MANAGEMENT DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") of Swiss Water Decaffeinated Coffee Inc. ("Swiss Water" or the "Company"), dated as of November 9, 2022, provides a review of the financial results for the three and nine months ended September 30, 2022, relative to the comparable period of 2021. The three month period represents the third quarter ("Q3") 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 and nine months ended September 30, 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, interest rate risks, construction timing, inflation, costs and financing of capital projects, general economic conditions and those factors described herein under the heading 'Risks & Uncertainties'.

The forward-looking statements contained herein are also based on assumptions that we believe are current and reasonable, including but not limited to, assumptions regarding: (i) trends in certain market segments and the economic climate generally; (ii) the financial strength of our customers; (iii) the value of the Canadian dollar versus the US dollar ("US$"); (iv) the expected financial and operating performance of Swiss Water going forward; (v) the availability and expected terms and conditions of debt facilities; (vi) the expected level of dividends payable to shareholders; (vii) the potential impact of the COVID-19 pandemic, or any 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 and nine months ended September 30, 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 September 30 2022	3 months ended September 30 2021	9 months ended September 30 2022	9 months ended September 30 2021
Revenue	$ 46,154	$ 35,496	$ 132,937	$ 89,947
Gross profit	6,614	6,018	20,329	13,222
Operating income	3,293	3,325	10,589	5,169
Net income (loss)	(204)	135	2,641	255
Adjusted EBITDA [1]	4,346	3,974	13,572	8,422
Net income (loss) per share – basic[2]	$ (0.02)	$ 0.01	$ 0.29	$ 0.03
Net income (loss) per share – diluted[2]	$ (0.02)	$ 0.01	$ 0.29	$ 0.03

[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 the exercise of warrants and RSUs.

Financial highlights

- Revenue for the three and nine months ended September 30, 2022, was $46.2 million and $132.9 million respectively, which represents a 30% and 48% increase over the same periods in 2021. The increase is a result of strong volume growth and higher green coffee prices. In addition, our Seaforth subsidiary continues to operate at record levels of activity.
- Gross profit for the three and nine months ended September 30, 2022, was $6.6 million and $20.3 million respectively, which represents a 10% and 54% increase over the same periods in 2021. Gross profit percent for the nine months ended September 30, 2022, remained consistent with the same period in 2021 at 15%. The increase in gross profit dollars was primarily driven by higher sales volume. In addition, we benefited from a significantly higher green coffee differential margin. The increase was partially offset by inflationary pressure on variable production costs and freight.
- Operating income for the three and nine months ended September 30, 2022, was $3.3 million and $10.6 million respectively, which represents a flat and 105% increase over the same periods in 2021. The increase is a result of the improvements in gross profit from increased volumes, partially offset by increases in administration expenses due to general inflationary pressure, significantly increased legal fees, increased headcount and salaries, and overall costs of running two facilities, including depreciation and rental expenses.
- Net income and loss for the three and nine months ended September 30, 2022, was a loss of $0.2 million and income of $2.6 million respectively. For the three months ended September 30, 2022, the decrease is a result of losses on risk management activities, increased financing expense on our construction and Mill Road Capital LLC ("MRC") loans, as well as the CIBC working capital facility, and increased losses on foreign exchange due to the strengthening of the US dollar in the quarter. For the nine months ended September 30, 2022, the increase is a result of the improvements in operating income, partially offset by the same factors afflicting the three months ended September 30, 2022.

- Adjusted EBITDA[1] for the three and nine months ended September 30, 2022, was $4.3 million and $13.6 million respectively, which represents a 9% and 61% increase over the same periods in 2021. The improvement in Adjusted EBITDA was mainly driven by the positive impact of increased sales volume and higher green coffee differential margin.

Operational highlights

- Total sales volumes for the three and nine months ended September 30, 2022, increased by 6% and 22% respectively, compared to the same periods in 2021. Our customers continue to see strong consumer demand within most segments. Furthermore, our volume growth was enhanced during the first nine months of this year by the shipment of products to new out-of-home food service customers within North America. Encouragingly, we recorded 20% and 28% volume growth in our North America and international regions respectively, during the first nine months of 2022.
- Our largest geographical market by volume during the first nine months of 2022 was the United States, followed by international markets, and Canada. By dollar value, 45% of our sales were to customers in the United States, 30% were international customers, and the remaining 25% were to Canada. Our international business continues to expand, and we anticipate revenues from our Asia-Pacific and European markets will continue to increase during the remaining months of 2022.
- Subsequent to Q3 quarter-end, on November 7, 2022, Swiss Water announced the expansion of our credit facilities with our existing creditors, resulting in $33.25 million of incremental capital availability, consisting of $21.25 million of expanded revolving credit capacity for working capital and $12.0 million of incremental senior-term financing for capital expansions specifically our second production line in Delta, British Columbia (“Delta 2”) (see Subsequent Event).

The third quarter did see a slow down in the rate of volume growth when compared sequentially to the double-digit volume growth we experienced in the second quarter of this year. Still, despite this, and inflationary pressures, we continue to see strong volume increases across the business with both the United States and international regions recording significant growth. Sales in dollar value to the United States for the three and nine months ended September 30, 2022, increased by $3.8 million and $20.2 million, versus the same periods in 2021. International markets overtook Canada as the second largest geographical segment in 2022, with sales dollars increasing by $3.8 million and $19.1 million, versus the same periods in 2021. Within the international business, sales volumes to Asia-Pacific were particularly strong for the three and nine months ended September 30, 2022, increasing by 24% and 60%, respectively. We continue to see growth with existing customers and incremental volume from new customers switching to chemical free decaffeinated coffee. Ultimately, our strong volume performance reflects our well-diversified customer base and the growing recognition of the importance of drinking coffee decaffeinated without the use of harmful chemicals.

Regarding customer mix, the third quarter saw incremental volumes going to restaurants and out-of-home specialty coffee shops which are now operating at normal capacity. This was evidenced by the 32% growth in business with our specialty roaster customers. As in recent quarters, we also continue to see new volume associated with the addition of new customers and brands within our North American business.

Throughout the first nine months of the year, we have remained well positioned with green coffee inventory and can react to short-term demand increases in most coffee origins. However, we continue to be affected by

[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.

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 is still reduced. 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 has caused participants throughout the coffee supply chain to 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 quarter of 2021 and has remained high through the third 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 pressure on our profitability drove our decision to increase processing prices toward the end of the fourth quarter of 2021, to help maintain our margins.

On November 7, 2022, Justin Jacobs, Managing Director of Mill Road, was appointed to the board of directors, pursuant to Mill Road's existing board nomination rights. Mr. Jacobs has been with Mill Road since the firm's founding in 2005; previously, Mr. Jacobs worked at LiveWire Capital, an investment and management group, and in the private equity group at The Blackstone Group. Mr. Jacobs has been a director at numerous public and private companies, including British Columbia's based PRT Growing Services Ltd. In addition to the Amended Debenture and Amended Warrant referred to in the subsequent event note, Mill Road presently holds 608,500 shares of Swiss Water, representing approximately 6.6% of the issued and outstanding shares of the Company (see Subsequent Event).

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 distributions to stakeholders. By considering Adjusted EBITDA in combination with IFRS, we believe that readers are provided with additional and more useful information about Swiss Water than readers would have if they simply considered IFRS measures alone. Reported Adjusted EBITDA is intended to assist readers with their own financial analysis. However, since this measure does not have a standardized meaning prescribed by IFRS, it is unlikely to be comparable to similar measures presented by other entities.

We define Adjusted EBITDA as net income before interest, depreciation, amortization, impairments, share-based compensation, gains/losses on foreign exchange, gains/losses on disposal of property and 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 and nine months ended September 30, 2022, was $4.3 million and $13.6 million respectively, compared to $4.0 million and $8.4 million for the same periods in 2021. Operationally, the change in Adjusted EBITDA was driven by increased volume, revenue growth, and higher green coffee differentials. 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 September 30 2022	3 months ended September 30 2021	9 months ended September 30 2022	9 months ended September 30 2021
Operating income	$ 3,293	$ 3,325	$ 10,589	$ 5,169
Depreciation & amortization	1,840	1,698	5,332	5,114
Share-based compensation	170	111	379	485
Loss on risk management activities	(956)	(410)	(1,495)	(502)
Unrealized (gain) loss on foreign exchange forward contracts	699	(46)	840	263
Impact of IFRS 16 - Leases	(700)	$ (704)	$ (2,073)	$ (2,107)
Adjusted EBITDA	$ 4,346	$ 3,974	$ 13,572	$ 8,422

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

In $000s (unaudited)	3 months ended September 30 2022	3 months ended September 30 2021	9 months ended September 30 2022	9 months ended September 30 2021
Net income (loss) for the period	$ (204)	$ 135	$ 2,641	$ 255
Income tax expense	(52)	(48)	949	381
Income (loss) before tax	$ (256)	$ 87	$ 3,590	$ 636
Finance income	(124)	(102)	(335)	(370)
Finance expenses	1,321	1,125	3,990	3,175
Loss on extinguishment of debt	-	1,385	-	1,385
Depreciation & amortization	1,840	1,698	5,332	5,114
Unrealized loss on foreign exchange forward contracts	699	(46)	840	263
Fair value gain on the embedded option	-	56	-	48
(Gain) loss on foreign exchange	1,396	364	1,849	(207)
Share-based compensation expense	170	111	379	485
Impact of IFRS 16 - Leases	(700)	(704)	(2,073)	(2,107)
Adjusted EBITDA	$ 4,346	$ 3,974	$ 13,572	$ 8,422

OUTLOOK

We have delivered an extremely strong first nine months of 2022 and, looking ahead, we are targeting improved year-over-year performance during the remaining months of this year. Sustained volume growth over the last two years has been a major driver of current performance. This momentum initially emerged during the early stages of the COVID-19 pandemic when working remotely started to gain traction and at-home consumption of coffee started to increase. Many organizations have now started to migrate away from the modified work-from-home model. This change has slowed the growth of at-home consumption and the volumes we deliver to our large commercial customers who serve the grocery channel. However, in contrast to the recent slowing trend in our commercial business, our sales to specialty roasters have grown significantly during 2022. During the third quarter, many of our specialty customers were ordering in-line or exceeding pre-pandemic levels of activity.

We continue to see increased demand from all our customers that serve the out-of-home market through cafes and restaurants. This has been particularly evident in North America where our food service customers have generally returned to normal operations. We are optimistic that higher vaccination rates will reduce the scale of 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 24% and 60%, respectively, for the three and nine months of September 30, 2022.

Despite the normalization of trading conditions, uncertainty persists. Inflationary pressures are becoming more apparent and interest rates are rising rapidly across the globe. We cannot reliably predict the ultimate impact these factors will have on global supply chains and customer demand. If inflation rates start to accelerate through the fourth quarter we may have to once again increase the process rates we charge our customers. However, after a record start to 2022, we are cautiously optimistic that our volume growth will remain strong enough to offset some of this anticipated inflationary pressure.

On a cautionary note, the post-pandemic recovery of the global economy combined with the negative impact of the conflict in Ukraine has placed additional 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. Following the end of the third quarter, coffee prices have started to soften somewhat, although remain sharply elevated in comparison to historical trends. 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 the grocery channel, 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 the balance of 2022 and into 2023.

Operationally, Swiss Water ran both production lines at our legacy plant in Burnaby on a 24/7 basis during the third quarter of 2022. Since completing the first production run of commercial-grade coffee from our new decaffeination line in Delta, in September 2020, we have been steadily transitioning a significant proportion of production volume to this new facility. Aside from scheduled maintenance in January and July 2022, Delta line one has been running on a 24/7 basis as we continue its optimization. However, record demand in the last five quarters drove higher than expected utilization of our legacy assets in Burnaby. During the last five 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 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 the second quarter 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 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 the third quarter of 2023. 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. 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 inflation is unknown and could impact the timing and costs of the project. In the third quarter, the impacts of global macro-economic pressures, including inflation, trades disruptions, and supply chain issues, became more acute in terms of budget and schedule. We now consider 10% of the preliminary cost estimate to be an appropriate risk factor and we are now actively working to mitigate cost and schedule impacts.

In the second quarter of 2021, we concluded a new financing agreement with BDC and FCC that will contribute $25.0 million towards this project. In the third quarter of 2022, we amended our agreement with Mill Road Capital LLP to increase our senior debt covenant to $75 million.

Furthermore, on November 7, 2022, we announced the expansion of Swiss Water's credit facilities with its existing creditors, resulting in $33.25 million of incremental capital availability. This consists of $21.25 million of expanded revolving credit capacity for working capital and $12.0 million of incremental senior-term financing for capital expansions - specifically our second production line in Delta, British Columbia ("Delta 2") (see Subsequent Event).

Finally, we are currently working through a process to establish 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 finalized during the fourth quarter and the analysis of the values of the associated options will be completed then.

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, 9,165,815 shares were issued and outstanding.

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

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

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

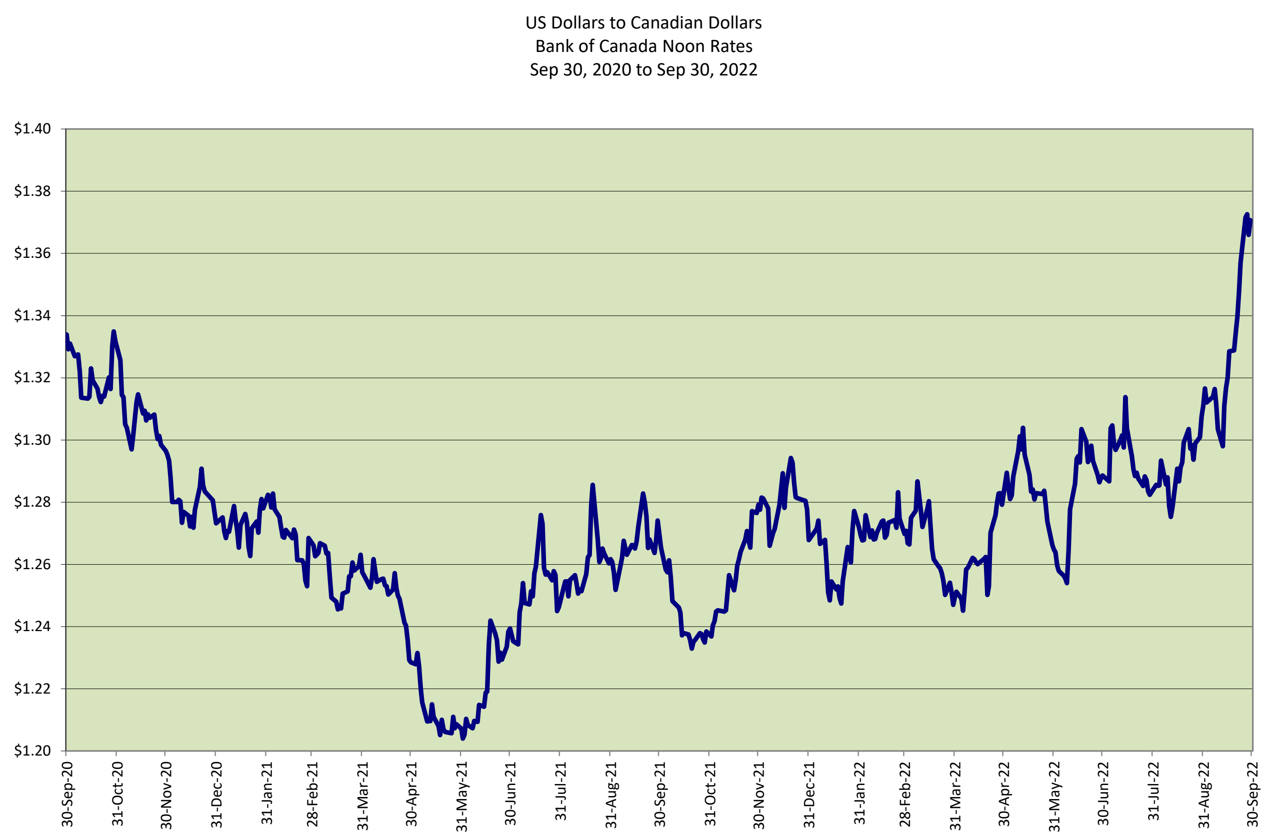
The chart below shows the movement in the NY'C' for the last eight quarters:

NY'C' Close (US$/lb)
IntercontinentalExchange
Sep 30, 2020 to Sep 30, 2022

In the third quarter of 2022, the NY'C' averaged US$2.1914/lb compared to an average of US$1.8015/lb in the same period in 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.

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 the third quarter of 2022, the US$ averaged C$1.3056 compared to an average of C$1.2600 in the same period in 2021. When the US$ 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 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	3 months ended September 30		9 months ended September	
(unaudited)	2022	2021	2022	2021
Process revenue	$ 9,609	$ 8,462	$ 28,547	$ 22,086
Green revenue	33,796	24,715	95,791	61,713
Distribution revenue	2,749	2,319	8,599	6,148
Total revenue	$ 46,154	$ 35,496	$ 132,937	$ 89,947

For the three and nine months ended September 30, 2022, sales totaled $46.2 million and $132.9 million respectively, an increase of $10.7 million or 30% and $43.0 million or 48% compared to the same periods in 2021. The increase was driven by volume demand from our customers, and the impact of an increase in the New York Arabica Futures market, and the appreciation of the US$ dollar.

Our sales for the three and nine months ended September 30, 2022, by revenue category, are as follows:

- Process revenue increased $1.1 million or 14% in Q3, and $6.5 million or 29% year-to-date. The increase reflects growth in our processing volumes, prices, and foreign exchange hedging activities.
- Green revenue increased $9.1 million or 37% in Q3, and $34.1 million or 55% year-to-date. The increase reflects higher green coffee sales volume and coffee futures price, NY’C’, and appreciation of the US$ dollar.
- Distribution revenue increased $0.4 million or 19% in Q3, and $2.5 million or 48% year-to-date. The increase reflects higher shipment volumes, inflationary pressure on freight rates and stronger than expected capacity utilization rates in our Seaforth subsidiary.

Our sales volumes for the three and nine months ended September 30, 2022, by geographical segment, are as follows:

- Sales volume in North America increased by 9% and 20%, respectively.
- Sales volume in Asia-Pacific increased by 24% and 60%, respectively.

Cost of Sales

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

For the three and nine months ended September 30, 2022, cost of sales totaled $39.5 million and $112.6 million respectively, an increase of $10.1 million or 34% and $35.9 million or 47%, compared to the same periods in 2021. This was driven mainly by increased production volume, green coffee costs, and freight.

Gross Profit

For the three and nine months ended September 30, 2022, gross profit totaled $6.6 million and $20.3 million respectively, an increase of $0.6 million or 10% and $7.1 million or 54%, compared to the same periods in 2021. The improvement was primarily driven by higher sales volume. In addition, we benefited from a higher green coffee differential margin.

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 three and nine months ended September 30, 2022, administration expenses totaled $2.5 million and $7.1 million respectively, an increase of $0.5 million or 24% and $1.7 million or 32%, compared to the same periods in 2021. The primary drivers of the increase were general inflationary pressure, increased legal fees, increased headcount and salaries, and overall administrative costs associated with operating two facilities, including depreciation and rental expenses.

Sales and Marketing Expenses

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

For the three and nine months ended September 30, 2022, sales and marketing expenses totaled $0.8 million and $2.6 million respectively. The expense remained flat on a year-to-date basis. An increase in headcount and salaries in the current year was offset by savings generated in 2021 following the restructuring of various departments in the first half of 2021.

Gains and Losses on Risk Management Activities

Under hedge accounting, gains or losses on designated hedges are included in either revenue or cost of sales, held on the balance sheet, or included in other comprehensive income for future transactions (see 'Hedge Accounting', below). Thus, any gain or loss on risk management activities includes only those gains and losses on derivative financial instruments or portions of such instruments that are not designated as hedging instruments.

For the three and nine months ended September 30, 2022, we recorded a loss on risk management activities of $1.0 million and $1.5 million respectively, a decrease of $0.5 million and $1.0 million, compared to the same periods in 2021. The main drivers for this are unrealized losses due to fluctuations in the Canadian versus US dollar and fluctuations in NY'C.

Finance Expenses and Income

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

For the three and nine months ended September 30, 2022, net finance expense totaled $1.2 million and $3.7 million respectively, an increase of $0.2 million or 17% and $0.9 million or 30%, compared to the same periods in 2021. The increase primarily relates to a higher outstanding balance on our construction loans and credit facility, higher variable interest rates, and higher interest rate on our debenture with warrants.

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 three and nine months ended September 30, 2022, we recorded a loss on foreign exchange of $1.4 million and $1.8 million respectively, an increase of $1.0 million and $2.1 million, compared to the same periods in 2021. The large swing in foreign exchange is due to fluctuation in the Canadian versus US dollar as the exchange rate averaged C$1.3056 in Q3 2022, compared to C$1.2600 in Q3 2021.

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 were based on our best estimate at each balance sheet date until its extinguishment in Q3 2021.

The revaluation of this embedded option resulted in a gain of $0.04 million in Q2 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

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

For the three and nine months ended September 30, 2022, we recorded a net loss before taxes of $0.3 million and net income before tax of $3.6 million respectively, compared to a net income before taxes of $0.1 million and $0.6 million for the same periods in 2021. Overall, we recorded a net loss of $0.2 million and a net income of $2.6 million for the three and nine months ended September 30, 2022, respectively, compared to net income of $0.1 million and $0.3 million for the same periods 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 or loss, net of tax, for the three and nine months ended September 30, 2022, was a loss of $2.0 million and $2.4 million respectively, compared to a loss of $0.5 million and income of $0.1 million for the same periods 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 Q3 2022, under IFRS we are required to assume that the maximum number of shares issuable under the convertible debenture will be issued.

For the three and nine months ended September 30, 2022, and 2021, all potential common shares issuable under the RSU Plan and debenture with warrants were anti-dilutive and excluded from the dilution calculation.

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

In 000s except for shares and per share data (unaudited)	3 months ended September 30 2022	2021	9 months ended September 30 2022	2021
Basic and diluted earnings per share				
Net income (loss) attributable to shareholders	$ (204)	$ 135	$ 2,641	$ 255
Weighted average number of shares	9,165,815	9,129,673	9,155,582	9,119,793
	$ (0.02)	$ 0.01	$ 0.29	$ 0.03

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. This trend re-emerged in 2021.

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

In $000s except for per share amounts (unaudited)	8 Quarter Average	Q3 2022	Q2 2022	Q1 2022	Q4 2021	Q3 2021	Q2 2021	Q1 2021	Q4 2020
Revenue	35,316	46,154	48,368	38,415	35,129	35,496	28,759	25,692	24,512
Gross Profit	5,100	6,614	7,952	5,763	4,389	6,018	3,652	3,552	2,861
Operating income	2,175	3,293	4,416	2,880	1,517	3,325	1,106	738	126
Adjusted EBITDA[1]	3,160	4,346	5,335	3,882	2,111	3,974	2,461	1,987	1,186
Net income (loss)	352	(204)	1,460	1,385	241	135	216	(96)	(320)
Per Share[2]									
Net income (loss) - basic	0.04	(0.02)	0.16	0.15	0.03	0.01	0.02	(0.01)	(0.04)
Net income (loss) - diluted	0.04	(0.02)	0.16	0.15	0.03	0.01	0.02	(0.01)	(0.04)

[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

Swiss Water has a revolving credit facility agreement for up to $35.0 million, which was increased during Q3 2022 from $30.0 million. As of September 30, 2022, amounts drawn on the credit facility total $34.3 million (2021: $23.3 million) and are classified as a part of current liabilities in the consolidated statement of financial position as the Credit Facility matured on October 18, 2022. The maturity date of October 18, 2022 was extended by the lender subsequent to the period end and the Credit Facility was formally expanded on November 7, 2022 (see Subsequent Event). As a part of the renegotiations with our lenders, MRC raised our senior debt limit to $123.25 million, as disclosed in the Subsequent Event section, below.

Operating activities

For the three and nine months ended September 30, 2022, net cash generated from operating activities was $0.3 million and cash used was $0.3 million respectively, compared to net cash generated of $0.6 million and $0.1 million for the same period in 2021. In both years, cash inflows from operations were partially offset by cash outflows required to purchase green inventory.

Investing Activities

For the three and nine months ended September 30, 2022, net cash used in investing activities was $5.1 million and $17.3 million respectively, compared to net cash used of $5.7 million and $10.8 million for the same period in 2021. In both years, this was driven by capital expenditures associated with the second production line in Delta. During the first half of 2022, we also recovered $1.3 million in cash from an insurance settlement, which is related to equipment on the first production line in Delta (2021: nil). During the third quarter of 2022, Swiss Water received a $0.1 million energy efficiency cash incentive from a gas utility company (2021: nil).

Financing Activities

For the three and nine months ended September 30, 2022, net cash generated from financing activities was $6.4 million and $16.3 million respectively, compared to net cash generated of $4.0 million and $10.0 million for the same period in 2021. In both years, this was driven by proceeds, net of repayment, from our credit facility and construction loans.

Inventory

Our inventory increased by $29.1 million or 83% between December 31, 2021, and September 30, 2022. The increase reflects a higher NY'C' combined with a higher volume of coffee inventory on hand and a higher exchange rate. Inventory consists of coffee, hedges related to NY'C and foreign exchange, as well as carbon used in production, and packaging.

Under hedge accounting, gains and losses on derivative instruments for coffee to be sold in future periods are recorded in inventory. The hedge accounting component of inventory as at September 30, 2022, was a loss of $0.2 million compared to a gain of $3.8 million as at December 31, 2021.

Accounts Receivable

Our accounts receivable increased by $7.1 million or 51% between December 31, 2021, and September 30, 2022. 77% of Swiss Water accounts receivable are current as at September 30, 2022. The majority of past due amounts were collected shortly after quarter end. Accounts receivable consist of receivables from customers.

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 of October 18, 2022 was extended by the lender and the Credit Facility was expanded subsequent to the period end as disclosed in Subsequent Event.

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 September 30, 2022, we were, in compliance with all covenants.

Construction Loans with BDC and FCC

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

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

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

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

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

Both loans are secured by a general security agreement and a first security interest on all existing equipment and machinery plus new equipment and machinery financed with the BDC and FCC construction loans. Seaforth has provided a guarantee for construction loans to FCC and BDC. As of September 30, 2022, the construction loans amount outstanding was $38.3 million including interest accrued of $0.2 million.

Subsequent to the period end, we finalized additional funding as disclosed in the Subsequent Event.

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 Swiss Water'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, an amended agreement with MRC was reached to revise our senior debt limit from $60.0 million to $65.0 million.

On June 6, 2022, an amended agreement with MRC was reached to revise our senior debt limit from $65.0 million to $68.0 million.

On August 25, 2022, an amended agreement with MRC was reached to revise our senior debt limit from $68.0 million to $75.0 million.

Subsequent to period end, the senior debt limit was raised to $123.25 million as disclosed in the Subsequent Event section.

Share Capital

On May 9, 2022, at the Annual and Special Meeting of Shareholders, the Shareholders approved an amendment to the Articles of Amalgamation of the Company to create two new classes of shares, being Class A Preferred Shares and Class B Preferred Shares. The Preferred Shares are equity securities which may be treated like a category between debt and equity, to provide financing for Swiss Water. We are not intending that the new series of preferred shares to be listed on the TSX. Any creation and issuance of any series of preferred shares are subject to the prior approval of the TSX. At this time, terms of the shares, including dividend rates, redemption provision and similar terms are not yet established. As at the date of this report, there were nil preferred shares issued and outstanding.

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

Contractual Obligations

The following table sets forth our contractual obligations and commitments as at September 30, 2022:

(In $000s) (unaudited)		Total		Less than 1 year		2-3 years		4-5 years		Over 5 years
Long-term debt[1]	$	53,725	$	153	$	20,960	$	9,101	$	23,511
Financing leases[2]		13,589		701		5,134		5,084		2,670
Credit facility[3]		34,306		34,306		-		-		-
Purchase obligations[4]		64,344		63,717		627		-		-
Total contractual obligations	$	165,964	$	98,877	$	26,721	$	14,185	$	26,181

[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 submitted our notice of exercise on the first extension option to renew our lease in Delta for another five years until the July 2028.

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

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

Swiss Water 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 Q1 2022, we 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 Directors.

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

In $000s	3 months ended September 30		9 months ended September 30	
(unaudited)	2022	2021	2022	2021
Sales	$ 605	$ 144	$ 1,444	$ 485
Purchases of raw materials	$ 1,582	$ 1,317	$ 6,531	$ 3,419

All transactions were in the normal course of operations and were measured at the fair value of the consideration received or receivable, which was established and agreed to by the related parties. As at September 30, 2022, our accounts receivable balance with this company was $0.1 million (December 31, 2021: $0.04 million) while our accounts payable balance with this company was $1.1 million (December 31, 2021: $nil).

On October 26, 2021, Swiss Water and a member of key management ("borrower") entered into a promissory note in the amount of $0.07 million. For as long as the borrower remains an employee, the obligation to repay the principal is forgiven against current and future awards under the RSU Plan, by forfeiture of awards. The loan is interest free other than in the event of default, in which case the promissory note would bear simple interest at a rate of 10% per annum. As at September 30, 2022, the loan balance was $0.03 million (2021: $0.07 million).

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 Swiss Water 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. Swiss Water 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. Swiss water 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.

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, decommissioning of the Burnaby facilities, Swiss Water's ability to raise funds through either debt or equity, availability of labour force, equipment and supplies, global environmental change and climate effects on our products and supply chain, inflation, changes in interest rates, 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.

Risks are also discussed in detail in 'Financial Risk Management' note in our condensed consolidated interim and our annual audited financial statements for the periods ending September 30, 2022 and the most recent completed financial year end. Furthermore, in this management discussion and analysis, we discuss risk under headings 'Hedge Accounting' and 'Financial Instruments'.

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.

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. Swiss Water utilizes futures contracts to manage our commodity price exposure. We buy and sell futures contracts for coffee on the Intercontinental Exchange to offset our inventory position and fix the input cost of green coffee. As at September 30, 2022, Swiss Water had futures contracts to buy 25.3 million lbs of green coffee with a notional value of US$54.4 million, and contracts to sell 36.5 million lbs of green coffee with a notional value of US$77.4 million. The furthest contract matures in May 2023. (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 $0.3 million to the net income before tax, and vice versa.

Foreign Currency Risk

We realize a significant portion of our revenues in US$ and we purchase green coffee in US$ which is, in some cases, sold to customers in Canadian dollars. Swiss Water enters into forward foreign currency contracts to manage our exposure to currency rate fluctuations and to minimize the effect of exchange rate fluctuations on business decisions.

As at September 30, 2022, we had forward currency contracts to buy US$7.9 million and sell US$52.5 million (December 31, 2021: buy US$8.0 million and sell US$47.7 million) from October 2022 through to May 2025 at various Canadian exchange rates ranging from $1.2531 to $1.3707. 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.

As at September 30, 2022, Swiss Water designated as hedging instruments nil in forward contracts to buy US dollars, with the purpose to purchase equipment for the new production line (December 31, 2021: US$1.0 million). As at September 30, 2022, we designated as hedging instruments US$37.4 million in forward contracts to sell US dollars, which relate to highly probable forecasted sales revenue (December 31, 2021: US$27.3 million).

SUBSEQUENT EVENT

On November 7, 2022, Swiss Water announced the expansion of our credit facilities with our existing creditors, resulting in $33.25 million of incremental capital availability, consisting of $21.25 million of expanded revolving credit capacity for working capital and $12.0 million of incremental senior-term financing for capital expansions – specifically our second production line in Delta, British Columbia (“Delta 2”). The following is a summary of the material terms of the amendments, which, pursuant to the rules of the Toronto Stock Exchange, are anticipated to become effective 10 business days after the date of the announcement.

Credit Facility - Expanded Revolving Credit Facility

Swiss Water has entered into a renewal and amendment (the “Amended Revolving Facility”) to the existing revolving credit facility with our Canadian Bank, which provides us with an additional $21.25 million of senior debt financing based on a borrowing base calculation by increasing the revolving credit facility from $30.0 million to $51.25 million. The Amended Revolving Facility will allow us to more efficiently finance any working capital requirements due to increases in sales volumes and coffee prices in the future. The Amended Revolving Facility matures on the earlier of subordinated debenture with MRC and October 19, 2025 and can be extended subject to lender’s approval.

Construction loans with BDC and FCC - Expanded Senior Term Loan

Swiss Water has entered into an amendment (the “Amended Senior Facility”) to the existing senior debt facility with our two lenders, Business Development Bank of Canada and Farm Credit Canada, which will provide us with up to an additional $12.0 million of senior debt financing at a favourable payment, interest rate and amortization schedule by increasing the senior debt facility from $45.0 million to $57.0 million. The incremental funds available under the Amended Senior Facility, together with our existing available credit and projected internally generated cash flow are anticipated to be sufficient to fund the completion of the Delta 2 production line by the third quarter of 2023.

Debenture with Warrants

The terms of Swiss Water’s existing $15.0 million subordinated debenture (the “Debenture”) held by Mill Road Capital LLC (“MRC”) include a restrictive covenant that limits the amount of indebtedness ranking senior to the Debenture. In order to permit Swiss Water to access the increased funds available under the Amended Senior Facility and Amended Revolving Facility, we also announced that we have entered into an amended and restated subordinated debenture (the “Amended Debenture”) and an amended and restated warrant (the “Amended Warrant”) with MRC.

<u>Amended Debenture.</u> The terms of the Amended Debenture modify the restrictive covenant to increase the total combined senior debt restriction from a maximum of $75.0 million to a maximum of $123.25 million. In return, the Amended Debenture grants to MRC a security interest subordinate to the Amended Senior Debt Facilities, consent rights on any new issue of pari passu debt and a covenant regarding fixed charge coverage

ratios equivalent to that under the Amended Revolving Facility. The Amended Debenture provides Swiss Water with the right to pre-pay the Amended Debenture at any time prior to maturity, subject to a make-whole provision for interest.

Amended Warrant. The Amended Warrant extends the exercise period of the warrants presently held by MRC from October 31, 2024 to April 30, 2026 and provides for a cashless exercise feature. There is no change to the number of shares issuable under the Amended Warrant (2.25 million shares) or the exercise price of the Amended Warrant ($3.33 per share). Certain existing rights of MRC regarding the nomination of a director and pre-emptive rights in respect of issuances of shares set out in ancillary agreements are now reflected in the Amended Warrant itself.

INTERNAL CONTROLS OVER FINANCIAL REPORTING & DISCLOSURE CONTROLS AND PROCEDURES

The Chief Executive Officer (“CEO”) and the Chief Financial Officer (“CFO”) of Swiss Water are responsible for establishing and maintaining adequate internal control over financial reporting (“ICFR”) to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Under the supervision and with the participation of management, we conducted an evaluation of the design and effectiveness of our ICFR as of September 30, 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 September 30, 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 September 30, 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 September 30, 2022, that have materially affected or are reasonably likely to materially affect, Swiss Water’s ICFR.