities in the USA, which is our largest geographical segment. We are cautiously optimistic that these higher vaccination rates will reduce the scale of subsequent COVID-19 outbreaks and lower the risk of future demand disruption in some of our most important markets. It is particularly encouraging that our sales volumes in the Asia-Pacific region grew by 63%

in Q1 2022. That being said, the recent lockdown in Shanghai, China, is a reminder of the unforeseen consequences associated with this virus.

Despite signs of a robust recovery uncertainty does still persist. Given this ambiguity, we cannot reliably predict the ultimate impact that the COVID-19 pandemic will have on our business in 2022, particularly within the out-of-home market. Accordingly, the risk remains that Swiss Water may continue to report sales volumes that under-index recent trends. However, after a stronger than expected end to 2021 and a record opening quarter in 2022, we are cautiously optimistic that our volume growth will remain strong as we move through 2022.

On a more cautionary note, the recovery of the global economy combined with the negative impact of the conflict in Ukraine has placed significant stress on international supply chains and production costs. These developments are actively undermining the efficient movement of coffee from some growing regions, and we are experiencing delays in the delivery of some coffees to our production facilities. Furthermore, unusually cold weather in Brazil during July 2021 and later than expected rains in October 2021 have driven a sharp rise in the coffee futures price in recent quarters. High coffee prices can also have a destabilizing impact on the efficient movement of coffee inventories and will also result in significantly higher prices on retail grocery shelves. Historically sharp increases in retail pricing have resulted in demand destruction in grocery, which has the effect of decreasing volumes. We are paying close attention to these emerging risks and will implement necessary mitigation steps, as required, to ensure that our production schedules are not compromised as we move through 2022.

Operationally, Swiss Water ran both production lines at our legacy plant in Burnaby, BC on a 24/7 basis during Q1 2022. Since completing the first production run of commercial-grade coffee from our new decaffeination line in Delta, BC, in September 2020, we have been steadily transitioning a significant proportion of production volume to this new facility. Aside from scheduled maintenance in January 2022, Delta has been running on a 24/7 basis as we continue its optimization. However, record demand in the last three quarters drove higher than expected utilization of our legacy assets in Burnaby. During the last three quarters, the capacity utilization rate across all three of our current production lines regularly exceeded 80%. Operating at these elevated levels of production volume would not have been possible without the investment in our first production line in Delta. Furthermore, it provides a valuable insight into the value creation opportunity available when we operate at high-capacity utilization rates and supports our decision to invest in a second line in Delta.

As reported previously, in Q2 of 2020, the landlord of our Burnaby manufacturing site provided formal notice that our lease would not be extended beyond June 2023. This made clear the need for Swiss Water to build a second new decaffeination line in Delta in order to ensure our ability to meet customer demand is uninterrupted upon the conclusion of our Burnaby lease and to provide additional capacity for intermediate-term growth. Last summer we were issued the necessary building permits and began construction on the Delta expansion. The targeted completion date of this project is before the 2023 deadline for Burnaby. Based on engineering reports from a third-party engineering firm, when both are completed, the two lines in Delta are expected to have a targeted endpoint capacity at least 40% greater than the current existing capacity of the two lines at our Burnaby site.

The preliminary cost estimate from our third-party engineering firm for the design and construction of the second production line in Delta is approximately $45.0 million, plus commissioning costs, which are expected to be approximately $2.0 million. We are currently establishing the exit costs associated with permanently shutting down our Burnaby location. We are evaluating the costs associated with removing and relocating assets into storage for future use as compared to immediate asset disposal on a piece by piece basis. These costs will be outlined by the third quarter and the analysis of the values of the associated options will be completed then. These estimates are preliminary and like all major design and construction projects are highly dependent on local and global economic factors impacting construction. These include, without limitation, changes in labour, commodity and materials pricing, trade policies, and supply chain issues. In addition, the continuing impact of the worldwide COVID-19 pandemic is unknown and could impact the timing and costs of the project. In Q2 2021, we concluded a new financing agreement with BDC and FCC that will contribute $25.0 million towards this project. In Q2 of 2022, we amended our agreement with Mill Road Capital LLP to increase our senior debt covenant from $60 million to $65 million. In response to rapid growth, coupled with increased coffee prices, the Company is in discussions with parties to increase our working capital lines and find more efficient solutions to address coffee price fluctuations. To support this effort and allow more efficient credit mechanisms to be put in place, we are investigating numerous options to expand our current credit capacity including expansion of our working capital facility, enhancing hedging facilities, reconsidering the current definition of the senior debt limit, and opportunities for raising new capital.

BUSINESS OVERVIEW

Swiss Water Decaffeinated Coffee Inc. is a premium green coffee decaffeinator located in Burnaby and in Delta, British Columbia. We employ the proprietary Swiss Water® Process to decaffeinate green coffee without the use of chemical solvents, leveraging science-based systems and controls to produce coffee that is 99.9% caffeine free. Our process is certified organic by the Organic Crop Improvement Association and is the world's only consumer-branded decaffeination process. Decaffeinating premium green coffee without the use of harmful chemical solvents is our primary business.

Our Seaforth subsidiary provides a complete range of green coffee logistics services including devanning coffee received from origin; inspecting, weighing and sampling coffees; and storing, handling and preparing green coffee for outbound shipments. Seaforth provides all of Swiss Water's local green coffee handling and storage services. In addition, Seaforth handles and stores coffees for several other coffee importers and brokers and is the main green coffee handling and storage company in Metro Vancouver. Seaforth is organically certified by Ecocert Canada.

Swiss Water shares trade on the Toronto Stock Exchange under the symbol 'SWP'. As at the date of this report, 9,158,349 shares were issued and outstanding.

Swiss Water Decaffeinated Coffee's Business

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

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

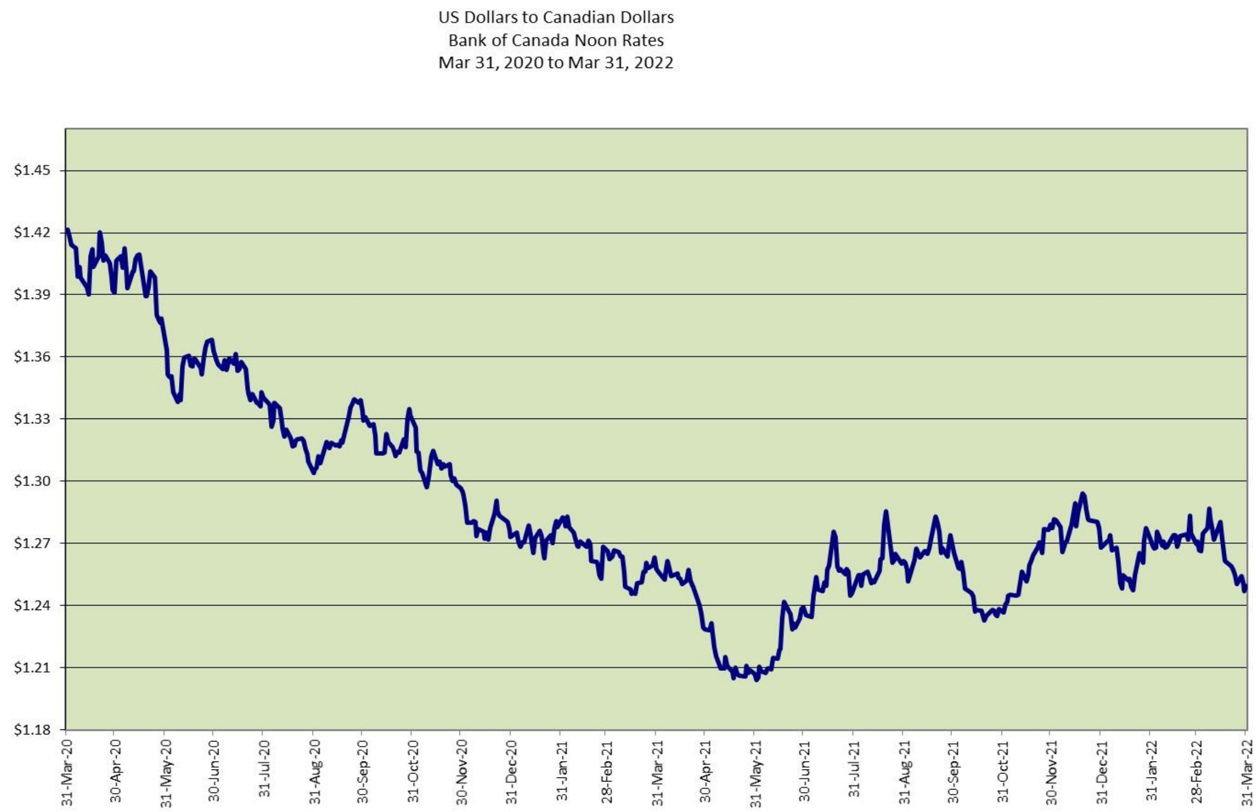
Our cost of sales is comprised primarily of the cost of green coffee purchased for our regular business, plant labour and other processing costs directly associated with our production facility. This incorporates an allocation of fixed overhead costs, which includes depreciation of our production equipment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

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

In Q1 2022, the NY'C' averaged US$2.3470/lb compared to an average of US$1.2710/lb in Q1 2021. The rise and fall of the NY'C' affects our volume of shipments, our revenues, our cost of sales, and our working capital requirements. In an upward trending market, our customers tend to consume their inventories rather than build them. When the NY'C' declines over a sustained period, our customers tend to add to their inventories. However, in Q1 of this year, customers built their inventory due to concerns about supply chain inefficiencies.

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 Q1 2022, the US$ averaged C$1.2662 compared to an average of C$1.2660 in Q1 2021. When the US$ depreciates (appreciates), it decreases (increases) our gross profit on green coffee revenues.

OPERATING RESULTS

Revenue

We categorize our customers by the nature of their business: either coffee importers or roasters. Coffee importers act like grocery stores to roasters, sourcing and importing green coffee from various origins and carrying a selection of different origins and quality levels for roasters to choose from. Importers buy from us in order to resell our coffees to roasters when and where they need it. Roasters are in the business of roasting and packaging coffee for sale to consumers in their own coffee shops, or for home or office use. Roasters either buy directly from Swiss Water, or they buy from an importer. Roasters generally carry lower inventories, as they tend to take delivery of green coffee shortly before roasting it. As such, when comparing period to period, shipments to roasters are more stable when compared to shipments to importers.

We also monitor and report our revenue in three categories. "Process revenue" represents the amount we charge our customers for decaffeinating green coffee, and it generally increases as our processing volumes increase. "Green coffee cost recovery revenue", or "green revenue", is the amount we charge our customers for the green coffee we purchase for decaffeination. "Distribution revenue" consists of shipping, handling, and warehousing charges billed to our customers. It typically rises with our processing volumes and with the growth of Seaforth's business.

Our revenue by category for the indicated period was:

In $000s (unaudited)		3 months ended March 31, 2022		2021
Process revenue	$	8,280	$	6,503
Green revenue		27,633		17,326
Distribution revenue		2,502		1,863
Total revenue	$	38,415	$	25,692

For the first quarter, sales totaled $38.4 million, an increase of $12.7 million or 50%, compared to Q1 2021 driven by increased volume demand from our customers and the impact of an increase in the New York Arabica Futures market.

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

- Process revenue increased by $1.8 million, or 27%, in Q1. This increase reflects growth in our processing volumes and prices.
- Green revenue increased by $10.3 million, or 59%, in Q1. This increase reflects higher green coffee sales volume and higher coffee futures price, NY'C'.
- Distribution revenue increased by $0.6 million, or 34%, in Q1. This increase reflects higher shipment volumes and capacity utilization rates in our Seaforth subsidiary.

The sales volume performance in the first quarter by geographical segment is as follows:

- Sales volume in North America increased by 18% in Q1.
- Sales volume in Europe increased by 3% in Q1 mainly due to delayed deliveries from global supply chain disruptions.
- Sales volume in Asia-Pacific increased by 63% in Q1.

Cost of Sales

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

For the first quarter, cost of sales totaled $32.7 million, an increase of $10.5 million or 47%, compared to Q1 2021. This was driven mainly by an increase in the cost of green coffee and increased production volumes.

Gross Profit

For the first quarter, gross profit totaled $5.8 million, an increase of $2.2 million or 62%, compared to Q1 2021. The improvement was primarily driven by higher trading volume, which in turn helped generate capacity utilization efficiencies. In addition, the Company benefited from a higher green coffee differential margin. Our Seaforth subsidiary also continues to operate at record levels of activity.

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

For the first quarter, administration expenses totaled $2.1 million, an increase of $0.3 million or 18%, compared to Q1 2021. The increase was driven by professional fees and salary expenses, as well as increased overall administrative expenses associated with running both the Delta and Burnaby facilities.

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 first quarter, sales and marketing expenses totaled $0.8 million, a decrease of $0.3 million or 25%, compared to Q1 2021. The decrease was driven by reduced salary expenses following the restructuring of various departments in the first quarter of 2021. There is an element of timing on spending for this category and a portion of this decrease may transfer to a subsequent quarter in 2022.

Gains and Losses on Risk Management Activities

Under hedge accounting, gains or losses on designated hedges are included in either revenue or cost of sales, held on the balance sheet, or included in other comprehensive income for future transactions (see 'Hedge Accounting', below). Thus, '(Loss) gain 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 first quarter, we recorded an insignificant loss compared to a loss of $0.1 million for the same period in 2021.

Finance Expenses and Income

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

For the first quarter, net finance expenses totaled $1.1 million compared to $0.9 million for the same period in 2021. The increase primarily relates to a higher interest rate on our debenture with warrants, as well as a higher outstanding balance on our construction loans and credit facility.

On July 20, 2021, we amended our convertible debenture agreement with Mill Road Capital into a debenture with warrants. Until the amendment, the interest on the 2016 convertible debenture agreement was expensed at an effective interest rate of 12.15% (a rate determined in accordance with IFRS), while the contractual interest paid on this loan was at a rate of 6.85%, causing the amortization of the bond discount to change over time. The new agreement effective July 20, 2021, with Mill Road Capital has an effective interest rate of 16.19% and a contractual interest paid rate of 9%. There is also an additional 1.5% interest calculated quarterly to be paid at the debt maturity date. Refer to note 9.2 of the condensed consolidated interim financial statements for more details on the amended debt agreement with Mill Road Capital.

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 first quarter, a foreign exchange gain remained flat at $0.2 million.

Fair Value Adjustment on Embedded Option

Before the amendment to the borrowing on July 20, 2021, Swiss Water had a convertible debenture agreement with Mill Road Capital, which was entered into in October 2016. Under IFRS, this instrument was deemed to contain an embedded option that was revalued at each balance sheet date. The fair value of the derivative liability was determined using the Black-Scholes Option Pricing Model. The variables and assumptions used in computing the fair value are based on management's best estimate at each balance sheet date.

The revaluation of this embedded option resulted in a loss of $0.03 million in Q1 2021. There is no such balance in 2022 as a result of the amended debt agreement dated July 20, 2021. Refer to the borrowing note in the condensed consolidated interim financial statements for more details on the amended debt agreement with Mill Road Capital.

Income Before Taxes and Net Income

For the first quarter, we recorded net income before taxes of $1.9 million compared to a net loss before taxes of $0.1 million for the same period in 2021. Current income tax expense increased mainly due to our increase in net income before taxes. Deferred income tax arises mainly from temporary differences between the depreciation and amortization expenses deducted for accounting purposes, and the capital cost allowances deducted for tax purposes, as well as changes in corporate income tax rates as adjusted for substantively enacted higher future tax rates. The latter is offset by the tax benefit of loss carryforwards recognized. Overall, we recorded a net income of $1.4 million in Q1 2022 compared to a net loss of $0.1 million for the same period in 2021.

Other Comprehensive Income

Gains or losses on our designated revenue hedges that will mature in future periods are recorded in other comprehensive income, net of income tax expense. Other comprehensive income, net of tax, for the first quarter was a gain of $0.2 million compared to a gain of $0.4 million for the same period in 2021. Increases and decreases are related to fluctuations in the value of the Canadian dollar versus the US dollar.

Basic and Diluted Earnings per Share

Basic earnings per share are calculated by dividing net income by the basic weighted average number of shares outstanding during the period. Similarly, diluted earnings per share are calculated by dividing net income adjusted for the effects of all dilutive potential common shares, by the diluted weighted average number of shares outstanding. For the purposes of the calculation in Q1 2021, under IFRS we are required to assume that the maximum number of shares issuable under the convertible debenture will be issued.

For the first quarter of 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 per share data (unaudited)	3 months ended March 31, 2022	2021
Basic earnings per share		
Net income (loss) attributable to shareholders	$ 1,385	$ (96)
Weighted average number of shares	9,141,874	9,099,703
Basic earnings per share	$ 0.15	$ (0.01)
Diluted earnings per share		
Net income (loss) attributable to shareholders	1,385	(96)
Net income (loss) aftereffect of diluted securities	$ 1,385	$ (96)
Weighted average number of shares – basic	9,141,874	9,099,703
Weighted average number of shares - diluted	9,141,874	9,099,703
Diluted earnings per share	$ 0.15	$ (0.01)

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 global pandemic masked the typical seasonality pattern in 2020; however, this trend re-emerged in 2021 and is expected to continue in 2022.

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

In $000s except for per share amounts (unaudited)	8 Quarter Average	Q1 2022	Q4 2021	Q3 2021	Q2 2021	Q1 2021	Q4 2020	Q3 2020	Q2 2020
Sales	29,906	38,415	35,129	35,496	28,759	25,692	24,512	24,862	26,380
Gross Profit	4,353	5,763	4,389	6,018	3,652	3,552	2,861	3,431	5,154
Operating income	1,584	2,880	1,517	3,325	1,106	738	126	606	2,370
Adjusted EBITDA[1]	2,434	3,882	2,111	3,974	2,461	1,987	1,186	1,335	2,536
Net income (loss)	423	1,385	241	135	216	(96)	(320)	106	1,716
Per Share[2]									
Net income (loss) - basic	0.05	0.15	0.03	0.01	0.02	(0.01)	(0.04)	0.01	0.19
Net income (loss) - diluted	0.05	0.15	0.03	0.01	0.02	(0.01)	(0.04)	0.01	0.19

[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

The Company has a revolving credit facility agreement for up to $30.0 million. As of March 31, 2021 amounts drawn on the credit facility total $23.7 million (2021: $23.4 million) and are classified as a part of current liabilities in the consolidated statement of financial position as the Credit Facility matures on October 18, 2022. The Credit Facility can be extended, subject to lenders’ approval. There is a risk that the Company may not be able to extend or renew the Credit Facility or renew on the same credit terms at the time of maturity.

Operating activities

For the first quarter, net cash generated from operating activities was $0.9 million compared to net cash generated of $0.2 million for the same period in 2021. Cash inflows from operations were partially offset by cash outflows required to produce decaffeinated coffee inventory and to pay for received inventory stock.

Investing Activities

For the first quarter, net cash used in investing activities was $5.0 million compared to net cash used of $2.7 million for the same period in 2021. In both periods, the majority of cash used was for capital expenditures associated with the second production line in Delta, BC. During Q1 2022 we also recovered $1.3 million in cash from a construction contractor which is related to equipment on the first production line in Delta, BC (2021: nil).

Financing Activities

For the first quarter, net cash generated from financing activities was $2.8 million compared to net cash generated of $1.8 million for the same period in 2021. During Q1 2022, we received proceeds net of repayment from our credit facility in the amount of $0.2 million (2021: $2.2 million). During Q1 2022, we received proceeds from construction loans in the amount of $3.0 million (2021: nil).

Inventory

Our inventory increased by $9.0 million or 25% between December 31, 2021, and March 31, 2022. The increase reflects a higher NY'C' combined with a higher volume of coffee inventory on hand.

Under hedge accounting, gains and losses on derivative instruments for coffee to be sold in future periods are recorded in inventory. The hedge accounting component of inventory as at March 31, 2022, was a gain of $2.1 million compared to a gain of $3.8 million as at December 31, 2021.

Accounts Receivable

Our accounts receivable increased by $6.1 million or 43% between December 31, 2021, and March 31, 2022. 91% of Swiss Water accounts receivable are current as at March 31, 2022. The majority of past due amounts were collected shortly after quarter end.

Credit Facilities and Liquidity

On October 18, 2019, Swiss Water entered into a revolving credit facility agreement ("Credit Facility"), with a Canadian Bank, for borrowings up to the lower of the Borrowing Base and $30.0 million. The Credit Facility's Borrowing Base margins eligible inventories and accounts receivable, commodity hedging account equity margin plus our market-to-market gains, which are netted against any losses in the commodity account and foreign exchange contract facility. Amounts can be drawn in either Canadian or in US$ dollars and can be borrowed, repaid, and re-borrowed to fund operations, capital expansions, letters of credit and for general corporate purposes. The maturity date is October 18, 2022; however, we can repay the Credit Facility at any time on or before the maturity date as long as the outstanding balance is not in excess of the borrowing base. The maturity date can be extended, subject to the lenders' approval. There is a risk that the Company may not be able to extend or renew the Credit Facility or renew on the same credit terms at the time of maturity.

The Credit Facility has multiple interest rate options that are based on the Canadian Prime Rate, Base Rate, LIBO Rate, Bankers' Acceptance Rate plus an acceptance fee, in addition to an Applicable Margin for each of these rates. Fees apply to outstanding letters of credit and the unused portion of the credit. Swiss Water has pledged substantially all of our assets, except for assets pledged to BDC under the Term Loan (see below, Construction Loan).

In addition, as a part of the Credit Facility, we have a US$8.0 million foreign exchange and commodity futures contract facility, which allows us to enter into spot, forward and other foreign exchange rate transactions with our bank with a maximum term of 60 months.

Our facilities are collateralized by general security agreements over all of the assets of Swiss Water and a floating hypothecation agreement over cash balances.

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

Construction Loans with BDC and FCC

In Q4 2018, the Company completed a transaction with the Business Development Bank of Canada ("BDC") for a term loan facility ("Term Loan") of up to $20.0 million. The purpose of the Term Loan 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 began on July 1, 2021, and matures on June 1, 2033.

On June 3, 2021, the Company completed a financing transaction by increasing the existing term to $45.0 million from the existing $20.0 million to provide funding for the planned construction of a second production line at the Delta location. The financing was provided by Business Development Corp ("BDC") and Farm Credit Canada ("FCC") in a Pari Passu structure. Each lender will fund 50% of the $45.0 million total loan value. The original borrowing with BDC will increase from $20.0 million to $22.5 million ("BDC Amended Term Loan") and FCC will also fund $22.5 million ("FCC Term Loan"). Upon closing of the transaction, the Company's outstanding debt to each party, FCC and BDC, was $10 million. FCC paid $10.0 million to BDC on the Company'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 the construction loans to FCC and BDC. As of March 31, 2022, the construction loans amount outstanding was $33.8 million including interest accrued of $0.1 million.

Debenture with Warrants/Convertible Debenture with Mill Road Capital

On July 20, 2021, Swiss Water amended the $15.0 million convertible debenture agreement with MRC 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 MRC to purchase up to 2.25 million common shares at a price of $3.33 per share. The warrants expire on October 31, 2024.

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

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

On April 22, 2022, the Company entered into an amended agreement with MRC to revise our senior debt limit from $60.0 million to $65.0 million.

Contractual Obligations

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

(In $000s) (unaudited)	Total	Less than 1 year	2-3 years	4-5 years	Over 5 years
Long-term debt[1]	$ 49,034	$ 119	$ 18,118	$ 7,895	$ 22,902
Financing leases[2]	29,382	2,790	5,061	5,100	16,431
Credit facility[3]	23,775	23,775	-	-	-
Purchase obligations[4]	86,969	86,969	-	-	-
Total contractual obligations	$ 189,160	$ 113,653	$ 23,179	$ 12,995	$ 39,333

[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, which matures in 2022, where the maturity date can be extended subject to the lenders' approval.
[4] Purchase obligations represent outstanding capital, and coffee 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. On March 22, 2022, we exercised our first extension option to renew our lease at in Delta for another five years until the year 2028.

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

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

Swiss Water leases a facility in Burnaby that houses our decaffeination plant and offices. The lease expires in June 2023.

Swiss Water Decaffeinated Coffee Company USA, Inc. leased a sales office in Seattle, Washington. During the three months ended March 31, 2022, the Company exited our Seattle Washington office lease, and the Company recognized a negligible loss in the statement of income. The lease was set to expire on October 31, 2022.

Seaforth leases a truck. The lease expires in April 2023.

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

OFF-BALANCE SHEET ARRANGEMENTS

Swiss Water has no off-balance sheet arrangements.

RELATED PARTY TRANSACTIONS

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

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

(In $000s)	3 months ended March 31,	
(unaudited)	2022	2021
Sales	$ 355	$ 196
Purchases of raw materials	$ 2,031	$ 194

All transactions were in the normal course of operations and were measured at the fair value of the consideration received or receivable, which was established and agreed to by the related parties. As at March 31, 2022, our accounts receivable balance with this company was $0.03 million (December 31, 2021: $0.04 million) while our accounts payable balance with this company was $0.8 million (December 31, 2021: $nil).

On October 26, 2021, the Company and a member of key management ("borrower") entered into a promissory note in the amount of US$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 March 31, 2022, the loan balance was $0.04 million (2021: $0.07 million).

RISKS AND UNCERTAINTIES

Cash from operations may fluctuate with the performance of the business, which can be susceptible to a number of risks. These risks may include, but are not limited to, foreign exchange fluctuations, labour relations, coffee prices (notwithstanding hedging programs, as exact hedging correlation is not attainable), the availability of coffee, competition from existing chemical and other natural or chemical free coffee decaffeinators, competition from new entrants with alternate processing methods or agricultural technologies, environmental and regulatory risks, terms of credit agreements, commodity futures losses, ability to maintain organic certification, adequacy of insurance, risks related to information technology, dependence on key personnel, product liability, uncollectable debts, liquidity risk and timing and costs of capital projects including the construction of the second line at the Delta facility and general economic downturns. These risks and how Swiss Water manages them are described in the AIF. The future effect of these risks and uncertainties cannot be quantified or predicted.

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

Swiss Water's operations may be negatively impacted in the event of a local or global outbreak of disease, such as the novel coronavirus, COVID-19 outbreak pandemic declared in March 2020. A pandemic may impact demand for our products and services and the capability of our supply chains. It may also impact expected credit losses on our amounts due from customers and whether the entity continues to meet the criteria for hedge accounting. For example, if a hedged forecast transaction is no longer highly probable to occur, hedge accounting would be discontinued.

CHANGES IN ACCOUNTING STANDARDS

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

- IFRS 9/ IAS 39 and IFRS 7 (phase 2) were amended to address issues arising from the implementation of interest rate benchmark reform ("IBOR"), including the replacement of one benchmark with an alternative one. The Company has not currently transitioned our agreements to address IBOR reform. Currently, the Credit Facility, under the Borrowings note, is exposed to LBOR which is currently scheduled to cease publication in the near future. We will continue to monitor developments on alternative benchmark interest rates and we expect to transition to alternative rates as the widespread market practice is established. We do not expect the replacement to result in a significant change to our risk management strategy.
- IFRS 1 amended the exemption in IFRS 1.D16(a) to allow a subsidiary adopting IFRS at a later date than its parent to also measure cumulative translation differences using the amounts reported by the parent based on the parent's date of transition to IFRS.
- IFRS 16 amended illustrative example 13 to remove the illustration of payments from the lessor related to leasehold improvements.
- IFRS 3 – Reference to Conceptual Framework was amended to (i) replace references to the 2001 Conceptual Framework for Financial Reporting to the 2018 Conceptual Framework for Financial Reporting in order to determine what constitutes an asset or liability in a business combination, (ii) add a new exception for certain liabilities and contingent liabilities to refer to IAS 37 or IFRIC 21 rather

than the 2018 Conceptual Framework, and (iii) clarify that an acquirer should not recognize contingent assets at the acquisition date.

- IAS 37 – Onerous contracts – Cost of fulfilling a contract was amended to clarify (i) the meaning of “costs to fulfil a contract”, and (ii) that, before a separate provision for an onerous contract is established, an entity recognizes any impairment loss that has occurred on assets used in fulfilling the contract, rather than on assets dedicated to that contract.
- IAS 16 – Proceeds before intended use was amended to (i) prohibit an entity from deducting from the cost of an item of PP&E any proceeds received from selling items produced while the entity is preparing the asset for its intended use (for example, the proceeds from selling samples produced when testing a machine to see if it is functioning properly), (ii) clarify that an entity is “testing whether the asset is functioning properly” when it assesses the technical and physical performance of the asset and (iii) require certain related disclosures.

There are a number of changes in accounting standards not yet effective. The Company does not anticipate a material impact on our financial statements:

- IAS 12 - Deferred taxes related to assets and liabilities arising from a single transaction.
- IFRS 1 was amended to require companies to recognize deferred tax on particular transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. Consequential amendment to IFRS 1 to add an exception to retrospective application.
- IAS 1 - Accounting policy disclosures; Changes in estimates vs accounting policies.
- IAS 8 - Narrow scope amendments to improve accounting policy disclosures, and to distinguish changes in accounting estimates from changes in accounting policies.
- IAS 1 – Classification of liabilities as current or non-current was amended to clarify how to classify debt and other liabilities as either current or non-current.

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/ convertible debenture and other liabilities are classified as other financial liabilities and are measured at amortized cost using the effective interest rate method. Interest expense is recorded in the consolidated statement of income, as applicable.

Commodity Price Risk

Commodity price risk is the risk that the fair value of inventory or future cash flows will fluctuate as a result of changes in commodity prices. The Company utilizes futures contracts to manage our commodity price exposure. The Company buys and sells 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 March 31, 2022, the Company had futures contracts to buy 7.1 million lbs of green coffee with a notional value of US$15.9 million, and contracts to sell 15.8 million lbs of green coffee with a notional value of US$34.8 million. The furthest contract matures in December 2022. (December 31, 2021: buy 1.7 million lbs of green coffee with a notional value of US$3.1 million, and contracts to sell 11.8 million lbs of green coffee with a notional value of US$25.1 million). An estimated 1% decrease in the mark-to-market rate applied to coffee futures would have resulted in an estimated gain of $0.2 million to the net income before tax, and vice versa.

Foreign Currency Risk

We realize a significant portion of our revenues in US$ and we purchase green coffee in US$ which is, in some cases, sold to customers in Canadian dollars. The Company 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 March 31, 2022, the Company had forward currency contracts to buy US$7.4 million and sell US$39.9 million (December 31, 2021: buy US$8.0 million and sell US$47.7 million) from April 2022 through to February 2025 at various Canadian exchange rates ranging from $1.2400 to $1.3626. 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.

As at March 31, 2022, the Company designated as hedging instruments US$7.2 million in forward contracts to buy US dollars, which relate to coffee purchases (December 31, 2021: US$7.0 million). As at March 31, 2022, the Company designated as hedging instruments US$0.2 million in forward contracts to buy US dollars, with the purpose to purchase equipment for the new production line (2021: US$1.0 million). As at March 31, 2022, the Company designated as hedging instruments US$23.4million in forward contracts to sell US dollars, which relate to highly probable forecasted sales revenue (December 31, 2021: US$27.3 million).

SUBSEQUENT EVENTS

Subsequent to March 31, 2022, of the RSUs vested during the quarter, an employee elected that 520 of RSUs are to be settled through the issuance of common shares.

On April 22, 2022, the Company entered into an amended agreement with MRC to revise our senior debt limit from $60.0 million to $65.0 million.

INTERNAL CONTROLS OVER FINANCIAL REPORTING & DISCLOSURE CONTROLS AND PROCEDURES

The Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") of Swiss Water are responsible for establishing and maintaining adequate internal control over financial reporting ("ICFR") to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Under the supervision and with the participation of management, we conducted an evaluation of the design and effectiveness of our ICFR as of March 31, 2022, based on the updated framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO 2013"). Based on this assessment, the CEO and CFO concluded that, as of March 31, 2022, Swiss Water's ICFR was effective.

The CEO and CFO are also responsible for establishing and maintaining adequate disclosure controls and procedures. Disclosure controls and procedures are controls and other procedures designed to provide reasonable assurance that information required to be disclosed in documents filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation and includes controls and procedures designed to ensure that information required to be disclosed in documents filed or submitted under securities legislation is accumulated and communicated to Swiss Water's management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

The CEO and CFO evaluated or caused to be evaluated under supervision, the effectiveness of our disclosure controls and procedures and based on this evaluation, the CEO and CFO concluded that, as of March 31, 2022, Swiss Water's disclosure controls and procedures were effective. There were no changes in our ICFR that occurred during the period beginning on January 1, 2022, and ended on March 31, 2022, that have materially affected or are reasonably likely to materially affect, Swiss Water's ICFR.