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

## For the Three Months Ended March 31, 2023

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying unaudited interim condensed consolidated financial statements of Swiss Water Decaffeinated Coffee Inc. (the "Company") for the three month period ended March 31, 2023 and 2022 are the responsibility of the management and Board of Directors of the Company.

These unaudited condensed consolidated interim financial statements have been prepared by management, on behalf of the Board of Directors, in accordance with the accounting policies disclosed in the notes to the unaudited condensed consolidated interim financial statements. Where necessary, management has made informed judgments and estimates in accounting for transactions, which were not complete at the statement of financial position date. In the opinion of management, the unaudited condensed consolidated interim financial statements have been prepared within acceptable limits of materiality and are in accordance with International Accounting Standard 34 - Interim Financial Reporting of International Financial Reporting Standards as issued by the International Accounting Standards Board, using accounting policies consistent with International Financial Reporting Standards appropriate in the circumstances.

Management has established systems of internal control over the financial reporting process, which are designed to provide reasonable assurance that relevant and reliable financial information is produced.

The Board of Directors is responsible for reviewing and approving the unaudited condensed consolidated interim financial statements together with other financial information of the Company and for ensuring that management fulfills its financial reporting responsibilities. The Company's Audit Committee assists the Board of Directors in fulfilling this responsibility. The Audit Committee meets with management to review the financial reporting process and the unaudited condensed consolidated interim financial statements together with other financial information of the Company. The Audit Committee reports its findings to the Board of Directors for its consideration in approving these unaudited condensed consolidated interim financial statements together with other financial information of the Company for issuance to the shareholders.

Management recognizes its responsibility for conducting the Company's affairs in compliance with established financial standards, and applicable laws and regulations, and for maintaining proper standards of conduct for its activities.

*"**Frank Dennis**" (signed)*
President & Chief Executive Officer
Delta, British Columbia, Canada

*"**Iain Carswell**" (signed)*
Chief Financial Officer

## NOTICE TO READER

The accompanying unaudited condensed consolidated interim financial statements of Swiss Water Decaffeinated Coffee Inc. have been prepared by and are the responsibility of management. These unaudited condensed consolidated interim financial statements have been prepared using accounting policies in compliance with International Financial Reporting Stands for the preparation of the condensed interim financial statements and are in accordance with IAS 34 - Interim Financial Reporting as issued by the International Accounting Standards Board. These unaudited condensed consolidated interim financial statements for the three months ended March 31, 2023, have not been reviewed by the Company's independent auditor.

# SWISS WATER DECAFFEINATED COFFEE INC.

## Condensed Consolidated Interim Statements of Financial Position as at

(Tabular amounts are in thousands of Canadian dollars)
(Unaudited)

| | Note | March 31, 2023 | December 31, 2022 |
|---|---|---|---|
| **Assets** | | | |
| Current assets | | | |
| Cash | | $ 1,790 | $ 3,761 |
| Accounts receivable | 4 | 25,628 | 20,732 |
| Inventories | 5 | 59,692 | 60,248 |
| Prepaid expenses and other receivables | | 1,069 | 1,081 |
| Derivative assets and hedged firm commitments | 6, 18 | 3,535 | 4,590 |
| Total current assets | | 91,714 | 90,412 |
| Non-current assets | | | |
| Receivables | | 160 | 209 |
| Property, plant and equipment | 7 | 133,187 | 128,123 |
| Intangible assets | | 43 | 110 |
| Deferred tax assets | | 139 | 139 |
| Derivative assets | 6, 18 | 32 | 46 |
| Total non-current assets | | 133,561 | 128,627 |
| Total assets | | $ 225,275 | $ 219,039 |
| **Liabilities and shareholders' equity** | | | |
| Current liabilities | | | |
| Accounts payable and accrued liabilities | 8 | $ 32,622 | $ 35,371 |
| Borrowings | 9 | 233 | 191 |
| Asset retirement obligation | 17 | 1,237 | 1,334 |
| Other liabilities | | 1,118 | 554 |
| Lease liabilities | 10 | 1,620 | 1,671 |
| Derivative liabilities and hedged firm commitments | 6, 18 | 895 | 1,607 |
| Total current liabilities | | 37,725 | 40,728 |
| Non-current liabilities | | | |
| Other liabilities | | 24 | 208 |
| Borrowings | 9 | 104,990 | 95,563 |
| Borrowings embedded option | 9 | 2,397 | 1,429 |
| Lease liabilities | 10 | 17,851 | 18,256 |
| Asset retirement obligation | | 2,885 | 2,846 |
| Deferred tax liabilities | | 4,628 | 4,758 |
| Derivative liabilities | 6, 18 | 254 | 345 |
| Total non-current liabilities | | 133,029 | 123,405 |
| Total liabilities | | 170,754 | 164,133 |
| Shareholders' equity | | | |
| Share capital | 11 | $ 44,318 | $ 44,194 |
| Share-based compensation reserve | | 337 | 375 |
| Accumulated other comprehensive (loss) income | | (467) | (697) |
| Retained earnings | | 10,333 | 11,034 |
| Total equity | | 54,521 | 54,906 |
| Total liabilities and shareholders' equity | | $ 225,275 | $ 219,039 |

Commitments (Note 19)
Subsequent events (Note 20)
Approved on behalf of the Board: (signed) "***Alan Wallace*** ", Director (signed) "***Frank Dennis*** ", Director

# SWISS WATER DECAFFEINATED COFFEE INC.

**Condensed Consolidated Interim Statements of Income**

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

| | Note | 3 months ended March 31, 2023 | 3 months ended March 31, 2022 |
|---|---|---|---|
| Revenue | 12, 16 | $ 49,045 | $ 38,415 |
| Cost of sales | | (44,151) | (32,652) |
| Gross profit | | 4,894 | 5,763 |
| Operating expenses | | | |
| Administration expenses | | (2,697) | (2,105) |
| Sales and marketing expenses | | (773) | (778) |
| Total operating expenses | | (3,470) | (2,883) |
| Operating income | | 1,424 | 2,880 |
| Non-operating or other | | | |
| Gain (loss) on risk management activities | | 111 | (34) |
| Loss on fair value of embedded option | 9.2 | (968) | - |
| Finance income | | 437 | 71 |
| Finance expense | | (1,837) | (1,209) |
| (Loss) gain on foreign exchange | | (84) | 206 |
| Total non-operating or other | | (2,341) | (966) |
| (Loss) income before tax | | (917) | 1,914 |
| Income tax recovery (expense) | | 216 | (529) |
| **Net (loss) income** | | $ (701) | $ 1,385 |
| **(Loss) earnings per share** | | | |
| Basic and diluted (loss) earnings per share | 15 | $ (0.08) | $ 0.15 |

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

(Tabular amounts are in thousands of Canadian dollars)
(Unaudited)

**Condensed Consolidated Interim Statements of Comprehensive (Loss) Income**

| For the | 3 months ended March 31, 2023 | 3 months ended March 31, 2022 |
|---|---|---|
| **Net (loss) income** | $ (701) | $ 1,385 |
| **Other comprehensive (loss) income, net of tax** | | |
| Items that may be subsequently reclassified to income: | | |
| Unrealized (loss) gain | | |
| Derivatives designated as cash flow hedges - currency risk hedges on US$ future revenue | (1) | 396 |
| Items reclassified to income: | | |
| Realized gain (loss) recognized in income | | |
| Derivatives designated as cash flow hedges | | |
| - currency risk hedges on US$ future revenue, recognized in revenue | 313 | (108) |
| Other comprehensive income related to hedging activities | 312 | 288 |
| Tax expense on other comprehensive income relating to hedging activities | (84) | (78) |
| Cumulative translation adjustment | 2 | (11) |
| **Other comprehensive income, net of tax** | 230 | 199 |
| **Net (loss) income and other comprehensive (loss) income** | $ (471) | $ 1,584 |

**Condensed Consolidated Interim Statements of Changes in Equity**

| | Note | Share capital: Shares | Share capital: Amount | Warrants | Share-based compensation reserve | Accumulated other comprehensive income | Retained earnings | Total equity |
|---|---|---|---|---|---|---|---|---|
| **Balance at December 31, 2021** | | **9,129,673** | **$ 43,992** | **$ 1,773** | **$ 351** | **$ 832** | **$ 8,647** | **$ 55,595** |
| Shares issued for restricted share units | | 28,156 | 132 | - | (132) | - | - | - |
| Settlement of loan with restricted share units | | - | - | - | (40) | - | - | (40) |
| Share-based compensation | | - | - | - | 57 | - | - | 57 |
| Net income and other comprehensive income | | - | - | - | - | 199 | 1,385 | 1,584 |
| **Balance at March 31, 2022** | | **9,157,829** | **$ 44,124** | **$ 1,773** | **$ 236** | **$ 1,031** | **$ 10,032** | **$ 57,196** |
| **Balance at December 31, 2022** | | **9,165,815** | **$ 44,194** | **$ -** | **$ 375** | **$ (697)** | **$ 11,034** | **$ 54,906** |
| Shares issued for restricted share units | 11.4 | 47,140 | 124 | - | (124) | - | - | - |
| Settlement of loan with restricted share units | | - | - | - | (27) | - | - | (27) |
| Share-based compensation | | - | - | - | 113 | - | - | 113 |
| Net loss and other comprehensive income | | - | - | - | - | 230 | (701) | (471) |
| **Balance at March 31, 2023** | | **9,212,955** | **$ 44,318** | **$ -** | **$ 337** | **$ (467)** | **$ 10,333** | **$ 54,521** |

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

## Condensed Consolidated Interim Statements of Cash Flows For the

(Tabular amounts are in thousands of Canadian dollars)
(Unaudited)

| | Note | 3 months ended March 31, 2023 | 3 months ended March 31, 2022 |
|---|---|---|---|
| **Operating activities** | | | |
| Net (loss) income | | $ (701) | $ 1,385 |
| Items not affecting cash: | | | |
| Depreciation and amortization | | 3,582 | 1,552 |
| Share-based compensation expense | | 493 | 189 |
| Unrealized loss (gain) on risk management activities | | 74 | (9) |
| Unrealized loss on fair value of embedded option | 9.2 | 968 | - |
| Finance income | | (437) | (71) |
| Finance expense | | 1,837 | 1,209 |
| Income tax (recovery) expense | | (216) | 529 |
| Other | | 51 | (63) |
| | | 5,651 | 4,721 |
| Change in non-cash working capital relating to operating activities | 17 | (6,028) | (2,940) |
| **Net cash (used in) generated from operations** | | **(377)** | **1,781** |
| Interest received | | 297 | 43 |
| Interest paid | 17 | (1,226) | (898) |
| **Net cash (used in) generated from operating activities** | | **(1,306)** | **926** |
| **Investing activities** | | | |
| Additions to plant and equipment | 17 | (8,300) | (6,233) |
| Recovery of costs related to equipment | | - | 1,250 |
| **Net cash used in investing activities** | | **(8,300)** | **(4,983)** |
| **Financing activities** | | | |
| Payment of lease liabilities | | (455) | (425) |
| Proceeds from credit facility | | 2,600 | 1,200 |
| Repayments of credit facility | | - | (1,000) |
| Proceeds from construction loans | | 5,842 | 2,990 |
| Transaction costs related to debt financing activities | | (352) | - |
| **Net cash generated from financing activities** | | **7,635** | **2,765** |
| **Decrease in cash and cash equivalents** | | (1,971) | (1,292) |
| **Cash and cash equivalents, beginning of the period** | | 3,761 | 4,250 |
| **Cash and cash equivalents, end of the period** | | $ 1,790 | $ 2,958 |

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

## 1. NATURE OF BUSINESS AND LIQUIDITY

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

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

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

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

## 2. BASIS OF PREPARATION

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

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

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

These condensed consolidated interim financial statements for the three months ended March 31, 2023 were approved for issuance by the Company's Directors on May 8, 2023. There were no significant non-adjusting events that occurred between the reporting date and the date of authorization, except as disclosed in Note 20 'Subsequent Event'.

### 2.1 New and amended standards

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

- IFRS 1 was amended to require companies to recognize deferred tax on particular transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. The consequential amendment to IFRS 1 is to add an exception to retrospective application.

- IAS 1 has changes to accounting policy disclosures in changes in estimates vs accounting policies.
- IAS 8 contains a narrow scope of amendments to improve accounting policy disclosures and to distinguish changes in accounting estimates from changes in accounting policies.
- IAS 12 was amended to require companies to recognize deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences.

**2.2 New and amended standards not yet effective**

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

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

## 3. CAPITAL MANAGEMENT

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

## 4. ACCOUNTS RECEIVABLE

Accounts receivable are amounts due from customers for goods sold or services performed in the ordinary course of business. Information about the Company's exposure to foreign currency risk, interest rate risk and credit risk can be found in the 'Financial risk management' note. The Company monitors lifetime expected credit losses using the simplified approach, which is determined based on historic and adjusted relevant forward-looking information. The Company's customers have a negligible default rate and the Company's experience in both frequency and amount of losses are not significant. As a result, the expected credit losses provision as at March 31, 2023 was $0.05 million (December 31, 2022: $0.1 million).

## 5. INVENTORIES

During the three months ended March 31, 2023, the cost of inventories recognized in cost of sales was $39.6 million (2022: $31.1 million). The hedge accounting component represents the derivative adjustment related to designated hedges for inventory on hand as at each period. As at March 31, 2023, the inventory provision was $0.3 million (December 31, 2022: $0.2 million).

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

| | | March 31, 2023 | | December 31, 2022 |
|---|---|---|---|---|
| Raw materials | $ | 34,543 | $ | 38,177 |
| Finished goods | | 28,142 | | 28,517 |
| Carbon | | 580 | | 496 |
| Packaging | | 319 | | 490 |
| Hedge accounting component | | (3,892) | | (7,432) |
| | $ | 59,692 | $ | 60,248 |

## 6. DERIVATIVE FINANCIAL INSTRUMENTS

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

| | | | March 31, 2023 | | December 31, 2022 |
|---|---|---|---|---|---|
| Net coffee futures contracts | | $ | 3,297 | $ | 3,288 |
| Net US dollar forward contracts, current | | | 61 | | 455 |
| US dollar forward contracts, long-term | | | - | | (285) |
| Borrowings embedded option | Note 9.2 | | (2,397) | | (1,429) |
| | | $ | 961 | $ | 2,029 |

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

| | | March 31, 2023 | | December 31, 2022 |
|---|---|---|---|---|
| Net US dollar forward contracts, current | $ | (471) | $ | (991) |
| Net US dollar forward contracts, long-term | | (222) | | (14) |
| | $ | (693) | $ | (1,005) |

## 7. PROPERTY, PLANT AND EQUIPMENT

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

| | | March 31, 2023 | | December 31, 2022 |
|---|---|---|---|---|
| Property, plant and equipment | $ | 116,293 | $ | 110,694 |
| Right-of-use assets | | 16,894 | | 17,429 |
| | $ | 133,187 | $ | 128,123 |

### 7.1 Property, plant and equipment

Property, plant and equipment net additions during the three months ended March 31, 2023 consisted of $8.6 million (2022: $9.8 million).

For the three months ended March 31, 2023, the depreciation charges were $3.0 million (2022: $0.9 million), of which $2.9 million was charged to cost of sales (2022: $0.8 million), while $0.1 million was included in administrative expense (2022: $0.1 million) and $0.04 million was allocated to inventory (2022: $0.2 million).

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

Effective January 1, 2023, the Company reduced the estimated useful life of the non-salvaged assets located at its production facility in Burnaby, BC, by 12 years. The useful life of these assets was re-aligned against the final production date at the site, which is forecasted to be April 2023. At the time of the change in the estimate, these assets had a net book value of approximately $3.0 million. The financial impact of the change in the estimate was an incremental depreciation expense of $2.1 million for the period ended March 31, 2022. The impact of this change is reflected within the $3.0 million depreciation charge for the three months ended March 31, 2023. This change in estimate has been applied prospectively. There was no such change in estimate during the comparative three month period in 2022.

During the three months ended March 31, 2022, the Company received from vendors $1.3 million in cash, which related to reimbursements received following the construction of the first production line in Delta. These proceeds were recorded as a reduction in plant and equipment. There were no such proceeds in 2023.

### 7.2 Right-of-use assets

For the three months ended March 31, 2023, total depreciation expense was $0.5 million (2022: $0.5 million), of which $0.4 million was charged to cost of sales (2022: $0.4 million) and $0.1 million was included in administrative expense (2022: $0.1 million).

## 8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities comprise the following:

| | | March 31, 2023 | | December 31, 2022 |
|---|---|---|---|---|
| Accounts payable | $ | 25,243 | $ | 27,043 |
| Accrued liabilities | | 7,244 | | 8,186 |
| Income tax payable | | 138 | | 142 |
| | $ | 32,625 | $ | 35,371 |

## 9. BORROWINGS

As at and during the three months ended March 31, 2023, the Company was in compliance with all banks' and creditor's covenants. The Company's borrowings are as follows:

| | | | March 31, 2023 | | December 31, 2022 |
|---|---|---|---|---|---|
| Construction loans with BDC and FCC | Note 9.1 | $ | 50,029 | $ | 44,131 |
| Debenture with warrants with MRC | Note 9.2 | | 13,744 | | 13,477 |
| Credit facility | Note 9.3 | | 41,450 | | 38,146 |
| **Borrowings, total** | | $ | 105,223 | $ | 95,754 |
| **Less current portion** | | | | | |
| Construction loans interest | Note 9.1 | | (233) | | (191) |
| **Borrowings, current** | | $ | (233) | $ | (191) |
| **Borrowings, non-current** | | $ | 104,990 | $ | 95,563 |

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

### 9.1 Construction loans with BDC and FCC

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

| | March 31, 2023 | December 31, 2022 |
|---|---|---|
| Construction loans interest, current | $ 233 | $ 191 |
| Construction loan with BDC, non-current, fixed 4.45% | 22,500 | 22,173 |
| Construction loan with BDC, non-current, variable 7.08%, n/a | 2,570 | - |
| Construction loan with FCC, non-current, fixed 4.38% | 10,000 | 10,000 |
| Construction loan with FCC, non-current, variable 6.58%, 4.04% | 15,230 | 12,285 |
| Financing costs | (504) | (518) |
| | $ 50,029 | $ 44,131 |

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

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

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

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

Only interest will be paid on the outstanding balances monthly prior to July 1, 2024, for both the BDC and FCC Term Loans. Principal repayments for both loans commence on July 1, 2024 and will be repaid in monthly installments until both loans mature on June 1, 2034. Early principal repayment is available subject to conditions.

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

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

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

### 9.1 (ii) BDC/FCC – Borrowing capacity

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

| | March 31, 2023 | December 31, 2022 |
|---|---|---|
| Construction loan, BDC, fixed 4.45% | $ 22,500 | $ 22,500 |
| Construction loan, BDC, variable BDC floating rate minus 1.5% | 6,000 | 6,000 |
| Construction loan, FCC, fixed 4.38% | 10,000 | 10,000 |
| Construction loan, FCC, variable personal property minus 0.75% | 18,500 | 18,500 |
| Gross borrowing capacity available | $ 57,000 | $ 57,000 |
| Advances, repayments, fees and interest from inception | (50,029) | (44,131) |
| Available borrowing | $ 6,971 | $ 12,869 |

### 9.1 (iii) BDC/FCC – Finance expense and interest paid

For both lenders, interest is based on the outstanding loan balance and is paid monthly. Interest incurred and paid on the BDC and FCC loans was $0.6 million for the three months ended March 31, 2023 (2022: $0.3 million). Of that, a total of $0.2 million was expensed and $0.4 million was capitalized in property plant and equipment during the construction of the second production line in Delta (2022: $0.2 million and $0.1 million). The year to date BDC and FCC variable rate loan effective interest rates were 7.08% and 6.58% respectively. The finance costs and the effective interest rates are based on the average balance drawn on each loan.

### 9.1 (iv) BDC/FCC – Security

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

### 9.2 Debenture with warrants with MRC

The debenture with warrants consists of the principal amount due to Mill Road Capital LLC ("MRC"), a related party, and accrued interest, net of the unamortized bond discount, which is the valuation of warrants at inception. As at March 31, 2023 and December 31, 2022, the debenture with warrants was as follows:

| | March 31, 2023 | December 31, 2022 |
|---|---|---|
| Principal amount due to MRC, 9%+1.5% | $ 15,000 | $ 15,000 |
| Unamortized bond discount | (1,642) | (1,853) |
| Accrued interest | 386 | 330 |
| | $ 13,744 | $ 13,477 |

### 9.2 (i) MRC – Agreements and transaction costs

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

In 2021, Swiss Water amended a convertible debenture agreement with MRC to a debenture with warrants. Under the new terms of the agreement, the maturity date was extended by one year from October 11, 2023, to October 31, 2024. The other amended terms were: (i) the interest rate increased from a maximum of 7.85% to 9%, (ii) a 1.5% additional interest "payment in kind" was added, and (iii) the debt to shares conversion feature was amended. The debt to shares conversion was amended by (a) cancelling the existing conversion feature and (b) replacing the existing conversion feature with warrants to allow MRC to purchase up to 2.25 million common shares at a price of $3.33 per share. The warrants expired on October 31, 2024. This amendment was accounted for as an extinguishment of debt and a new debenture with warrants was established. The Company incurred financing costs of $0.2 million associated with the amendment in 2021.

Effective November 22, 2022, Swiss Water amended the debenture with warrants agreement to (i) expand on the Senior Debt restricted covenant; (ii) allow Swiss Water a right to prepay the principal, and (iii) add security on the debenture. The original principal of $15.0 million and the maturity date of October 31, 2024, remain the same. Also, the interest on the debenture remains unchanged at 9% paid quarterly plus 1.5% interest in kind accrued quarterly. Meanwhile, the warrant agreement to issue 2.25 million warrants, with an exercise price of $3.33 was amended (i) to extend the maturity date from October 31, 2024, to April 30, 2026; and (ii) to add a cashless exercise option whereby MRC may elect to receive, upon exercise, such number of shares that is equal to the difference between the $3.33 exercise price and the fair market value of the shares at the time of exercise. This amendment was accounted for as an extinguishment of debt and a new debenture with warrants was established. The Company incurred financing costs of $0.2 million associated with the amendment in 2022.

**9.2 (ii) MRC – Finance expense and interest paid**

The debenture with warrants interest rate is 9% per annum, paid quarterly in arrears. The 9% is subject to reaching a specific covenant threshold, in excess of this, the interest rate increases to 12.5 % per annum. The Company also incurs an additional 1.5% of interest in kind, which accrues quarterly and is due at the maturity date. Interest expensed and paid was $0.6 million and $0.3 million for the three months ended March 31, 2023 (2022: $0.5 million and $0.3 million).

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

Effective November 22, 2022, the amended debenture with warrants contains an embedded option, where if MRC were to elect, it would result in fewer common shares being issued. This embedded option is a financial liability revaluated at each reporting date. As at March 31, 2023, the Company determined the fair value of the embedded option to be $2.4 million (December 31, 2022: $1.4 million). For the three months ended March 31, 2023, this revaluation resulted in a loss of $1.0 million being recorded on the Consolidated Statements of Income (2022: nil).

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

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

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

| | | March 31, 2023 | | December 31, 2022 |
|---|---|---|---|---|
| Share price | $ | 3.00 | $ | 2.31 |
| Exercise price | $ | 3.33 | $ | 3.33 |
| Option life | | 3.08 years | | 3.33 years |
| Volatility | | 52% | | 49% |
| Risk-free interest rate | | 3.78% | | 4.07% |
| Dividend yield | | 0.00% | | 0.00% |

**9.2 (iv) MRC – Security**

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

**9.3 Credit Facility with a Canadian Bank**

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

| | | March 31, 2023 | | December 31, 2022 |
|---|---|---|---|---|
| Credit Facility with effective interest rate of 6.68%, 4.37% | $ | 41,709 | $ | 38,414 |
| Less unamortized transaction costs | | (259) | | (268) |
| | $ | 41,450 | $ | 38,146 |

9.3 (i) Credit Facility – Agreements and transaction costs

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

Effective November 22, 2022, the available credit was increased from $30.0 million to $45.0 million with the purpose to support operations and growth. In tandem, this Credit facility lending provided additional lending of up to $6.25 million credit facility through Export Development Canada "EDC", as discussed below. The maturity date of October 18, 2022 was extended to the earlier of the maturity of the debenture with warrants, which is on October 31, 2024, and October 19, 2025. The Company is not required to repay any balance outstanding until maturity, as long as the outstanding balance is not in excess of the borrowing base.

The Company incurred deferred financing costs associated with the above loan. These costs are recorded in non-current borrowings and amortized until the loan maturity date. As March 31, 2023 deferred financing costs were $0.3 million (December 31, 2022: $0.3 million).

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

The Credit Facility has multiple interest rate options that are based on the Canadian Prime Rate, Base Rate, LIBO Rate, Bankers' Acceptance Rate plus an acceptance fee, in addition to an Applicable Margin for each of these rates. Fees apply to outstanding letters of credit and the unused portion of the credit. The year to date Credit Facility variable rate loan effective interest rate was 6.68%. For the three months ended

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

March 31, 2023, finance expenses on the Credit Facility were $0.7 million (2022: $0.2 million), which were added to the loan balance.

**9.3 (iii) Credit Facility – Security**

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

**9.3 (iv) Credit Facility – Borrowing base**

The Credit Facility's Borrowing Base margins the Company's eligible inventories and accounts receivable, commodity hedging account equity margin plus its market-to-market gains, which are netted against any losses in the commodity account and foreign exchange contract facility. Amounts can be drawn in either Canadian or US dollars and can be borrowed, repaid, and re-borrowed to fund operations, capital expansions, letters of credit and for general corporate purposes.

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

| | March 31, 2023 | December 31, 2022 |
|---|---|---|
| Gross borrowing base availability | $ 45,000 | $ 45,000 |
| Advances, repayments, fees and interest from inception | (41,709) | (38,414) |
| Outstanding letter of credit and security lien bond | (837) | (837) |
| Interests and fees accrued | 245 | 212 |
| | $ 2,699 | $ 5,961 |

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

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

**9.4 Credit Facility with EDC**

Effective November 22, 2022, the Company entered into a revolving credit facility agreement with EDC (the "EDC Credit") for borrowings of up to $6.25 million. The EDC Credit is to be used for the purpose of providing additional liquidity to finance the Company's operations, should it be needed. The lender of the abovementioned Credit Facility with a Canadian bank is the administrative agent for the EDC Credit and all security and guarantees held by the lender of the Credit Facility as security for the Credit Facility are also held as security for the EDC Credit. Amounts drawn on the EDC Credit bear interest at the Canadian Prime Rate plus 1.5% per annum. The EDC Credit is subject to certain fees. The EDC Credit facility will terminate on the earliest of: (i) demand by the lender of the Credit Facility for repayment, (ii) the first anniversary of the effective date, and (iii) the maturity date under the Credit Facility. The lender of the Credit Facility may in its sole discretion, renew the EDC Credit for a maximum of five successive one-year periods after the first anniversary of the effective date. As at March 31, 2023, no amounts were drawn on EDC Credit.

### 9.5 Foreign exchange facility guarantee with EDC

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

## 10. LEASE LIABILITIES

For the three months ended March 31, 2023 lease liabilities interest expense recognized in profit and loss was $0.3 million (2022: $0.3 million). The minimum lease payments recognized in the financing component of the statement of cash flows were $0.7 million (2022: $0.7 million).

## 11. SHARE CAPITAL

### 11.1 Common Shares

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

As at March 31, 2023, there were 9,212,955 common shares issued and outstanding.

### 11.2 Preferred Shares

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

### 11.3 Warrants

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

Effective November 22, 2022, the debenture with warrants agreement was amended to (i) extend the maturity date of the warrants from October 31, 2024 to April 30, 2026, and (ii) provide for a cashless exercise whereby MRC may elect to receive, upon exercise, such number of shares that is equal to the difference between the $3.33 exercise price and the fair market value of the shares. There was no change to the number of shares issuable under the agreement or the exercise price of the warrants. As the agreement now allows for a cashless option for a variable number of shares, the warrants were reclassified from equity to a financial liability. Refer to note 9.2 for further details.

### 11.4 Restricted share units

On the reporting date, the Company values the RSUs using the volume based weighted average share price ("VWAP"). VWAP is based on the Canadian dollar trading price of the Company's common shares on the Toronto Stock Exchange for the five trading days immediately preceding that relevant date, calculated by dividing the total value by the total volume of common shares traded, according to the RSU Plan.

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

The movement in RSUs was as follows:

| | Number of RSUs | | Volume based weighted average share price | Average remaining vesting period in years | Performance based |
|---|---|---|---|---|---|
| **Balance at January 1, 2022** | **439,747** | **$** | **3.07** | **1.56** | |
| RSUs granted | 63,000 | $ | 2.25 | 2.13 | No |
| RSUs granted - performance | 158,300 | $ | 2.63 | 1.21 | Yes |
| RSUs cash-settled | (50,164) | $ | 3.14 | - | No |
| RSUs exercised | (36,142) | $ | 5.11 | - | No |
| **Balance at December 31, 2022** | **574,741** | **$** | **2.55** | **1.11** | |
| **Balance at January 1, 2023** | **574,741** | **$** | **2.55** | **1.11** | |
| RSUs granted - performance | 158,300 | $ | 2.80 | 0.96 | Yes |
| RSUs cash-settled | (64,000) | $ | 2.69 | - | No |
| RSUs exercised | (47,140) | $ | 2.95 | - | No |
| **Balance at March 31, 2023** | **621,901** | **$** | **2.85** | **1.06** | |

### 11.5 Deferred share units

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

The movement in DSUs was as follows:

| | Number of DSUs | | Weighted average share price | Performance based |
|---|---|---|---|---|
| **Balance at January 1, 2022** | **99,861** | **$** | **3.11** | |
| DSUs issued | 85,590 | $ | 2.83 | No |
| **Balance at December 31, 2022** | **185,451** | **$** | **2.31** | |
| **Balance at January 1, 2023** | **185,451** | **$** | **2.31** | |
| DSUs issued | 24,741 | $ | 2.39 | No |
| **Balance at March 31, 2023** | **210,192** | **$** | **3.00** | |

## 12. REVENUE

### 12.1 Disaggregation of revenue

Revenue disaggregated by geographical markets is disclosed in Note 16. The Company also disaggregates revenue by major products and services: decaffeinated coffee sales, decaffeination services, and distribution with the following results:

| | | 3 months ended March 31, 2023 | | 3 months ended March 31, 2022 |
|---|---|---|---|---|
| Decaffeinated coffee sales | $ | 42,274 | $ | 33,646 |
| Decaffeination services | | 3,273 | | 2,249 |
| Distribution | | 3,498 | | 2,520 |
| | $ | 49,045 | $ | 38,415 |

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

### 12.2 Contract balances

As at March 31, 2023, the accounts receivable balance of $25.6 million (December 31, 2022: $20.7 million) consists of amounts due from customer contracts and reflects the Company's right to a consideration that is unconditional. The Company did not have other contract assets or liabilities from contracts with customers.

## 13. EMPLOYEE BENEFITS EXPENSES

Expenses recognized for employee benefits are detailed below:

| | | 3 months ended March 31, 2023 | | 3 months ended March 31, 2022 |
|---|---|---|---|---|
| Short-term benefits | $ | 3,440 | $ | 2,960 |
| Long-term benefits | | 493 | | 189 |
| Post-employment benefits | | 353 | | 304 |
| | $ | 4,286 | $ | 3,453 |

## 14. RELATED PARTY TRANSACTIONS

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

### 14.1 Compensation of Key Management Personnel

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

| | | 3 months ended March 31, 2023 | | 3 months ended March 31, 2022 |
|---|---|---|---|---|
| Short-term benefits | $ | 533 | $ | 487 |
| Long-term benefits | | 447 | | 148 |
| Post-employment benefits | | 72 | | 65 |
| | $ | 1,052 | $ | 700 |

### 14.2 Trading transactions

During the three months ended March 31, 2023 and 2022, the Company entered into the following transactions with a company that is related to a director of the Company:

| | | 3 months ended March 31, 2023 | | 3 months ended March 31, 2022 |
|---|---|---|---|---|
| Sales | $ | 155 | $ | 355 |
| Purchases of raw materials | $ | 2,686 | $ | 2,031 |

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

| | | March 31, 2023 | | December 31, 2022 |
|---|---|---|---|---|
| Accounts receivable | $ | 12 | $ | 3 |
| Accounts payable | $ | 1,011 | $ | 2,170 |

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

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

### 14.3 Employee Loans

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

## 15. BASIC AND DILUTED EARNINGS PER SHARE ("EPS")

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

| | 3 months ended March 31, 2023 | 3 months ended March 31, 2022 |
|---|---|---|
| **Basic and diluted (loss) earnings per share** | | |
| Net (loss) income and diluted net (loss) income attributable to shareholders | $ (701) | $ 1,385 |
| Weighted average number of shares, basic and diluted | 9,186,242 | 9,141,874 |
| Basic and diluted (loss) earnings per share | $ (0.08) | $ 0.15 |

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

| | 3 months ended March 31, 2023 | 3 months ended March 31, 2022 |
|---|---|---|
| Weighted average number of RSUs granted | 614,524 | 408,655 |
| Weighted average number of Warrants issued | 2,250,000 | 2,250,000 |

## 16. SEGMENT REPORTING

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

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

### 16.1 Revenue

| | 3 months ended March 31, 2023 | 3 months ended March 31, 2022 |
|---|---|---|
| Canada | $ 11,960 | $ 9,273 |
| United States | 28,072 | 16,493 |
| International and other | 9,013 | 12,649 |
| | $ 49,045 | $ 38,415 |

### 16.2 Non-Current Assets (excluding deferred tax assets)

| | March 31, 2023 | December 31, 2022 |
|---|---|---|
| Canada | $ 133,283 | $ 128,341 |
| United States | 20 | 22 |
| Europe | 119 | 125 |
| | $ 133,422 | $ 128,488 |

## 17. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital are as follows:

| | March 31, 2023 | March 31, 2022 |
|---|---|---|
| Accounts receivable | $ (4,677) | $ (6,065) |
| Inventories | 4,010 | (10,548) |
| Other assets and liabilities | 21 | 4 |
| Prepaid expenses and other receivables | 12 | (14) |
| Accounts payable and accrued liabilities | (2,277) | 10,507 |
| Payments for asset retirement obligation | (84) | - |
| Derivative assets, liabilities and hedged firm commitments at fair value through profit and loss | (3,033) | 3,176 |
| | $ (6,028) | $ (2,940) |

As at March 31, 2023, $6.5 million in additions to construction in progress was accrued in accounts payable and accrued liabilities (December 31, 2022: $6.6 million). These are operating and investing transactions that did not require the use of the Company's cash.

During the three months ended March 31, 2023, $0.4 million of interest paid on construction loans was capitalized during the construction of new manufacturing equipment (2022: $0.1 million). The capitalized interest is an item affecting the operating and investing sections of the cash flow statement.

During the first quarter ended March 31, 2023, Swiss Water paid $0.1 million in cash related to asset retirement obligation for the Burnaby location, whereas no such costs were paid in the same period in 2022.

In 2022, Swiss Water incurred $0.8 million in financing transaction costs related to the renegotiation of the Company's borrowings. Of these costs, the Company paid $0.4 million by December 31, 2022, while the remainder $0.4 million was settled during the three months period ended March 31, 2023. There were no such payments in the comparative period in 2022. These items are components of the operating and financing sections of the cash flow statement.

As at March 31, 2023, $0.7 million of depreciation on manufacturing equipment was included in inventory (December 31, 2022: $0.8 million). This is a non-cash item within cash flows from operating and investing activities.

In the prior, during the three months ended March 31, 2022, Swiss Water collected a $1.3 million cash reimbursement from a construction company. There was no such reimbursement in 2023. The Company reports such as proceeds within investing activities.

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

## 18. FINANCIAL RISK MANAGEMENT

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

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

### 18.1 Credit risk

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

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

The Company follows a program of credit evaluations of customers. A customer's credit check is performed in advance of providing credit to a customer and by reviewing their external credit ratings and interviewing customers' reputable vendors and then reviewed periodically. The Company follows a program of credit evaluations of customers and limits the amount of credit extended when deemed necessary. For the three months ended March 31, 2023, revenues from three major customers of $19.1 million (2022: $12.9 million) represented 39% (2022: 33%) of total revenues for the period. Three customers represented 61% of total accounts receivable as at March 31, 2023 (December 31, 2022: 50%).

The Company had 20% of its accounts receivable past due but not impaired as at March 31, 2023 (December 31, 2022: 16%). Of the past due accounts receivable, 61% are 1-30 days past due (December 31, 2022: 92%), while 39% are over 31 days past due (December 31, 2022: 1%).

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

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

### 18.2 Commodity price risk

Commodity price risk is the risk that the fair value of inventory or future cash flows will fluctuate as a result of changes in commodity prices. The Company utilizes futures contracts to manage its commodity price exposure. The Company buys and sells futures contracts for coffee on the Intercontinental Exchange in order to offset its inventory position and fix the input cost of green coffee. As at March 31, 2023, the Company had futures contracts to buy 26.0 million lbs of green coffee with a notional value of US$44.2 million, and contracts to sell 36.1 million lbs of green coffee with a notional value of US$60.7 million. The furthest contract matures in December 2023. (December 31, 2022: buy 16.8 million lbs of green coffee with a notional value of US$27.1 million, and contracts to sell 26.8 million lbs of green coffee with a notional value of US$43.4 million). An estimated 1% decrease in the mark-to-market rate applied to coffee futures would have resulted in an estimated gain of $0.2 million to the net income before tax, and vice versa.

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

| **Carrying amount of hedging instruments** | | **March 31, 2023** | | **December 31, 2022** |
|---|---|---|---|---|
| Fair value hedge | | Commodity price risk<br>Coffee futures | | Commodity price risk<br>Coffee futures |
| Nominal amount of hedging instruments (in US$'000) | $ | 16,497 | $ | 16,267 |
| Line item in the statement of financial position where hedging instrument is located | | | | |
| Derivative Assets | $ | 3,296 | $ | 3,288 |
| Changes in fair value used for calculating hedge ineffectiveness | | - | | - |
| **Accumulated amount of fair value hedge adjustment on hedged item included in the carrying amount of the hedged items** | | **March 31, 2023** | | **December 31, 2022** |
| Fair value hedge | | Purchase commitments and coffee inventory | | Purchase commitments and coffee inventory |
| Nominal amount of hedged item (in '000 lbs) | | 10,098 | | 10,045 |
| Line items in the statement of financial position where hedged item is located | | Inventories & hedged firm commitments | | Inventories & hedged firm commitments |
| Assets | $ | 54 | $ | 1,056 |
| Liabilities | | 4,030 | | 8,014 |
| Changes in fair value used for calculating hedge ineffectiveness | | - | | - |

### 18.3 Foreign currency risk

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

As at March 31, 2023, the Company had forward currency contracts to buy US$7.7 million and sell US$50.7 million (December 31, 2022: buy US$7.1 million and sell US$54.8 million) from April 2023 through to September 2025 at various Canadian exchange rates ranging from $1.26 to $1.38. An estimated CAD 1 cent decrease in the value of US dollar would have resulted in an estimated gain of $0.4 million to the net income and other comprehensive income before tax, and vice versa.

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

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

### Currency risk hedges on US$ purchases

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

| **Carrying amount of hedging instruments** | | **March 31, 2023** | | **December 31, 2022** |
|---|---|---|---|---|
| Fair value hedge | | Foreign currency purchase forwards | | Foreign currency purchase forwards |
| Nominal amount of hedging instruments (in US$'000) | $ | 7,696 | $ | 7,124 |
| Line item in the statement of financial position where hedging instrument is located | | | | |
| Derivative Assets | $ | 3 | $ | 138 |
| Derivative Liabilities | | 92 | | 50 |
| Changes in fair value used for calculating hedge ineffectiveness | | - | | - |
| **Accumulated amount of fair value hedge adjustment on hedged item included in the carrying amount of the hedged items** | | **March 31, 2023** | | **December 31, 2022** |
| Fair value hedge | | Firm purchase commitments & inventories | | Firm purchase commitments & inventories |
| Nominal amount of hedged item (in US$'000) | $ | 7,696 | $ | 7,124 |
| Line item in the statement of financial position where hedged item is located | | Inventories & hedged firm commitments | | Inventories & hedged firm commitments |
| Liabilities | | 163 | | 244 |
| Changes in fair value used for calculating hedge ineffectiveness | | - | | - |

### Currency risk on hedge on US$ sales

As at March 31, 2023, the Company designated as hedging instruments US$35.1 million in forward contracts to sell US dollars, which relate to highly probable forecasted sales revenue (December 31, 2022: US$40.2 million).

| **Carrying amount of hedging instruments** | | **March 31, 2023** | | **December 31, 2022** |
|---|---|---|---|---|
| Cashflow hedge | | Currency risk Foreign currency forwards | | Currency risk Foreign currency forwards |
| Nominal amount of hedging instruments (in US$'000) | $ | 35,105 | $ | 40,205 |
| Line items in the statement of financial position where hedging instrument is located | | | | |
| Derivative Assets | $ | 63 | $ | 67 |
| Derivative Liabilities | | 756 | | 1,072 |
| Changes in fair value used for calculating hedge ineffectiveness | | - | | - |

| Accumulated amount of fair value hedge adjustment on hedged item included in the carrying amount of the hedged items | | March 31, 2023 | | December 31, 2022 |
|---|---|---|---|---|
| Cashflow hedge | | Currency risk Foreign currency forwards | | Currency risk Foreign currency forwards |
| Nominal amount of hedged item (in US$'000) | $ | 35,105 | $ | 40,205 |
| Line items in the statement of financial position where hedged item is located | | Accumulated other comprehensive income | | Accumulated other comprehensive income |
| Assets | $ | n/a | $ | n/a |
| Liabilities | | n/a | | n/a |
| Changes in fair value used for calculating hedge ineffectiveness | | - | | - |
| Cashflow hedge reserve | | (693) | | (1,005) |

## 18.4 Liquidity risk

Non-derivative financial liabilities are as follows:

| | | Carrying Amount March 31, 2023 | | 2023 | | 2024 to 2025 | | 2026 to 2027 | | Thereafter |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Contractual Cash Flows | | | | | | |
| Accounts payable | $ | 25,243 | $ | 25,243 | $ | - | $ | - | $ | - |
| Other liabilities | | 1,142 | | 1,118 | | 24 | | - | | - |
| Lease liabilities | | 19,471 | | 1,917 | | 5,050 | | 4,485 | | 746 |
| Credit facility | | 41,450 | | - | | 41,709 | | - | | - |
| Construction loans and interest | | 50,029 | | 233 | | 8,950 | | 11,933 | | 29,417 |
| Debenture with warrants | | 13,744 | | - | | 15,386 | | - | | - |
| Total | $ | 151,079 | $ | 28,511 | $ | 71,119 | $ | 16,418 | $ | 30,163 |

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

## 18.5 Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company believes that interest rate risk is low as all cash equivalents are made in fixed-rate instruments. The Company does have interest rate risk related to its credit facilities and variable construction loans, where a 1% increase in the Canadian Prime Rate loan, holding all other variables constant, would result in a $0.6 million decrease to the income before taxes. There is no interest rate risk on the debenture with warrants and fixed construction loans as the interest rates are fixed.

## 18.6 Fair value of financial instruments

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

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

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

Financial instruments that are measured at fair value are categorized as follows. During the three months ended March 31, 2023, there were no transfers between level 1 and level 2 instruments.

| | March 31, 2023 | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Cash | $ 1,790 | $ 1,790 | $ - | $ - |
| Derivative assets | 3,513 | 3,297 | 216 | - |
| | $ 5,303 | $ 5,087 | $ 216 | $ - |
| **Financial liabilities** | | | | |
| Derivative liabilities | $ 848 | $ - | $ 848 | $ - |
| Credit facility | 41,450 | - | 41,450 | - |
| Construction loans | 50,029 | - | 50,029 | - |
| Other liabilities | 1,142 | - | 1,142 | - |
| Borrowings embedded option | 2,397 | - | 2,397 | - |
| | $ 95,866 | $ - | $ 95,866 | $ - |

| | December 31, 2022 | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Cash | $ 3,761 | $ 3,761 | $ - | $ - |
| Derivative assets | 3,580 | 3,289 | 291 | - |
| | $ 7,341 | $ 7,050 | $ 291 | $ - |
| **Financial liabilities** | | | | |
| Derivative liabilities | $ 1,126 | $ - | $ 1,126 | $ - |
| Credit facility | 38,146 | - | 38,146 | - |
| Construction loans | 44,131 | - | 44,131 | - |
| Other liabilities | 762 | - | 762 | - |
| Borrowings embedded option | 1,429 | - | 1,429 | - |
| | $ 85,594 | $ - | $ 85,594 | $ - |

## 19. COMMITMENTS

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

The Company has provided a standby letter of credit in the amount of $0.3 million as security to the landlord, as well as a standby letter of credit in the amount of $0.5 million as security for a construction bond. Both commitments are restricting available borrowing base draws as highlighted in Note 9, 'Credit Facility – Borrowing base'.

The Company has also, in the normal course of business, entered into various contracts. As at March 31, 2023, these contracts related to the purchase of green coffee in the amount of $41.8 million (December 31, 2022: $34.6 million) and equipment purchase commitments of $0.7 million (December 31, 2022: $5.1 million). Of these contracts, $42.0 million will become payable within twelve months from March 31, 2023.

## 20. SUBSEQUENT EVENTS

Subsequent to the three months ended March 31, 2023, Swiss Water completed its final production at the Burnaby location and the Company is in the process of dismantling its legacy production line while restoring the leased property before returning it to the landlord. As previously disclosed, the Burnaby property lease expires in June 2023.

Also, subsequent to March 31, 2023, a truck lease expired and the Company leased a newer truck.