MANAGEMENT DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") of Swiss Water Decaffeinated Coffee Inc. ("Swiss Water" or the "Company"), dated as of March 30, 2022, provides a review of the financial results for the three months and the year ended December 31, 2021 relative to the comparable period of 2020. The three month period represents the fourth quarter ("Q4") of our *2021 fiscal year. This MD&A should be read in conjunction with Swiss Water's audited consolidated financial statements for the year ended December 31, 2021, and in conjunction with the Annual Information Form ("AIF"), which are available on www.sedar.com.*

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

FORWARD-LOOKING STATEMENTS

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

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

EXECUTIVE SUMMARY

The following selected information, other than Adjusted EBITDA was derived from financial statements for the year ended December 31, 2021, prepared in accordance with IFRS. For the definition of Adjusted EBITDA, refer to the Non-IFRS Measures section of this MD&A.

In $000s except per share amounts (unaudited)	3 months ended December 31, 2021	3 months ended December 31, 2020	Year ended December 31, 2021	Year ended December 31, 2020
Revenue	$ 35,129	$ 24,512	$ 125,076	$ 97,571
Gross Profit	4,389	2,861	17,611	15,652
Operating income	1,517	126	6,686	5,137
Net income (loss)	241	(320)	496	2,949
Adjusted EBITDA[1]	2,111	1,186	10,533	7,042
Net income (loss) – basic[2]	$ 0.03	$ (0.04)	$ 0.05	$ 0.32
Net income (loss) – diluted[2]	$ 0.03	$ (0.04)	$ 0.05	$ 0.25

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

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

Swiss Water recorded revenue of $125.1 million and adjusted EBITDA of $10.5 million for the year ended December 31, 2021. These results represent record performance. It is the first time in the Company's history that revenue has exceeded $100 million, and the first time adjusted EBITDA has exceeded $10 million. For the three months and year ended December 31, 2021 Swiss Water's revenue increased by 43% and 28%, respectively, compared to the same periods in the 2020. Our adjusted EBITDA increased by 78% and 50%, respectively, compared to the fourth quarter and full year in 2020.

Volume for the three months and year ended December 31, 2021 increased by 23% and 17%, respectively. Gross profit increased by $1.5 million or 53% in Q4 and by $2.0 million or 13%, for the full year. Adjusted EBITDA increased by $0.9 million in the quarter and by $3.5 million for the full year, when compared to the same periods in 2020. Full-year net income fell by $2.5 million from the 2020 level. This was primarily due to the expected impact of new higher depreciation charges, as well as incremental production expenses and the one-time impact of the extinguishment of a convertible debenture recorded in the third quarter.

During the fourth quarter, we experienced strong volume increases across the business with international regions in particular reporting double digit growth. For the full year, our European business delivered growth of 72% when compared with 2020. Despite the ongoing impact of the COVID-19 pandemic, we saw robust growth with existing customers and incremental volume from new customers switching to chemical free decaffeinated coffee throughout the year. Ultimately, our strong volume performance is a reflection of our well-diversified customer base and the growing recognition of the importance of drinking coffee decaffeinated without the use of harmful chemicals. The strong fourth quarter performance is particularly pleasing as it built on the positive momentum we reported with our third quarter results.

The primary change in our business, as it emerges from the COVID-19 pandemic environment, continues to be a change in customer mix. In the early stages of the pandemic, we experienced strong volume demand from those commercial customers that supplied the retail grocery trade. Consumer hoarding and pantry loading created a short-term demand peak. Over the course of the second half of 2020 and through the first half of 2021, strong grocery demand continued but at a slower pace than when the pandemic first took hold. As 2021 unfolded, many, but not all, shuttered restaurants and out-of-home specialty coffee shops reopened. This was a key driver of our strong volume performance during 2021. This resurgent demand is evident in the growth of 34% year-over-year with our specialty roaster customers we saw in Q4 as the food service sector got back on track, coupled with 14% growth in our business with commercial customers in the quarter. Another encouraging development, during the second half of the year was the new volume associated with the addition of a number of significant new customers and brands to our North American customer list.

Fourth quarter gross profit increased by 53% from the 2020 level. This improvement was driven by strong trading volumes combined with capacity utilization efficiencies and higher differential margins on green coffee. Our Seaforth subsidiary also continued to operate at record levels of activity helping to drive overall profitability.

Throughout 2021 and into the first quarter of this year, we have remained well positioned with green coffee inventory and able to react to short-term demand increases. However, we experienced and continue to suffer from ongoing disruption in deliveries of green coffee, particularly from Brazil, as supply chain bottlenecks and equipment shortages persist in many outbound ports, and container-ship service to the Port of Vancouver has been reduced substantially. This has led to very 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 regarding the time it will take for supply chains to return to normal operating efficiency. This caution is caused and continues to cause participants throughout the coffee supply chain to substantially increase their inventories despite a very high New York Futures contract coffee commodity price, or NY'C.

The New York Futures contract (NY'C) for Arabica coffee has increased very rapidly through the third and fourth quarter of 2021 and has remained high ever since. It is unusual for the NY'C to sustain such an elevated level for so long. 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 peaking at US$2.50 during the fourth quarter. The tight availability of exportable coffee due to crop shortages and ongoing logistical backlogs is keeping pressure on the futures market and we have seen spot availability of coffees fall substantially as a result. This, in turn, further supports a high futures market.

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

Operational highlights

- Total processing volumes increased by 23% in the fourth quarter and by 17% for the full year when compared to the same periods in 2020. Many of our customers are seeing strong consumer demand and are ordering in line, and in some cases, ahead of pre-pandemic levels. Furthermore, our volume growth was enhanced during the third and fourth quarters as we started to ship products to some new out-of-home customers within North America. Encouragingly, we recorded 7% and 56% year-over-year volume growth in our North America and Asia Pacific regions respectively in the fourth quarter of 2021 compared to the same periods in the prior year. In Europe, Q4 volumes increased by an impressive 72%.
- Our largest geographical market by volume in Q4 continued to be the United States, followed by Canada, Asia and other international markets. By dollar value, for the full year 43% of our sales were to customers

in the United States, 31% were to Canada, and the remaining 26% were to other countries. Our international business continues to expand and we anticipate revenues from our European and Asia-Pacific markets will continue to increase in both dollar and percentage terms in 2022.

Financial highlights

- Fourth quarter revenue was $35.1 million, an increase of 43% over Q4 2020, while annual revenue increased by 28% to $125.1 million. In both periods this was the result of rapid volume growth, as well as the impact of higher green coffee prices when compared to the same periods in 2020.
- Gross profit for Q4 was $4.4 million, an increase of $1.5 million from the fourth quarter 2020. For the full year, gross profit increased by $2.0 million to $17.6 million. The significant increase in gross profit was primarily driven by record volume, which in turn helped generate capacity utilization efficiencies and a higher green coffee differential margin. These movements were not unexpected and comfortably offset the increased depreciation charges and incremental labour and production expenses following the commissioning of our new Delta manufacturing facility. The additional depreciation and amortization expenses from the Delta manufacturing facility were $0.9 million for the fourth quarter and $3.4 million for the full year 2021.
- Fourth quarter net income was up by $0.6 million compared to Q4 2020. For the full year, net income was down by $2.5 million from 2020. The quarter-over-quarter and year-over-year differences reflect the combination of changes in gross profit and both operating and non-operating expenses. Despite reduced salary expenses following the restructuring of various departments during the first quarter of 2021, operating expenses for the fourth quarter increased by 5% to $2.9 million. For the full year, operating expenses were $10.9 million, an increase of 4% compared to 2020. This increase was largely due to the movement of stock-based compensation expenses. During the 2020 fiscal year there was a significant unplanned cost recovery in stock-based compensation resulting from a drop in Swiss Waters' share price. In 2021, a normal expense was recorded.
- Non-operating expenses were higher for the fourth quarter and full year due to an increase in finance costs in relation to both our construction loan and credit facility. In 2020, during the construction of Delta Line 1, borrowing costs related to this project were capitalized. Following commissioning in Q3 2020, borrowing costs related to this facility started to be recognized as an expense. Another factor contributing to higher non-operating expenses was the one-time impact of the extinguishment of convertible debenture we recorded during the third quarter of 2021 as we amended the Mill Road convertible debenture agreement to a debenture with warrants.
- Adjusted EBITDA increased by $0.9 million or 78% to $2.1 million in the fourth quarter and by $3.5 million or 50% to $10.5 million for the full year. The improvement in Adjusted EBITDA in both periods was mainly driven by the positive impact of increased sales volume and production efficiencies, partially offset by a smaller percentage increase in operating expenses.

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

We define Adjusted EBITDA as net income before interest, depreciation, amortization, impairments, share-based compensation, gains/losses on foreign exchange, gains/losses on disposal of property and capital equipment, fair value adjustments on embedded options, loss on extinguishment of debt, adjustment for the impact of IFRS 16 - Leases, and provision for income taxes. Our definition of Adjusted EBITDA also excludes unrealized gains and losses on the undesignated portion of foreign exchange forward contracts.

Adjusted EBITDA for the three months and year ended December 31, 2021 was $2.1 million and $10.5 million respectively, compared to $1.2 million and $7.0 million for the same periods in 2020. Operationally, the change in Adjusted EBITDA was driven by increased volumes, revenue growth, efficiency gains due to higher capacity utilization rates, and an increased financial contribution from Seaforth. These gains were offset by an increase in green coffee costs and inflationary pressure 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 December 31, 2021	 2020	Year ended December 31, 2021	 2020
Operating income	$ 1,517	$ 126	$ 6,686	$ 5,137
Depreciation & amortization	1,095	1,653	6,208	4,677
Share-based compensation expense (recovery)	205	192	690	(129)
Gain (loss) on risk management activities	179	289	(323)	122
Unrealized (gain) loss on foreign exchange forwards	(183)	(371)	80	(48)
Impact of IFRS 16 - Leases	(702)	(700)	(2,808)	(2,717)
Adjusted EBITDA	$ 2,111	$ 1,189	$ 10,533	$ 7,042

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

(In $000s) (unaudited)	3 months ended December 31, 2021	 2020	Year ended December 31, 2021	 2020
Income (loss) for the period	$ 241	$ (320)	$ 496	$ 2,949
Income taxes expense (recovery)	128	(323)	509	1,058
Income (loss) before tax	$ 369	$ (643)	$ 1005	$ 4,007
Finance income	(72)	(118)	(442)	(488)
Finance expenses	1,189	1,061	4,364	3,087
Loss on extinguishment of debt	(4)	-	1,381	-
Depreciation & amortization	1,095	1,653	6,208	4,677
Unrealized (gain) loss on foreign exchange forwards	(183)	(371)	80	(48)
Fair value loss (gain) on the embedded option	-	72	48	(1,328)
(Gain) loss on foreign exchange	214	43	7	(19)
Share-based compensation expense (recovery)	205	192	690	(129)
Impact of IFRS 16 - Leases	(702)	(700)	(2,808)	(2,717)
Adjusted EBITDA	$ 2,111	$ 1,189	$ 10,533	$ 7,042

OUTLOOK

Throughout 2021, we continued to experience strong demand from commercial customers that service the retail grocery trade as many consumers chose to drink more of their coffee at home. The pivot to increased-at-home consumption first emerged during the early stages of the COVID-19 pandemic during the first half of 2020. We expect this trend to continue for the foreseeable future. At the same time, our sales to specialty roasters have grown sharply in recent months. During the fourth quarter some of our specialty customers were ordering in line, or exceeding pre-pandemic levels of activity.

As 2021 unfolded, we saw increasing demand from customers that serve the out-of-home market through cafes and restaurants as COVID restrictions were eased, and more and more people were able to begin resuming their normal activities. This has been particularly evident in North America where many of our foodservice customers experienced a welcome increase in traffic through their retail outlets after a heavily disrupted trading period in 2020.

Over the past few quarters, many countries and regions have seen their COVID-19 vaccination programs move towards maturity. These jurisdictions several states and major cities in the USA, which is our largest geographical segment. As we move through this winter, we are cautiously optimistic that high vaccination rates will reduce the scale of subsequent COVID-19 outbreaks and lower the risk of future demand disruption in some of our most important markets. It is particularly encouraging that our sales volumes in the Asia Pacific region grew by 30% during 2021. This region is acknowledged to have managed the control of the COVID-19 pandemic relatively well, and it would appear that Asia Pacific's growth is a leading indicator of how our volume will continue to rebound in North America and Europe as COVID-19 infection rates continue to fall in these regions.

Despite signs of a recovery uncertainty does persist. The global recovery from the COVID-19 pandemic and the full rollout of the vaccine is unlikely to be without a challenge. Vaccination rates in some countries, and in particular the USA, are starting to slow down and future COVID-19 outbreaks are likely. Given this ambiguity, we cannot reliably predict the ultimate impact that the COVID-19 pandemic will have on our business in 2022, particularly within the out-of-home market. Accordingly, the risk remains that Swiss Water may continue to report sales volumes that under-index recent year trends. However, after a stronger than expected third and fourth quarter, which drove record performance in 2021, we are cautiously optimistic that our volume growth will remain high as we move through the first half of 2022.

On a more cautionary note, the recovery of the global economy has placed significant stress on international supply chains. This development has started to undermine 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 and later than expected rains in October 2021 has driven a sharp rise in the coffee futures price in recent months. High coffee prices can also have a destabilizing impact on the efficient movement of coffee inventories and will also result in significantly higher prices on retail grocery shelves. Historically sharp increases in retail pricing have resulted in demand destruction in grocery which has the effect of decreasing volumes. We are paying close attention to these emerging risks and will implement necessary mitigation steps, as required, to ensure that our production schedules are not compromised as we move through 2022.

Operationally, Swiss Water ran both production lines at our legacy plant in Burnaby, BC on a 24/7 basis throughout 2020 and 2021. Since completing the first production run of commercial-grade coffee from our new decaffeination line in Delta, BC in September 2020 we have been steadily transitioning a significant proportion of production volume to this new facility. Currently, Delta is running on a 24/7 basis as we continue its optimization. However, record demand in the last two quarters of 2021 drove an increase in the utilization of our legacy assets in Burnaby. During the third and fourth quarter of 2021, the capacity utilization rate across all three of our current production lines exceeded an average of 80%. Operating at these elevated levels of production volume would not have been possible without the investment in our first production line in Delta. Furthermore, it provides a valuable insight into the value creation opportunity available when we operate at high capacity utilization rates and supports our decision to invest in a second line in Delta.

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

The preliminary cost estimate from our third-party engineering firm for the design and construction of the second production line in Delta is approximately $45.0 million, plus commissioning costs, which are expected to be approximately $2.0 million. These estimates are preliminary and like all major design and construction projects are highly dependent on local and global economic factors impacting construction. These include, without limitation, changes in labour, commodity and materials pricing, trade policies, and supply chain issues. In addition, the continuing impact of the worldwide COVID-19 pandemic is unknown and could impact the timing and costs of the project. In Q2 2021, we concluded a new financing agreement with BDC and FCC that will contribute $25.0 million towards this project. As part of that financing arrangement, in Q3 of 2021, we amended the Mill Road convertible debenture to a debenture with warrants that increased our senior debt covenant to $60 million. In response to rapid growth, coupled with increased coffee prices, the company is in discussions with parties to increase its working capital lines and find more efficient solutions to address coffee price fluctuations. To support this effort and allow more efficient credit mechanisms to be put in place, the company is investigating numerous options to expand its current credit capacity including expansion of our working capital facility, enhancing hedging facilities, reconsidering the current senior debt limit and opportunities for raising new capital.

BUSINESS OVERVIEW

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

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

Swiss Water shares trade on the Toronto Stock Exchange under the symbol 'SWP'. As at the date of this report, 9,157,829 shares were issued and outstanding.

Swiss Water Decaffeinated Coffee's Business

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

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

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

CAPACITY TO DELIVER RESULTS

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

- Proprietary Chemical Free Production Lines – We have three decaffeination production lines. This enables us to align our production capacity with changes in demand throughout the year. We are able to better control our variable cost by operating a reduced number of lines when demand is lower and all lines when demand is higher. In Q3 2020 we initiated production from our new processing facility in Delta, B.C. In prior years we completed an efficiency enhancement project in Q2 2018 to increase capacity at our Burnaby operating facility and in 2016, we expanded the capacity of one of our production lines, which enabled us to meet near-term growth in demand for our products. The construction of our fourth processing line in Delta, which commenced in 2021 will enable us to meet our medium term growth ambition.

- Consumer Branding as the Premium, 100% Chemical Free Method of Decaffeinating Green Coffee – We have been successful in establishing our brand as a leading chemical free processor of green decaffeinated coffee. Consumers and participants in the coffee trade are increasingly aware of the value of the chemical free Swiss Water® Process due to its quality and taste. We believe that there is significant potential to continue to broaden consumer awareness of the benefits of the Swiss Water® Process.

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

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

- Working Capital and Expansion Capital – In 2015, 2016, 2018, and 2019 we raised capital which was used to fund the construction of our third production line (housed in the new production facility noted above). This production line was commissioned in 2020. In 2021 we raised capital through debt financing to finance our second production line in Delta, BC. In 2022, we will continue to revisit our budgets and financing strategy to ensure that we have sufficient funds to execute on our business strategy and working capital needs. This will include substantial completion of the construction of our fourth production line at our Delta, B.C. location and investments necessary to support record high coffee prices. We expect to utilize internally generated and external funds to finance the capital costs associated with the new production facility, and our future working capital investments.
- Management Expertise – Swiss Water is highly regarded in the coffee industry for our senior management team's substantial experience, our close attention to consumer trends in the specialty coffee market, and our in-depth knowledge of green and roasted coffee. In particular, our intense focus on premium product quality and commitment to science-driven insight is well recognized. To maximize these strengths, we have invested significant resources in enhancing our team's industry-related skills and talents over the past few years. Going forward, we intend to leverage our exceptional experience with, and knowledge of, the specialty coffee industry to continue to build our business.

KEY PERFORMANCE DRIVERS

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

Internal Factors

- Sustainability and Environmental Responsibility – The Swiss Water® Process is a 100% chemical free decaffeination process that enables us to consistently deliver high-quality coffee. Our approach to sustainability is to continually improve and innovate this process to be more efficient by actively managing resource usage in a safe and environmentally responsible manner. In addition to carefully managing our operations, we take steps to ensure a sustainable coffee supply by purchasing sustainably certified coffees and organic coffees. We promote social sustainability by participating in programs within the coffee industry that advance the health of women and their families living in coffee-growing communities (Grounds for Health) and that foster research-based approaches to advancing coffee cultivation (World Coffee Research).
- Processing Volumes – Our decaffeination facility generates a certain level of fixed operating costs that are incurred regardless of the volume of coffee processed. Accordingly, our profitability and cash from operations will increase as processing volumes increase. Processing volume is a key performance indicator ("KPI") that we monitor continuously.
- Process Consistency – We manage our operations in order to reduce variability in production and drive continuous improvement. Production consistency results in improved product quality. We have developed a number of KPIs designed to monitor process consistency, and have set targets for continuous process improvement.
- Product Quality – Quality control is a key part of our operations. We operate under the Food Safety Systems Certification (FSSC) 22000, which manages our food safety, as well as HACCP (Hazard Analysis Critical Control Points) and quality assurance programs. All green coffees delivered to our processing facility are weighed and inspected and are subject to rigorous internal quality-control evaluations. Each

lot of green coffee processed is monitored throughout the decaffeination process, and a certificate of analysis is prepared for each lot. A sample from each production lot is also roasted, brewed and cupped to ensure quality. In addition, our focus on reducing the size of production lots and increasing inventory turnover results in fresher coffee being provided to our customers. Production batch size and inventory turns are two other KPIs that we monitor regularly.

- Order Fulfillment – Our integrated supply chain management strategy includes maintaining inventories of finished goods at various coffee warehouses throughout North America, and of raw goods for improved inventory replenishment times. Our order fulfillment rates are monitored regularly. An improved order fulfillment rate contributes to our volume growth and improved customer service levels.
- Employee Safety – We are focused on operating our business in a safe manner, and reducing the likelihood that employees will be injured at work. We track employee safety metrics by department, and our safety committee proactively seeks ways to reduce the risks inherent in our operating environment. While we cannot completely eliminate the risk of workplace incidents or accidents, we have significantly reduced the number of safety-related incidents over the past few years. We believe that ensuring employee safety leads to improved employee retention and morale, increased efficiency and lower operating costs.

External Factors

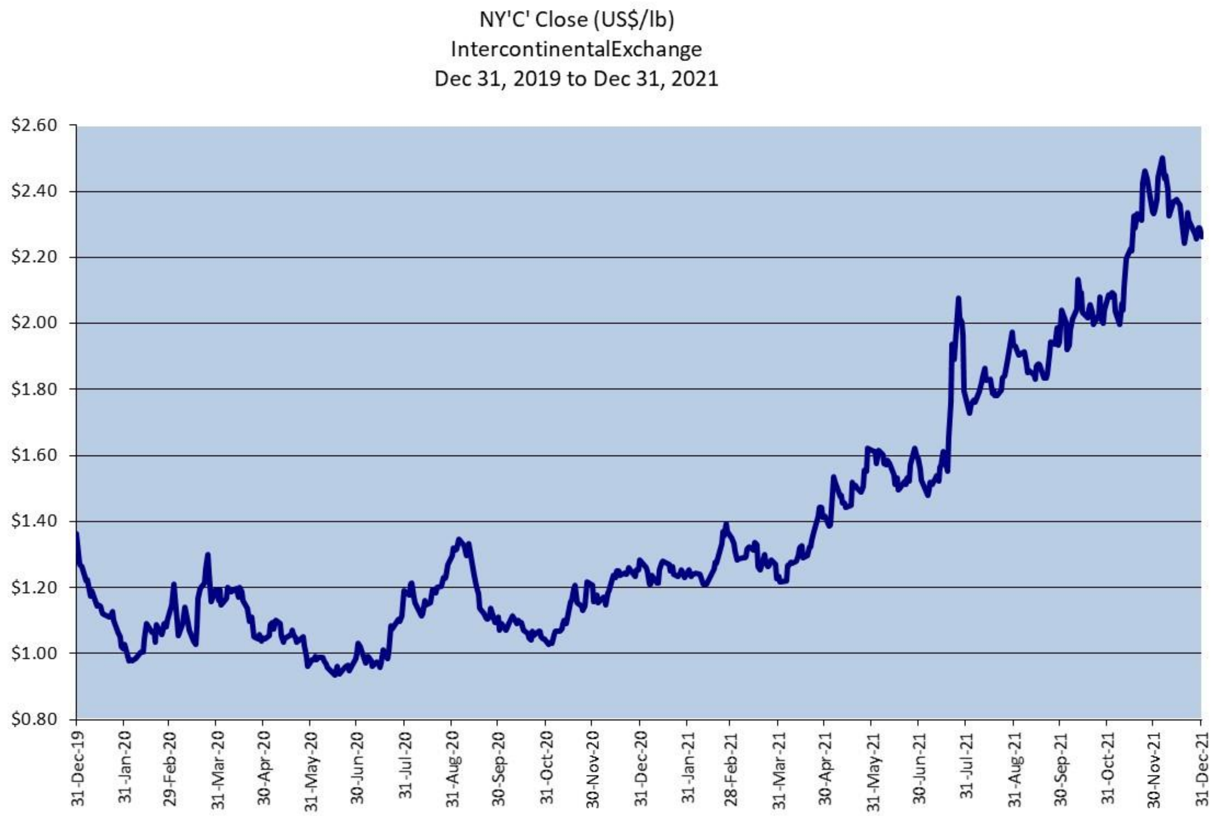
Coffee Futures Prices

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

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

In Q4 2021, the NY'C' averaged US$2.1989/lb compared to an average of US$1.14/lb in Q4 2020. For 2021, the NY'C averaged US$1.6832/lb, compared to US$1.11/lb for 2020. The rise and fall of the NY'C' affects our volume of shipments, our revenues and our cost of sales. 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 chart below shows the movement in the NY'C' for the last eight quarters:



<u>US$/C$ Exchange Rates</u>

As noted above, 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.

In Q4 2021, the US$ averaged C$1.2601, a decrease from C$1.3030 over the same period in 2020. In 2021, the US$ averaged C$1.2536, a decrease of 6.5% over the same period last year. During 2021 the US$ ranged between C$1.2040 and C$1.2942 (2020: between C$1.27 and C$1.45). When the US$ depreciates (appreciates), it decreases (increases) our gross profit on green coffee revenues.

The chart below illustrates the US$ to Canadian dollar ("C$") exchange rates for the last eight quarters:

OPERATING RESULTS

Revenue

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

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

Our revenue by category for the indicated period was:

(In $000s)	3 months ended December 31,		Year ended December 31,	
(unaudited)	2021	2020	2021	2020
Process revenue	$ 8,396	$ 6,726	$ 30,482	$ 26,079
Green revenue	24,444	15,951	86,157	64,299
Distribution revenue	2,289	1,835	8,437	7,193
Total revenue	$ 35,129	$ 24,512	$ 125,076	$ 97,571

For the quarter ended December 31, 2021, sales totaled $35.1 million, an increase of $10.6 million, or 43%, compared to the same quarter in 2020. Sales for the year 2021 totaled a record $125.1 million, an increase of $27.5 million, or 28%, over the same period last year.

Our sales in the fourth quarter and in 2021 by revenue category are as follows:

- Process revenue increased by $1.7 million, or 25% in Q4, and increased by $4.4 million, or 17% in 2021. Increases in both periods reflect a strong increase in our processing volumes.
- Green revenue increased by $8.5 million, or 53% in Q4, and increased by $21.9 million, or 34% in 2021. These movements are mainly due to increased green coffee sales volume increase and higher coffee futures price, NY'C', in such periods.
- Distribution revenue increased by $0.5 million, or 25% in Q4, and increased by $1.2 million, or 17% in 2021. Variability in distribution revenue has been driven by higher shipment volumes and capacity utilization rates in our Seaforth subsidiary.

The sales volume performance in the fourth quarter and in 2021 by geographical segment are as follows:

- Sales volume in North America increased by 7% in Q4, and by 5% in 2021,
- Sales volume in Europe increased by 72% in Q4, and by 70% in 2021,
- Sales volume in Asia Pacific increased by 56% in Q4, and by 30% in 2021.

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.

Our fourth quarter cost of sales increased by $9.1 million, or 42%, to $30.7 million this year compared to the same period in 2020. For the year 2021, our cost of sales was $107.5 million, up by $25.5 million, or 31%, over the same period last year. This was mainly driven by an increase in the cost of green coffee, high production volumes, depreciation of our Delta manufacturing facility, and incremental labour and production expenses. The additional depreciation and amortization expenses from the Delta manufacturing facility and finance lease were $0.8 million for the quarter and $3.4 million for the year.

Gross Profit

Gross profit increased by $1.5 million or 53% to $4.4 million for the fourth quarter of 2021 and by $2.0 million or 13% to $17.6 million for the year 2021. These improvements were driven by record trading volumes combined with capacity utilization efficiencies and higher differential margin during the last two quarters of 2021. Our Seaforth subsidiary also continues to operate at record levels of activity. These movements were not unexpected and comfortably offset increased depreciation charges, incremental labour and production expenses incurred during the first full year of operations at our new Delta manufacturing facility.

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.

Administration expenses for the quarter increased by $0.7 million or 15% to $2.0 million, and for the year increased by $1.3 million or 22% to $7.5 million. In Q1 2020, there was a significant cost recovery of share-based compensation costs, which are based on Swiss Water's share price. During the year 2020, our share price dropped. This resulted in an estimated stock-based compensation cost recovery in 2020, whereas, in 2021, an expense was recorded. If the impact of share-based compensation and recovery of research and development tax credit was excluded, administration expenses for the twelve months of 2021 would be flat compared to the nine months of 2020.

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.

Sales and marketing expenses were down by $0.5 million, or 40%, to $0.8 million in Q4 2021, and down by $0.9 million, or 21%, to $3.5 million for 2021, compared to the same periods in 2020. The variability of these expenses throughout the year is mainly driven by timing differences in advertising and marketing campaign activities and savings following the restructuring of this department during Q1 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, 'Gain (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 months and the year ended December 31, 2021, we recorded a gain of $0.2 million and a loss of 0.3 million, compared to gains of $0.3 million and $0.1 million recorded for the same periods in 2020.

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 convertible debenture and interest expense on finance leases.

The net finance expense was $1.1 million for the three months ended December 31, 2021, and $3.9 million for the year ended December 31, 2021, compared to net finance expense of $0.9 million and finance expense of $2.6 million in the same periods last year. The higher net interest expense relates to higher borrowings from our credit facility and construction loans. Capitalization of borrowing costs and finance lease interest related to Delta Line 1 ended in Q3 of 2020 which also contributed to the reporting of higher finance expenses during 2021.

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 is 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 and paid at the debt maturity date. Refer to note 11.2 of the financial statements for the year ended December 31, 2021 for discussion on the amended debt agreement with Mill Road Capital.

During the construction phase of our Delta facility, interest expenses related to the construction loan and the Delta lease were capitalized within the property, plant and equipment.

Finance lease interest of $0.3 million and $1.1 million was recognized during the three months and year ended December 31, 2021 respectively compared to $0.3 million and $0.8 million in the same periods in 2020. The increase is a result of the Delta manufacturing facility being operational now as in the prior year the interest was capitalized.

Loss on extinguishment of convertible debenture

On July 20, 2021, Swiss Water amended the convertible debenture agreement with Mill Road to a debenture with warrants. Under IFRS 9, the accounting for the transaction depends on whether the debt restructuring is considered an extinguishment or an adjustment to the existing liability (“extinguishment accounting” vs “modification accounting”).

Given there is a 2.15% change in the interest rate and a replacement of the debt conversion to shares with warrants, we determined that the terms within the convertible debenture and the terms within the debenture with warrants are substantially different. As such, this debt restructuring transaction was accounted for using the extinguishment method of accounting for debt reconstruction. During the year ended December 31, 2021, the Company recognized a loss on extinguishment of the convertible debenture in the amount of $1.4 million. The loss consists of a $0.2 million cash payment for professional fees, a loss of $1.6 million on the extinguishment of the liability component of the convertible debenture net of a gain of $0.4 million on the embedded derivative related to the conversion. There was no such loss in the year 2020.

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 that was entered into in October 2016. Under IFRS, this instrument was deemed to contain an embedded option that was revalued at each balance sheet date. The fair value of the derivative liability was determined using the Black Scholes Option Pricing Model. The variables and assumptions used in computing the fair value are based on management's best estimate at each balance sheet date.

In Q3, 2021 Swiss Water extinguished the Mill Road convertible debenture and the embedded option was written off, as such there was no revaluation of the embedded option in Q4, 2021. For the year 2021 there was a small loss of $0.05 million. For the same periods in 2020, the Company recognized a loss of $0.1 million and a gain of $1.3 million. Before the extinguishment of the embedded option, the fluctuations were due to swings in Swiss Water's share price and the risk-free interest rate that are used as inputs in the Black Scholes model. In 2020, a large gain was recorded because the Company's share price dropped from $6.88 to $3.06 during 2020. In 2021 until extinguishment, the share price did not fluctuate as much, and as such the year to date figure was less significant.

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.

During the fourth quarter, we recorded a loss on foreign exchange of $0.2 million, compared to a $0.04 million foreign exchange loss in the same period of last year. The full year amount for 2021 was nearly nil compared to a gain of $0.02 million in the same period of 2020.

Income Before Taxes and Net Income

In the fourth quarter of 2021, we recorded a net income before taxes of $0.4 million, compared to a loss of $0.6 million in the same period in 2020. Income tax expense decreased our net income by $0.1 million for the quarter, compared to a tax recovery of $0.3 million in Q4 2020.

Deferred income taxes arise mainly from temporary differences between the depreciation and amortization expenses deducted for accounting purposes, and the capital cost allowances deducted for tax purposes, as well as changes in corporate income tax rates as adjusted for substantively enacted higher future tax rates. The latter is offset by the tax benefit of loss carryforwards recognized. Overall, we recorded a net gain of $0.2 million in Q4 2021, compared to a $0.3 million net loss in the same quarter last year.

Other Comprehensive Income

Gains or losses on our designated revenue hedges that will mature in future periods are recorded in other comprehensive income, net of income tax expense. Other comprehensive income, net of tax, for the year ended December 31, 2021 was a gain of $0.1 million, compared to $1.4 million in the same period of 2020. The increase is related to fluctuations in the value of the Canadian dollar versus the US dollar.

Basic and Diluted Earnings per Share

Basic earnings per share are calculated by dividing net income by the basic weighted average number of shares outstanding during the period. Similarly, diluted earnings per share are calculated by dividing net income adjusted for the effects of all dilutive potential common shares, by the diluted weighted average number of shares outstanding. For the purposes of the calculation, under IFRS we are required to assume that the maximum number of shares issuable under the convertible debenture will be issued, even though the debenture contains a net share settlement provision (which if exercised would result in far fewer shares being issued).

For the three months and for the year ended December 31, 2021, potential common shares issuable under the RSU Plan and debenture with warrants were anti-dilutive and excluded from the dilution calculation.

For the year ended December 31, 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 for the current and prior periods are shown in the following table:

(In 000s except for per share data) (unaudited)	3 months ended December 31, 2021	2020	Year ended December 31, 2021	2020
Basic earnings per share				
Net income (loss) attributable to shareholders	$ 241	$ (320)	$ 496	$ 2,949
Weighted average number of shares	9,129,673	9,078,780	9,122,283	9,076,188
Basic earnings (loss) per share	$ 0.03	$ (0.04)	$ 0.05	$ 0.32
Diluted earnings (loss) per share				
Net income (loss) attributable to shareholders	241	(320)	496	2,949
Interest on convertible debenture	-	-	-	1,145
Gain on fair value adjustment of the embedded option	-	-	-	(1,328)
Net income (loss) after effect of diluted securities	$ 241	$ (320)	$ 496	$ 2,766
Weighted average number of shares – basic	9,129,673	9,078,780	9,122,283	9,076,188
Effect of diluted securities: convertible debenture	-	-	-	1,818,182
Weighted average number of shares - diluted	9,129,673	9,078,780	9,122,283	10,894,370
Diluted earnings (loss) per share	$ 0.03	$ (0.04)	$ 0.05	$ 0.25

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 pandemic masked the typical seasonality pattern in 2020, however, 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	Q4 2021	Q3 2021	Q2 2021	Q1 2021	Q4 2020	Q3 2020	Q2 2020	Q1 2020
Revenue	27,831	35,129	35,496	28,759	25,692	24,512	24,862	26,380	21,817
Gross Profit	4,158	4,389	6,018	3,652	3,552	2,861	3,431	5,154	4,206
Operating income	1,478	1,517	3,325	1,106	738	126	606	2,370	2,035
Adjusted EBITDA[1]	2,196	2,111	3,974	2,461	1,987	1,186	1,335	2,536	1,981
Net income (loss)	431	241	135	216	(96)	(320)	106	1,716	1,448
Per Share[2]									
Net income (loss) - basic	0.05	0.03	0.01	0.02	(0.01)	(0.04)	0.01	0.19	0.16
Net income (loss) - diluted	0.03	0.03	0.01	0.02	(0.01)	(0.04)	0.01	0.19	0.02

[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.

SELECTED ANNUAL INFORMATION

(In $000s except per share amounts) (unaudited)	December 31, 2021	December 31, 2020	December 31, 2019
Balance Sheet			
Total assets	168,245	139,233	136,881
Total non-current liabilities	70,783	70,262	66,445
Income Statement			
Revenue	125,076	97,571	97,230
Net income	496	2,949	2,944
Adjusted EBITDA[1]	10,533	7,042	7,344
Dividends paid [2]	-	566	2,265
Per share, basic [3]			
Net income	0.05	0.32	0.32
Adjusted EBITDA[1]	1.15	0.78	0.81
Dividends declared	-	-	0.25
Per share, diluted [3]			
Net income	0.05	0.25	0.32
Adjusted EBITDA [1]	1.15	0.65	0.81

[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] Dividend paid in 2020 was for dividend declared in Q4 2019.
[3] Per-share calculations are based on the weighted average number of shares outstanding during the periods.

Our total assets and our total long-term liabilities increased in each of the last three years as we were building our new facility in Delta, BC along with our first production line. The second production line is currently in the construction phase.

LIQUIDITY AND CAPITAL RESOURCES

Operating activities

For the three months and the year ended December 31, 2021, net cash outflows for operating activities were $6.5 million and $6.4 million, respectively, compared to cash generated in the amount of $3.2 million and $4.4 million in the same periods in 2020. Cash inflows from operations were offset by cash outflows required to pay for coffee inventory.

Investing Activities

Cash outflows in investing activities for Q4 2021 were $3.0 million, compared to cash outflows of $0.4 million in Q4 2020. Cash outflows from investing activities for 2021 were $13.7 million, compared to cash outflows of $12.5 million in the same period last year. In both years the majority of cash outflows were for property and equipment related to our plant expansion in Delta, BC.

Financing Activities

During the fourth quarter and the year 2021, we received proceeds net of repayment from our credit facility, in the amount of $9.1 million and $13.0 million, while in the fourth quarter and year 2020 we obtained proceeds, net of repayment of $0.3 million and $6.3 million, respectively.

In the second quarter of 2021, we concluded a new financing agreement with BDC and FCC for the expansion of our plant in Delta, BC. Proceeds received from these construction loans were $2.8 and $10.6 million during the fourth quarter and the year 2021. There were no cash inflows from the construction loans during 2020.

During Q4 of 2021 Swiss Water renegotiated its Mill Road Capital borrowings from convertible debenture to debenture with warrants. The Company recognized an extinguishment of debt related to the convertible debenture, of which $1.2 million was a non cash write off of the convertible debenture bond value and the value of non cash derivative related to the conversion option. Associated with this matter, Swiss Water paid $0.2 million in debt financing transaction costs. No cash was received for the $2.5 million of warrants issued for debenture with warrants and financing costs to issue these warrants were $0.03 million. There were no such transactions during the prior year ended December 31, 2020.

Inventory

Our inventory increased in value by 89% and increased in volumes by 47% between December 31, 2020 and December 31, 2021. The increase reflects a higher NY'C' in the current year and higher volumes.

Under hedge accounting, gains and losses on derivative instruments for coffee to be sold in future periods are recorded in inventory. The hedge accounting component of inventory as at December 31, 2021 was a gain of $3.8 million compared to a gain of $1.1 million at the end of 2020.

Accounts Receivable

Our accounts receivable decreased by $1.3 million, or 9%, between December 31, 2020 and December 31, 2021 compared to an increase of $0.8 million, or 6%, between December 31, 2019 and December 31, 2020. Over 82% of Swiss Water accounts receivable are current as at December 31, 2021. The majority of the past due amounts were collected shortly after the year end.

Credit Facilities and Liquidity

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

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 an 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 December 31, 2021 we were, and remain as of the date hereof, in compliance with all covenants in the years 2020 and 2021.

Construction Loan with BDC and FCC

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

On June 3, 2021, the Company completed a financing transaction by increasing the existing term loan 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"), 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 with BDC will increase from $20.0 million to $22.5 million ("BDC Amended Term Loan") and FCC will also fund the $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.

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.

The Company incurred $0.2 million in financing transaction costs in connection with the Pari Passu agreement, which were recorded as deferred financing transaction costs in the non-current period of borrowings. These transactions costs are amortized until the construction loans maturity date.

Both loans are secured by a general security agreement and a first security interest on all existing equipment and machinery plus new equipment and machinery financed with the BDC and FCC construction loans. Seaforth has provided a guarantee for the construction loans to FCC and BDC. As of December 31, 2021, the construction loans amount outstanding was $31.0 million including interest accrued of $0.1 million.

As of December 31, 2021 we were, and remain as of the date hereof, in compliance with BDC and FCC bank covenants.

Debenture with Warrants / Convertible Debenture with Mill Road Capital

On July 20, 2021, Swiss Water amended the $15.0 million convertible debenture agreement with 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 have determined that this modification should be considered an extinguishment as the terms of the agreement are substantially different given as there is 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. There was no such cost last year.

In Q3 2021, the warrants were recorded as a component of equity as they will be settled by the exchange of a fixed amount of cash for a fixed number of the Company's equity and will not be subsequently re-measured. The warrants were valued at $2.5 million using the Black Scholes model.

As of December 31, 2021 we were, and remain as of the date hereof, in compliance with all Mill Road debenture with warrants covenants.

Contractual Obligations

The following table sets forth our contractual obligations and commitments as at December 31, 2021:

(In $000s) (unaudited)		Total		Less than 1 year		2-3 years		4-5 years		Over 5 years
Long-term debt[1]	$	45,979	$	109	$	17,076	$	7,895	$	20,899
Financing leases[2]		9,333		2,827		3,327		2,531		648
Credit facility[3]		23,412		23,412		-		-		-
Purchase obligations[4]		94,803		94,566		237		-		-
Total contractual obligations	$	173,527	$	120,914	$	20,640	$	10,426	$	21,547

[1] Long-term debt represents the principal amounts of the debenture with warrants and construction loans.
[2] Minimum obligations for our finance leases.
[3] Credit facility matures in 2022, where the maturity date can be extended subject to lenders' approval.
[4] Purchase obligations represent outstanding capital, and coffee and purchase commitments.

Swiss Water leases the following offices, warehouses and equipment:

On August 26, 2016, we signed a lease agreement for a build-to-suit production facility. 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 commenced 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.

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

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

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

Swiss Water Decaffeinated Coffee Company USA, Inc. leases a sales office in Seattle, Washington, which expires in October 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, Roland Veit.

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

(In $000s) (unaudited)		Year ended December 31, 2021		2020
Income for the period	$	648	$	479
Purchases of raw materials	$	5,344	$	3,891

All transactions were in the normal course of operations and were measured at the fair value of the consideration received or receivable, which was established and agreed to by the related parties. As at December 31, 2021, our accounts receivable balance with this company was $0.03 million (December 31, 2020: $0.04 million) while our accounts payable balance with this company was nearly nil (December 31, 2020: $0.3 million).

On October 26, 2021, the Company and a member of key management ("borrower") entered into a promissory note in the amount of US$0.07 million. For as long as the borrower remains an employee, the obligation to repay the principal is forgiven against current and future awards under the RSU Plan, by forfeiture of awards. The loan is interest free other than in the event of default, in which case the promissory note would bear simple interest at a rate of 10% per annum. As at December 31, 2021 the loan balance was $0.07 million (2020: $nil).

In 2017, a subsidiary of the Company and a member of key management entered into a promissory note in the amount of US$0.1 million. For as long as the person remained 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 was 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. In 2021 the loan was settled against vested RSUs and cash payments and no amounts remain receivable as at December 31, 2021 (2020: $0.04 million).

RISKS AND UNCERTAINTIES

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

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.

ENVIRONMENTAL RISKS

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

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

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

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

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

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

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

We believe that the trend toward increased environmental awareness creates an opportunity for us to grow our business, as consumers and coffee industry participants place greater emphasis on reducing their impact on the environment. As one of the few chemical free decaffeinators in the world, we believe that an increased focus on environmental matters will allow us to win more business from decaffeinators that use chemicals such as methylene chloride to decaffeinate coffee.

CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES

Measurement of Uncertainty

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

Effective January 1, 2019, we adopted IFRS 16 Leases in accounting for leases of our offices, warehouses, and equipment. Estimates and assumptions were made and applied, including the useful lives of right-of-use assets and the implicit borrowing rates. The useful lives of right-of-use assets are estimated to be the length of the related lease terms, ranging from 2 to 20 years. The weighted average implicit borrowing rate is 4.92% per annum which was based on borrowing rates available to the Company.

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

Asset Retirement Obligation

The undiscounted future value of the asset retirement obligation (“ARO”) with respect to our leased decaffeination facilities is estimated at $2.3 million. This estimate assumes that we relocate from the current locations upon expiry of the lease in Burnaby, in 2023, at an estimated cost of $0.9 million, and the expiry of lease before renewal in 2038 for the two lines in Delta, BC at an estimated cost of $1.4 million. Further, the estimate reflects the expected costs of vacating the leased facility in 2023 and 2038, having regard for the contract language in the lease, the expected useful lives of our plant and equipment, and the expected costs that would be paid to a third party to remove equipment.

Property, plant, equipment and intangible asset

Property, plant and equipment, and intangible assets with finite lives that are subject to depreciation or amortization are tested for impairment indicators at the end of each reporting period. If any such indicator exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. In 2020, the Company received notification from the landlord of the Lake City Way lease, in Burnaby BC, that they will not renew the lease after 2023. The location houses two production lines, of which one is anticipated to have utility past the year 2023, and therefore is depreciated beyond the life of the lease. The Company continues to pursue options to utilize assets from this production line in future operations. As a result, the Company tested our property, plant and equipment for impairment in accordance with IAS 36, Impairment of Assets, using a fair value less cost to sell method and determined that no write-down of property, plant and equipment was required.

Income Taxes

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

Deferred tax assets also reflect estimates of the recoverability of non-capital loss carryforwards. We have recognized the benefit of loss carryforwards to the extent that it is probable that taxable income will be available in the future against which our non-capital loss carryforwards can be utilized. As at December 31, 2021, Swiss Water and its subsidiaries had combined non-capital tax loss carryforwards totaling $30.4 million, which can be used to reduce income taxes payable in future years.

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

Leases and right of use assets

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

Debenture with Warrants

In the calculation of the fair value of the liability portion of the debenture with warrants upon initial recognition, management estimates the interest rate on a similar instrument of comparable credit status providing for substantially the same cash flows, on the same terms, but without the warrants exercise option. Further discussion and details on the Debenture with warrants can be found in the Borrowings note to the financial statements for the period ended December 31, 2021.

Convertible Debenture with Embedded Derivative

In 2021 the Company renegotiated the convertible debenture with Mill Road Capital LLC by extinguishing it and replacing it with a debenture with warrants. As a recap, in 2016, the Company issued an unsecured subordinated convertible debenture for gross proceeds of $15.0 million. The convertible debenture bore interest at a rate of 6.85% per annum to be paid quarterly in arrears and is due on October 11, 2023. Subject to reaching specific thresholds in the covenant, the interest rate would have increased to 7.85% per annum to be paid quarterly in arrears. The convertible debenture was convertible into common shares of the Company at a conversion price of $8.25 per common share. Under the terms of the agreement, Swiss Water had the option to pay interest-in-kind for the first two years. If elected, this option would have increased the principal sum by the interest owing. This option was not elected.

The convertible debenture also included a Net Share Settlement feature that allowed Swiss Water, upon conversion, to elect to pay cash equal to the face value of the convertible debenture and to issue common shares equal to the excess value of the underlying equity above the face value of the convertible debenture. If the Net Share Settlement option were elected, it would have resulted in fewer common shares being issued. In 2016, the Company paid financing costs of $0.5 million in respect of issuing the convertible debenture.

Under IFRS, we are required to estimate the interest rate on a similar instrument of comparable credit status and providing for substantially the same cash flows, on the same terms, but without the equity conversion option, in order to estimate the fair value of the liability portion of the convertible debenture upon initial recognition. We had estimated the effective interest rate to be 12.15%, such that the fair value of the liability component of the convertible debenture was initially measured at $11.2 million. During 2021, the Company estimated and recorded $0.8 million in interest expense (2020: $1.6 million) and paid $0.5 million (2020: $1.0 million).

We were also required to estimate the fair value of the embedded derivative liability related to the convertible debenture at initial recognition, and at the end of each reporting period. We used the residual value method to allocate the fair value of the convertible debenture between the liability component and the derivative liability. Under this method, the value of the derivative liability was determined to be $3.3 million at inception. The fair value of the derivative liability was determined using the Black Scholes Option Pricing Model. The variables and assumptions used in computing the fair value are based on management's best estimate. The value varies with different variables of certain subjective assumptions.

The convertible debenture is now extinguished. The inputs into the Black Scholes Option Pricing Model to determine the fair value of the conversion option as of last year and at the extinguishment date was as follows:

	At extinguishment on July 20, 2021	Year ended December 31, 2020
Share price	$ 3.33	$ 3.06
Exercise price	8.25	$ 8.25
Option life	2.23 years	2.78 years
Volatility	51%	48%
Risk-free interest rate	0.46%	0.25%
Dividend yield	0.00%	0.00%

CHANGES IN ACCOUNTING STANDARDS

The following amendments to accounting standards became effective for annual periods beginning on or after January 1, 2021. The adoption of these revised standards by the Company did not have a material impact on its consolidated financial statements.

- IAS 1 amendments address the classification of liabilities between current and non-current;
- IFRS 9/ IAS 39 and IFRS 7 (phase 2) were amended to address issues arising from the implementation of interest rate benchmark reform ("IBOR"), including the replacement of one benchmark with an alternative one. The Company has not currently transitioned its 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.

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

- IFRS 9 was amended to address which fees should be included in the 10% test for derecognition of financial liability.
- IAS 37 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 was amended to (i) prohibit an entity from deducting from the cost of an item of property plant and equipment 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.
- 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. Consequential amendment to IFRS 1 to add an exception to retrospective application, effective January 1, 2023.
- IAS 8 amended the definition of accounting estimates, effective January 1, 2023.
- IFRS 16 encompasses property, plant and equipment: proceeds before intended use.

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"); and
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 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 December 31, 2021, the Company had futures contracts to 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. The furthest contract matures in December 2022 (2020: buy 2.5 million lbs of green coffee with a notional value of US$3.0 million, and contracts to sell 6.6 million lbs of green coffee with a notional value of US$7.9 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$, and purchases green coffee in US$ 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.

As at December 31, 2021, the Company had forward currency contracts to buy US$8.0 million and sell US$47.7 million (2020: buy US$5.6 million and sell US$51.0 million) from January 2022 through to February 2025 at various Canadian exchange rates ranging from $1.2115 to $1.3626. 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 December 31, 2021, the Company designated as hedging instruments US$27.3 million in forward contracts to sell US dollars, which relate to highly probable forecasted sales revenue (2020: US$38.7 million), US$7.0 million in forward contracts to buy US dollars, which relate to coffee purchases (2020: US$5.6 million), and US$1.0 million in forward contracts to buy US dollars, with the purpose to purchase equipment for the new production line (2020: nil).

INTERNAL CONTROLS OVER FINANCIAL REPORTING & DISCLOSURE CONTROLS AND PROCEDURES

The Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") of Swiss Water are responsible for establishing and maintaining adequate internal control over financial reporting ("ICFR") to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Under the supervision and with the participation of management, we conducted an evaluation of the design and effectiveness of our ICFR as of December 31, 2021, based on the updated framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO 2013"). Based on this assessment, the CEO and CFO concluded that, as of December 31, 2021, Swiss Water's ICFR was effective.

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

The CEO and CFO evaluated or caused to be evaluated under supervision, the effectiveness of our disclosure controls and procedures and based on this evaluation, the CEO and CFO concluded that, as of December 31, 2021, 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, 2021 and ended on December 31, 2021 that have materially affected or are reasonably likely to materially affect, Swiss Water's ICFR.

SUBSEQUENT EVENTS

On February 21, 2022, a total of 86,306 of the outstanding RSUs vested and were converted to common shares, pursuant to the 2011 Restricted Share Unit Plan as amended on June 25, 2019. To date, 28,156 RSUs were elected to be converted to common shares.

Subsequent to the year end the Company ended the lease in Seattle, Washington office.