



SWISS WATER DECAFFEINATED COFFEE INC.

Annual Information Form

For the Year Ended December 31, 2020

March 18, 2021

SWISS WATER DECAFFEINATED COFFEE INC.

Annual Information Form
For the Year ended December 31, 2020

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FORWARD LOOKING STATEMENTS

This Annual Information Form (“AIF”) contains forward-looking statements, including statements regarding the future success of Swiss Water’s 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) factors that are expected to impact Swiss Water’s performance; (iii) future financial results, including anticipated future sales and processing volumes; (iv) future dividends; (v) the expected actions of the third parties described herein; (vi) the expected growth in the chemical free decaffeination market; (vii) factors affecting the specialty coffee market including supplies and commodity pricing; (viii) the expected success in building demand for Swiss Water® Process coffees; (ix) expected future investments in capital equipment; (x) the expected cost to maintain the existing production facilities and the costs to construct the fourth production line; and (xi) the business and financial outlook of Swiss Water. In addition, this AIF contains financial outlook information that is intended to provide general guidance for readers based on management’s current estimates, but which is 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 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, global pandemics such as COVID-19, leverage and restrictive covenants, leased facility in Burnaby, construction timing, costs and financing of capital projects, customer concentration, foreign exchange fluctuations, credit risk, coffee prices and availability, climate change, competition, other commodity price risks, organic certification, liquidity risks, product liability, dependence on operations, capital investment, catastrophic events, shareholder dilution, dependence on key personnel, labour relations, information technology risk, intellectual property infringement, insurance coverage, investment eligibility and foreign property, processing volumes and sales growth, operating results, the supply of coffee, the supply of utilities, general industry conditions, new technology, general economic conditions. These risks, uncertainties and other factors are more particularly described under the heading ‘Risk Factors’.

The forward-looking statements contained herein are also based on assumptions that management believes 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 customers; (iii) the value of the Canadian dollar versus the US dollar; (iv) the expected financial and operating performance of Swiss Water going forward; (v) the expected expenses and capital requirements of Swiss Water going forward; (vi) the availability and expected terms and conditions of debt facilities; (vi) the expected level of dividends payable to shareholders; and (vii) the potential impact of the COVID-19 pandemic. Swiss Water cannot assure readers that actual results will be consistent with the statements contained in this AIF. The forward-looking statements contained herein are made as of the date of this AIF 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 its 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.

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NAME AND ORGANIZATION

Swiss Water Decaffeinated Coffee Inc. (“Swiss Water” or the “Company”), is a company amalgamated under the *Canada Business Corporations Act* and its common shares are listed on the Toronto Stock Exchange under the symbol ‘SWP’. The Company’s registered office is located at 7750 Beedie Way, Delta, British Columbia, V4G 0A5, Canada.

Swiss Water is a result of an amalgamation, which occurred on September 28, 2018, between Ten Peaks Coffee Company Inc. (“Ten Peaks”) and its 100% owned subsidiary, Swiss Water Decaffeinated Coffee Company Inc. (“SWDCC”). At the time of the amalgamation, the Company’s symbol on the Toronto Stock Exchange was changed from TPK to SWP.

Ten Peaks resulted from a reorganization (the “Reorganization”) effective January 1, 2011, pursuant to a plan of arrangement (the “Arrangement”) involving, among others, Ten Peaks, Swiss Water Decaffeinated Coffee Income Fund (“the Fund”) and SWDCC. In 2011, in response to changes to the legislation governing the taxation of income trusts which made the income trust form of structure less advantageous, the Fund converted by way of the Arrangement, to a corporation, Ten Peaks, thereby transitioning from an income trust structure to a corporate structure. Pursuant to the Arrangement, all of the Fund’s then outstanding units were exchanged, on a one-for-one basis, for common shares of Ten Peaks. As part of the Arrangement, the Fund was amalgamated into Ten Peaks and all of the Fund’s assets and liabilities were assumed by Ten Peaks. Following the Arrangement, the common shares of the Company began trading on the Toronto Stock Exchange under the symbol TPK.

Information herein with respect to Swiss Water includes information in respect of the Fund prior to completion of the Reorganization and Arrangement to the extent applicable unless the context otherwise requires. In addition, references to “common shares” and “shares” should be read as references to “units” for periods prior to January 1, 2011.

INTERCORPORATE RELATIONSHIPS

Swiss Water is the parent company of three wholly-owned subsidiaries: Seaforth Supply Chain Solutions Inc. (“Seaforth”) which was incorporated under the *Canada Business Corporations Act*, Swiss Water Decaffeinated Coffee Company USA, Inc. (“SWUS”) which was incorporated under the laws of the State of Washington and Swiss Water Decaffeinated Coffee Europe SARL (“SWEU”) which was incorporated under the laws of France. Swiss Water and Seaforth businesses operate in the cities of Burnaby and Delta, British Columbia, Canada; SWUS operates in Seattle, Washington, USA; and SWEU operates in Bordeaux, France.

GENERAL DEVELOPMENT OF THE BUSINESS

Swiss Water exclusively owns the Swiss Water® trademark and operates a decaffeination business using the Swiss Water® Process. The business is organized via synergies of four legal entities.

Swiss Water is the primary operating entity and its business has not changed substantially over the years. Swiss Water’s primary business segment is the chemical free decaffeination of green coffee utilizing its proprietary Swiss Water® Process. As described below, Swiss Water decaffeinate coffee owned by customers under toll arrangements (its “toll” business) and also buys its own premium quality Arabica coffee beans, which it decaffeinate and sells to the specialty coffee trade (its “non-toll” or “regular” business).

Seaforth began its activities in February 2012 and it provides green coffee handling and storage services to coffee importers and coffee roasting companies who receive or store green coffee in the Metro Vancouver area. Swiss Water is Seaforth’s largest customer. Seaforth employs 23 people and operates

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out of one leased warehouse in the city of Delta, British Columbia, Canada. As at the date of this report, Seaforth's operations were not material to Swiss Water's overall performance or operations, as such, the following section, "Narrative Description of the Business", focuses on Swiss Water's business.

SWUS acts as Swiss Water's marketing and sales subsidiary. In 2019, Swiss Water incorporated SWEU with the purpose of expanding growth opportunities in the European market. As of the date hereof, SWUS and SWEU do not have significant assets.

DESCRIPTION OF THE BUSINESS

General Overview of Swiss Water's Business

Swiss Water, headquartered in Delta, British Columbia, Canada, operates two 100% chemical free coffee decaffeination plants. Swiss Water's operations are carried out of two leased facilities in British Columbia, Canada. The first facility is located in Burnaby, which comprises approximately 38,000 square feet of space and houses two Swiss Water® Process production lines. The second, newly constructed facility, in Delta, BC, was completed in 2020 and it comprises approximately 82,000 square feet of space. The Delta location houses one newly constructed, state-of-the-art Swiss Water® Process production line, and this line completed its first production run of commercial-grade coffee in September 2020. The company is currently in the advanced stages of the planning and financing process for the construction of a second production line at its Delta location.

Swiss Water® Process and Swiss Water's decaffeination plants are certified organic by the Organic Crop Improvement Association. Swiss Water's decaffeinated coffee offering is certified Kosher and this certification is verified on an annual basis by the Orthodox Rabbinical Council of British Columbia. Swiss Water's decaffeinated coffee is also Halal certified, and this certification is verified by Montreal Certification Authority, World Halal Food Council. Swiss Water's Quality Management System is confirmed by NSF International to meet FSMS (Food Safety Management System) and complies with the ISO FSSC 22000 standards requirements. The company offers Fairtrade certified decaffeinated, Rainforest Alliance, UTZ and 4C certified coffees. The Swiss Water® Process is also the world's only consumer branded decaffeination process and enjoys substantial recognition in the specialty coffee trade and with consumers.

Swiss Water® Process decaffeinated green coffees are sold to many of North America's leading specialty roaster retailers, specialty coffee importers, and commercial coffee roasters. Swiss Water also sells coffees internationally through regional distributors and its target market is the premium specialty coffee segment.

Swiss Water has 72 full-time employees, all of whom are employed in Canada. Swiss Water's subsidiary, SWUS, has five full-time employees based in the United States, while SWEU has two full-time employees based in France.

The Swiss Water® Process

The Swiss Water® Process uses a unique, proprietary, multi-stage process that maintains the flavor of green coffee beans. The process has been developed through years of refinement and capital investment and requires substantial technological and operational expertise. The Swiss Water® Process uses fresh water from British Columbia's coastal mountains.

The Swiss Water® Process starts with premium quality green coffee beans, which are soaked in water to saturate the water with soluble coffee solids including caffeine. This liquid is known as "green coffee extract" or "GCE". Next, the GCE is decaffeinated with activated carbon, which is specially formulated to

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adsorb virtually nothing but caffeine. Green coffee beans are then soaked in the decaffeinated GCE. Over time, this effectively decaffeinate the green coffee, as caffeine migrates naturally from the coffee beans into the GCE. Since the GCE is rich in soluble coffee solids such as amino and chlorogenic acids, only the caffeine migrates to the GCE. This process allows the caffeine to be removed with minimal disruption of flavor chemistry.

The Swiss Water® Process is a chemical free method that uses only pure water and carbon, as opposed to chemical decaffeination methods that use methylene chloride or ethyl acetate.

Industry Overview

The Coffee Industry

The United States is the largest coffee consuming country in the world and a key geographic market for Swiss Water. According to the National Coffee Association's ("NCA") 2020 US Coffee Data Trends Report, 62% of the population drinks coffee daily, making coffee the most consumed beverage, outpacing water, soft drinks, and tea.

Gourmet coffees are premium varieties of coffees, particularly Arabica. Gourmet coffee beverages include coffee brewed from high-quality coffee as well as coffee drinks such as espressos, cappuccinos, and lattes. Gourmet coffee growth was flat. The NCA study notes that a significant, 39% of the population, was drinking gourmet coffee "in the past day".¹

Decaffeinated Coffee

Of coffee drinkers, 9% drank decaffeinated coffee in the prior day, and 12% drank decaffeinated coffee in the past week. Decaffeinated coffee consumption is growing. According to the National Coffee Association 2020 Trends report, decaffeinated coffee consumption, as measured in "cups per day per person" increased to 0.23 from 0.19 in 2016.²

NCA indicates that younger consumers are driving this trend, with consumption in the 18-39 age group showing the strongest growth, with 15% having drank decaffeinated coffee in the past week. These same consumers are driving the growth of gourmet coffee and new segments such as cold brew and nitro coffee.¹

Decaffeinated coffee growth from 2017 to 2019 outpaced regular coffee. This long-term trend was interrupted with the onset of COVID-19 but resumed in the second half of 2020. Away-From-Home had been the growth engine for coffee, including decaffeinated coffee, leading up to the declaration of the COVID-19 pandemic, when At-Home consumption naturally increased due to Centres for Disease Control and World Health Organization guidance to stay at and work from home. Through the pandemic, the single-serve pod format continues to be a strong driver of growth for decaffeinated coffee, as it allows consumers the ability to have one more cup of coffee in the afternoon.³ In Western Europe, where decaffeinated coffee represents 12% of cups consumed, the trends are similar and in 2020 decaffeinated coffee experienced less decline in consumption compared to regular coffee.⁴

The market for decaffeinated coffee is divided into decaffeinated with and without the use of chemical solvents. According to statistics prepared by management, more than 75% of worldwide decaffeination

¹ The National Coffee Association "National Coffee Drinking Trends", 2020.

² The National Coffee Association "National Coffee Drinking Trends", 2020.

³ Studylogic U.S. Coffee Consumption Panel Data, 2020, 2019, 2018, 2017.

⁴ Studylogic Western Europe Coffee Consumption Panel Data, 2020.

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capacity uses chemical decaffeination methods, including methylene chloride processing and ethyl acetate processing (sometimes called the “sugar cane” process). Direct chemical processing is the most prevalent method employed, whereby green coffee beans are soaked in these chemical solvents to remove caffeine. Most jurisdictions regulate the amount of permissible residual traces of the chemical solvent in the decaffeinated green coffee bean. In Japan and South Korea, methylene chloride is prohibited for use in the decaffeination process. In Canada, roasters must specify on coffee packaging if methylene chloride is used in the decaffeination process. In 2017, a series of scientific journals published articles highlighting the risk of methylene chloride to the environment, specifically, its impact in slowing the regeneration of the ozone layer.¹ Additionally, the U.S. Food & Drug Administration has officially banned non-commercial paint strippers that contain methylene chloride after exposure to the chemical was linked to more than 60 deaths.²

Swiss Water decaffeinate coffees without the use of chemicals. Management believes that the Swiss Water® Process is the world’s only third-party 100% chemical free water process for coffee decaffeination. Management anticipates that the market for chemical free decaffeination will continue to grow in the coming years, driven by the continued trend towards health consciousness, awareness of environmentally-friendly practices and demand for sustainability. According to the NCA, 61% of coffee drinking consumers state: “it is important to limit my caffeine intake”. Consumer awareness of health-related issues is increasing the appreciation for food safety, food provenance and healthier or “better for you” food options. Demand for organic coffee continues to grow and it is the most broadly purchased certification. 44% of consumers say they are much more likely to buy coffee that is Certified Organic, and 53% of consumers say they’re more likely to buy coffee if it is grown in an environmentally sustainable way.³ A lawsuit has been filed in the US against five large brands for false or deceptive labeling of products due to a quantifiable presence of methylene chloride levels in their decaffeinated coffees.⁴

Competitive Strengths

Swiss Water’s competitive strengths include the following:

- *100% Chemical Free Method of Decaffeinating Green Coffee* – Swiss Water’s decaffeination plants are 100% chemical free, using only time, water and temperature to extract caffeine from green coffee. The vast majority of competitive decaffeination processes use chemicals such as methylene chloride or ethyl acetate to remove and produce caffeine as a byproduct of the process. To our knowledge, there are only two other decaffeination companies globally that exclusively process without the use of chemicals—both of which primarily service their parent company brands rather than sell to third party customers; all others are also offering chemical processing.⁵
- *Consumer Branding* - Swiss Water has been successful in establishing its 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. Management believes that there is significant potential to continue to broaden consumer awareness of the benefits of the Swiss Water® Process.

¹ New Scientist, “Ozone layer recovery will be delayed by chemical leaks”, Fred Pearce, June 27, 2017

² <https://www.regulations.gov/docket?D=EPA-HQ-OPPT-2016-0231>

³ The National Coffee Association “National Coffee Drinking Trends”, 2020

⁴ <https://apnews.com/press-release/pr-newswire/05eb0cea84c88edf4c8d997be569246b>

⁵ LMC International Global Markets for Decaffeinated Coffee Report 2018

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- *The Growing Specialty Coffee Market & Organic Coffee market* - The Swiss Water® Process produces decaffeinated green coffee that is targeted at the specialty coffee market. The significant growth in specialty coffee and specialty organic coffee over the past 20 years has created a customer base for higher quality and differentiated products that can be priced at a premium. Specialty decaf continues to grow at a higher rate than total coffee and total specialty coffee.
- *Established Customer Base* - The Swiss Water® Process has an established customer base in more than 60 countries around the globe, including 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 ensures that Swiss Water accesses all key segments of the specialty coffee trade and consumer coffee markets.
- *Management Expertise* - Swiss Water is highly regarded in the coffee industry for its senior management team's substantial experience, its close attention to consumer trends in the specialty coffee market and its in-depth knowledge of green and roasted coffee. In particular, Swiss Water's intense focus on premium product quality and commitment to science-driven innovation as well as data-driven insights is well recognized.

Business Strategy

Swiss Water seeks to maintain and enhance profitability and cash from operations by continuing to pursue the following business strategies:

- *Offer Superior Quality, 100% Chemical Free Decaffeinated Coffees* – Swiss Water supports its premium brand position by offering superior quality coffees. This starts with buying premium Arabica coffees, as the quality of the green coffee directly affects the quality of the finished product. Swiss Water then ensures the quality and integrity of the original green coffee are maintained throughout its proprietary production process. Swiss Water uses the HACCP (hazard analysis critical control points) system to manage its food safety and quality assurance programs. In addition, its proprietary carbon management technology captures caffeine while protecting the coffee's body and flavour characteristics. Finally, because Swiss Water controls all aspects of caffeine removal, it can ensure that the process is 100% chemical free. Its carbon and green coffee extract never come into contact with methylene chloride or other harsh chemicals. Management believes that this is an important and relevant competitive distinction that underlies Swiss Water's chemical free positioning.
- *Continuously Improve the Production Process* – Swiss Water is committed to continuous improvement throughout its production process, and to leading the coffee industry in the science of decaffeination. This allows Swiss Water to further enhance its proprietary process and provide superior quality coffees to its customers. Through Six Sigma methodologies, statistical process controls, and lean manufacturing initiatives, Swiss Water has dramatically improved its production process, thereby improving production efficiencies while reducing defects. These advancements have generated tangible improvements in the quality of its coffees. Swiss Water® Process decaffeinated green coffees now more closely resemble regular green coffee, which makes it much easier to visually gauge the roast level and stage during the roasting process. Additionally, improvements to Swiss Water's proprietary carbon renewal process have resulted

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in notable improvements at the “cupping”, or tasting, table. Swiss Water® Process coffees have better body and flavour due to better retention of chlorogenic and amino acids (naturally occurring acids and antioxidants in green coffee which form a key part of a coffee’s taste profile).

- *Create Consumer Demand by Developing Brand Awareness* - Strong brand awareness levels, premium quality, and consumer demand encourage retailers to carry decaffeinated coffee products bearing the Swiss Water® Process brand name. Swiss Water strategically invests in regionally targeted initiatives designed to enhance awareness of the Swiss Water® Process brand and its chemical free proposition and to increase demand at the consumer level. These activities include cost effective, regionally targeted media; public relations; customer co-marketing; social media; and/or online communications and selling.
- *Leverage Higher Margin Selling Proposition to Retailers* – As health-aware and sustainability-focused consumers are willing to pay a premium for healthy food options, coffee retailers can improve their margins - particularly on a by-cup or by-drink basis – simply by switching to chemical free Swiss Water® Process coffees. This makes Swiss Water’s sales proposition very attractive and is a key leverage point in its business development program with major roaster retailers and premium street retail accounts. In addition to higher margins, these retailers are ideally positioned to benefit from the significant value-added elements of the Swiss Water® Process brand. These include Swiss Water’s ongoing efforts to build brand awareness, consultative selling, extensive merchandising programs, and web-based merchandising material fulfillment and customer learning tools.
- *Margin Improvement through Cost Management* – Swiss Water is committed to accelerating the reduction of operational and overhead expenses during the period in which it is expanding capacity. The additional cash flow derived from these efforts will assist in achieving financing goals for the Company.

Customers and Markets

Swiss Water’s only business segment is the 100% chemical free decaffeination of green coffee. Its largest geographic market is the United States, followed by Canada, and other international markets. During the year ended December 31, 2020, 49% (2019: 48%) of sales were to customers located in the United States, 31% (2019: 34%) were to Canada, and the remaining 20% (2019: 18%) were to other countries.

Toll Processing

In 2020, 24% (2019: 23%) of Swiss Water’s product volume was processed under toll arrangements whereby Swiss Water charges a fee for the decaffeination of green coffee belonging to its customers (its “toll” business). Swiss Water does not take title to the green coffee it decaffeinate under toll arrangements, and therefore the value of this coffee does not form part of Swiss Water’s inventory, revenue or cost of sales. Revenue from toll arrangements consists entirely of processing revenue.

Non Toll Processing

The remainder of Swiss Water’s volume is comprised of premium grade Arabica green coffees that are purchased by Swiss Water from the specialty green coffee trade, decaffeinated, and then sold by Swiss Water to its customers (its “non-toll” or “regular” business). The value of the green coffee owned by Swiss Water is included in the inventory, and revenue from regular business includes both processing revenue

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and green coffee cost recovery revenue. The cost of green coffee sold under non-toll arrangements is included in Swiss Water's cost of sales.

Swiss Water enters into futures contract arrangements to minimize the impact of coffee price fluctuations. See "Narrative Description of the Business — Raw Materials".

Customer Categories

Swiss Water has three broad customer groups: roaster retailers, commercial roasters and coffee importers.

Roaster retailers are vertically integrated sellers of coffee who operate their own coffee roasting facilities to supply roasted coffee to their own retail coffee shops and to other food and beverage distribution channels, such as grocery stores.

Commercial roasters, who do not operate their own retail coffee shops, operate coffee roasting facilities and supply roasted coffee to third party retail coffee shops, grocery stores, the hotel and restaurant trade, and through other food service distribution channels.

Coffee importers purchase green coffee and sell it to smaller roaster retailers and commercial roasters. The coffee importer segment is important, as it consolidates Swiss Water's distribution channels and provides access to many smaller commercial roasters and roaster retailers.

Marketing and Promotion

Swiss Water differentiates itself from other decaffeinator by creating consumer brand awareness and by investing in research regarding the behavior of decaffeinated coffee consumers. This research enables Swiss Water to create effective consumer advertising and promotion and is the cornerstone of its focused marketing strategy and activities, and of the consultative services it provides to its customers.

Swiss Water targets key regional markets based on various factors, such as the concentration of coffee roasters and the level of specialty coffee market development in the identified regions. Swiss Water will continue to invest in the development of the Swiss Water® Process brand through targeted national and regional media, public relations and/or co-marketing activity with customers. These activities are intended to create demand for the product at the consumer level, which encourages retailers to carry the Swiss Water® Process decaffeinated coffee.

To drive future growth, our plans include increasing awareness of the Swiss Water brand in Europe and expanding our target segments to include additional specific customer groups in North America.

Competition

Competitive decaffeination processing is segregated into two broad categories: chemical and chemical free. Management estimates that more than 75% of worldwide decaffeination processing is chemical decaffeination. The balance is chemical free decaffeination. In the chemical free decaffeination market, the predominant process used has been carbon dioxide, however, this is shifting towards water-based processing. In 2017, a legacy carbon dioxide plant was decommissioned, and in the summer of 2018, another legacy carbon dioxide plant in Houston discontinued operations, significantly reducing the available chemical free decaffeination capacity.

The largest third party chemical decaffeinator are based in Germany and Mexico. They include Bremen based Coffein Compagnie, Mexico based Cafiver S.A. de C.V. and Descamex. The largest third party chemical free decaffeinator, Hermsen GMBH, uses both methylene chloride and carbon dioxide and is based in Bremen, Germany. Coffein Compagnie has stated its intention to market a "water-processed"

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decaffeinated coffee. The coffee has yet to be seen in the market as at the date of this Annual Information Form.

Production

Processing Facility in Delta, BC Canada

In 2020 Swiss Water completed the construction of its new state-of-the-art Delta production plant. The plant is strategically located between two shipping ports, the Fraser Surrey Docs and GCT Canada/ Delta Port, which are within 15 and 22 kilometers respectively. This location is also within 3 kilometers from its Seaforth coffee storage facility.

In tandem with erecting the building, this project included the construction of its first Delta decaffeination processing line. The facility occupies approximately 82,000 square feet, and was built on approximately six acres of leased land. The land provides adequate space for future expansion, and could support the construction of a maximum of three incremental processing lines. Additionally, this location serves as the head office of the company.

In September 2020, this first line in Delta commenced the production of commercial-grade decaffeinated coffee. During 2020, in anticipation of increased demand and due to the need to decommission the company's Burnaby location, Swiss Water commenced the engineering planning to construct a second production line at its Delta facility. This second line in Delta is expected to be completed and fully commissioned during 2023.

The Delta plant is subject to a lease with an initial term of five years, renewable at Swiss Water's option in five-year increments up to a total of 30 years. The lease commenced in July 2018, being the date of the expiry of the fixturing period. Under the lease, Swiss Water has multiple options to buy the land and building at specified future dates 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. The lease also included a construction management agreement for the construction of the highly specialized building to house the processing plant.

Processing Facility in Burnaby, BC Canada

Swiss Water's Burnaby facility occupies approximately 38,000 square feet and is comprised of the decaffeination processing plant, a shop/boiler room, an administrative area, and a warehouse. Swiss Water's facility is located near the Port of Vancouver and is close to major rail and road transportation systems. The premises are leased and are used exclusively by Swiss Water until 2023.

Swiss Water's Burnaby facility houses two fully automated decaffeination processing lines. The two lines allow Swiss Water to align its capacity with changes in demand throughout the year. One line is operated when demand is lower, and both lines are operated when demand is higher, giving Swiss Water better control over its variable costs. Also, the two lines allow production to continue while a processing line is undergoing routine maintenance. Swiss Water's Burnaby processing facility operates 24 hours per day, seven days per week. Swiss Water employs an in-house maintenance program to minimize non-scheduled interruptions for repairs.

As the 30 year Burnaby lease expires in 2023, Swiss Water is required to remove the Company's leasehold improvements and equipment from the premises. Management has not yet determined when or whether to relocate the existing decaffeination processing lines. This will depend in large part on the future demand for SWISS WATER® process coffees; the processing capacity of the new facility in Delta, BC; the time and cost to move one or both of the currently operating processing lines compared to the time and

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cost to build an entirely new decaffeination processing line; the downtime and/or disruption to current operations associated with moving a currently operating processing line; and whether any of the existing components can be reused and the useful life for such components.

Storage Facility and Distribution

Prior to decaffeination, green coffees are held in Seaforth's warehouse in Delta, which is located near Swiss Water's new Delta facility. The coffee is transported locally by Seaforth to and from Swiss Water's production facilities. After decaffeination is completed, the finished goods are either sent directly by common carrier to Swiss Water's customers or transferred to Seaforth's facility which acts as Swiss Water's local distribution center. Finished goods are regularly transported by common carrier from Seaforth's warehouse to third party coffee distribution centers throughout Europe and North America for customer pick-up. Seaforth handling and warehousing operation is certified organic by Ecocert Canada.

Quality Assurance

A key objective of Swiss Water is the continuous enhancement of the quality of its decaffeinated coffees. Swiss Water employs the HACCP (hazard analysis critical control points) and Prerequisite Program system to manage its food safety and quality assurance programs. All green coffee delivered to Swiss Water's processing facilities is weighed and inspected and is subject to rigorous internal quality control evaluations. Each lot of green coffee processed is continually monitored throughout the decaffeination process, and a certificate of analysis is prepared for each lot. A sample from each lot is also roasted, brewed and cupped to ensure quality. There have been no product recalls or material quality problems.

Raw Materials

Swiss Water's primary raw material is premium green coffee including organic and fair trade coffee. Green coffee is sourced through coffee importers from coffee-producing countries in Central and South America, Africa and Asia. Prices are based on the New York 'C' coffee commodity price, ("NY'C"), plus a quality differential. The NY'C' comprises futures prices that serve as a benchmark for the coffee industry, and that are negotiated between traders on the Intercontinental Exchange in New York. Both the NY'C' price and quality differential fluctuate in response to fundamental commodity factors that affect supply and demand, such as weather, political policies, and labour contracts in major coffee-producing countries.

For regular orders, the cost of green coffee accounts for a significant portion of Swiss Water's cost of sales. Accordingly, Swiss Water has hedging strategies in place to minimize the impact of movements in coffee prices between the time the green coffee is purchased and the time the decaffeinated green coffee is sold to its customers (an average of three months). To hedge the purchase of each lot of coffee, Swiss Water sells a futures contract. As coffee is sold to customers, Swiss Water liquidates the hedge position. These transactions are effected through the Intercontinental Exchange in New York.

Under toll processing arrangements, Swiss Water is not exposed to commodity price fluctuations because Swiss Water does not take title to the green coffee being processed. Swiss Water maintains insurance coverage in respect of its customers' green coffee while the beans are in Swiss Water's possession.

Employees and Labour Relations

Swiss Water has 34 full-time employees engaged in a variety of staff, line and management positions. The team includes sales, procurement, and customer service personnel who have significant green and roasted coffee sales expertise and knowledge, logistics personnel to ensure the efficient flow of coffee into and out of production, and various operations staff who schedule and oversee production.

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Investment in the continued improvement in knowledge regarding premium green and roasted coffee is an integral part of the growth of Swiss Water. This expertise is well established and acknowledged as critical to the management of green coffee product quality.

Swiss Water's salaried personnel have experience in the areas of premium brand marketing management, distribution channel development, green coffee purchasing and sales, quality control, logistics, operations management, accounting, and finance. Swiss Water encourages and provides financial support for continued professional development in each individual's area of expertise and development of knowledge of premium coffee products. This focus on quality enables the continual enhancement of Swiss Water's premium product positioning and consultative sales support for its customers.

Swiss Water has 38 full-time individuals employed as process operators, laboratory staff, warehouse personnel and maintenance technicians. Process operators, an integral part of Swiss Water's successful operations, are highly skilled with an average length of service of 20 years.

The United Food and Commercial Workers Union ("UFCW") represents Swiss Water's non-salaried employees. Swiss Water and UFCW have agreed upon a collective agreement that expires in December 2024. There have been no strikes or work stoppages, and labour relations are considered to be good.

Environmental Matters

Swiss Water operates under an air emissions permit and a wastewater permit issued by Metro Vancouver. Swiss Water believes that it is in substantial compliance with all applicable requirements of these permits.

Each month, Swiss Water uses an outside third-party lab to collect and analyze samples to track compliance with the wastewater limits specified in its permit. Swiss Water is in compliance with the allowable limits. It is Swiss Water's practice to promptly respond to environmental issues and fully cooperate with Metro Vancouver. Swiss Water has not incurred any penalties, fees or reprimands from environmental regulatory authorities.

Intellectual Property

Swiss Water has intellectual property consisting of registered and unregistered trademarks and trade names, and proprietary knowledge regarding the Swiss Water® Process. This unique process has been developed through years of refinements to the operations of the Swiss Water® decaffeination facility. Swiss Water's registered trademarks include the "SWISS WATER" name, the "Swiss Water® Process" name and design and the "Swiss Water Decaffeinated" name and design. The marks are registered in Canada and the US, as well as strategic geographies, including those with high decaffeinated coffee consumption. Swiss Water routinely updates its filings as changes are made to its design marks in order to maintain its intellectual property rights in all relevant jurisdictions.

Capital Expenditures

Purchases of capital equipment vary from year-to-year, based on the needs of the business. Swiss Water estimates that \$350,000 is required to be spent annually in order to maintain the existing production lines. Annual maintenance costs can fluctuate significantly from year to year as not all equipment repairs can be reasonably foreseen.

Capital investments are also made from time to time to expand production capacity. In 2016, and in 2018, to meet growing demand, Swiss Water added production capacity at its Burnaby facility. In addition, Swiss Water has incurred costs between 2016 and 2020 for engineering services, progress payments and new equipment related to the new production facility and decaffeination processing line completed in 2020 in Delta, BC. As a result, cash capital expenditures (including maintenance and other initiatives) were \$12.5

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million in 2020, compared to \$18.7 million in 2019. In 2020, the Company commenced planning for the construction of a second production line at its Delta location.

Other capital expenditures are made as required. For example, in the past five fiscal years, Swiss Water has made capital investments to expand its warehousing capabilities, and also to update the Company's information technology infrastructure and information systems. Costs for this in the last two years are included in the totals noted above.

Borrowings

The Company financed capital expenditures a portion of the new production facility and its production line in Delta by raising funds through debt. In addition, the Company has a credit facility and a foreign exchange facility guarantee available for its operations.

Construction Loan ("Term Loan")

In 2018 the Company entered into a Term Loan agreement for up to \$20.0 million to assist in the financing of equipment for the new production facility. The Term Loan bears interest at 4.95% per annum and the interest is paid monthly. Principal repayments commence in July 2021 and are repaid in equal monthly installments until the Term Loan maturity date of June 2033. This loan is secured by select assets and equipment at the new Delta production facility.

Convertible debenture

In 2016, Swiss Water entered into an unsecured convertible debenture with a large shareholder. The debenture is a long-term liability, requiring interest only payments for the life of the debenture until it matures in October 2023. The holder has the option to convert the principal amount to shares at any time over the term, on terms specified in the debenture agreement.

Credit Facility

In 2020 Swiss Water obtained a Credit Facility for borrowings up to the lower of the Borrowing Base and \$30.0 million. As at December 31, 2020 the outstanding balance was \$10.0 million. The Credit Facility's Borrowing Base margins eligible inventories and accounts receivable and considers equity margin and gains and losses in the commodity hedging account and the foreign exchange contract facility. Amounts can be drawn in either Canadian or US dollars and can be used to fund capital expansions and operations. It has multiple variable interest rates options and it does not have to be repaid until the maturity date of October 18, 2022, as long as the outstanding balance is not in excess of the Borrowing Base. The maturity date can be extended, subject to lenders' approval. The Credit Facility is secured by substantially all of the Company's assets except for assets pledged under the Term Loan agreement described above.

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

Foreign Exchange Facility Guarantee

In 2020 the Company entered into a Foreign Exchange Facility Guarantee to cover margin requirements in relation to foreign exchange and commodity futures contract facility. The Lender of Credit Facility amended the credit agreement to recognize the Foreign Exchange Facility Guarantee provided by a third party, a Canadian Crown corporation. The facility guarantees a maximum aggregate liability of \$6.0 million and is valid until May 31, 2021. This guarantee provides additional borrowing capacity within the above-mentioned Credit Facility. This Foreign Exchange Facility Guarantee can be renewed beyond May 31, 2021

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at the discretion of the third party. There can be no assurance that the Guarantee will be renewed, consequently limiting the Company to available credit in case of extreme swings in foreign exchange.

Risks Factors

Summarized below are the risks related to Swiss Water's business, the coffee decaffeination industry in general, and to Swiss Water's structure.

Risks Related to the Business and the Coffee Decaffeination Industry

Global Pandemic

Swiss Water's operations have been impacted by the global COVID-19 pandemic and may continue to be impacted, in the event of a prolonged local or global outbreak of disease, including COVID-19 variants of concern. Swiss Water may experience disruptions to its business operations if a significant number of its employees, or those of its customers or suppliers, are asked to self-isolate and are unable to work. There may be significant disruptions and delays in our ongoing business or in the construction of the second production line at the new facility in Delta, BC. Significant disruptions in our ongoing business may impact our ability to generate cash flows from operations which in turn may impact our ability to pay our suppliers, employees and creditors.

COVID-19 pandemic or any such variants may continue to 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.

Leverage and Restrictive Covenants

As at December 31 2020, Swiss Water had outstanding borrowings due to third parties including a secured \$20.1 million Construction Loan, a secured \$10.0 million Credit Facility and a \$15.0 million Convertible Debenture. Subject to restrictions outlined in these instruments, the Company may also incur significant additional indebtedness in the future, some of which may be secured debt. This may have the effect of increasing our total leverage.

The degree to which Swiss Water is leveraged could have important consequences to shareholders, including (i) Swiss Water's ability to obtain additional financing for working capital and capital expansions; (ii) a portion of Swiss Water's cash flow from operations is expected to be dedicated to the payment of the principal of and interest on its indebtedness, thereby reducing funds available for dividends that may be paid by Swiss Water; (iii) Swiss Water's credit facility has a variable rate of interest, which exposes Swiss Water to the risk of increased interest rates; (iv) increased vulnerability to a downgrade of our credit ratings, which could adversely affect our cost of borrowings and funding, liquidity and access to capital markets; (v) exposure to risks related to fluctuations in foreign currency as we earn most profits in US\$ and substantially all of our debt is denominated in Canadian dollars. Swiss Water's ability to make scheduled payments of the principal of or interest on, or to refinance, its indebtedness will depend on Swiss Water's future cash flow. This is subject to the operations of Swiss Water's business, prevailing economic conditions, prevailing interest rate levels, financial, competitive, business and other risk factors, many of which are beyond its control.

There is no assurance that we will generate cash flow from operations or that future debt or equity financings will be available to us to enable us to pay our indebtedness or to fund operations or future expansion. Consequently, we may need to refinance all of or a portion of our debts on or before their

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maturity. There is no assurance that we will be able to refinance any of our indebtedness nor assurances that the refinancing will have favorable terms. As a result of an inability to generate sufficient cash flow or to refinance our indebtedness on favorable terms may have a material adverse effect on our financial condition.

Swiss Water's credit facility agreements contain restrictive covenants that limit the discretion of Swiss Water's management with respect to certain business matters. These covenants place restrictions on, among other things, the ability of Swiss Water to incur additional indebtedness, to create liens or other encumbrances, to pay dividends or make certain other payments, investments, loans and guarantees and to sell or otherwise dispose of assets and merge or consolidate with another entity. In addition, the credit facility agreements contain financial covenants that require Swiss Water to meet certain financial ratios. A failure to comply with these obligations could result in an event of default which, if not cured or waived, could lead to the acceleration of repayment of the relevant indebtedness. If the indebtedness under the credit facilities were to be accelerated, there can be no assurance that Swiss Water's and Swiss Water's assets would be sufficient to repay that indebtedness in full.

Leased Facility in Burnaby

Swiss Water leases a building that houses its first two operating decaffeination processing lines. The current lease expires, at the end of its 30th year, in 2023.

Prior to the lease expiry, Swiss Water may decide to relocate and repurpose or retain for future use all or a portion of the production lines assets at this location. The ultimate cost of relocating any such assets will depend on a number of factors including without limitation: the degree to which components of the existing production lines can be relocated to the new facility with nominal disruption to the business; construction and engineering costs; the current market price for steel, which is expected to be a primary driver of the overall construction costs; limitations stemming from the pandemic. Should Swiss Water decide to relocate any of these assets, the costs would be material, but should reduce other capital expenditures that the Company might ultimately incur in the future.

Construction of a second Production Line at the New Facility in Delta

During 2020 Swiss Water commenced planning for the construction of a second production line at its newly constructed facility in Delta, BC.

Difficulties or unanticipated events regarding the financing, construction, installation and commissioning of the fourth processing line may result in unanticipated expenses, delays in meeting customer demand for our processing services and loss of revenue.

Customer Concentration

In 2020, revenues from three major customers of \$31.7 million (2019: \$32.2 million) represented 32% (2019: 33%) of Swiss Water's total revenues for the year. Three major customers represented 58% of total accounts receivable as at December 31, 2020 (2019: 46%).

Foreign Exchange Fluctuations

Coffee is traded in US dollars, as buyers and sellers reference the NY'C' coffee price when entering into contracts. As a result, the majority of the Company's revenues are denominated in US dollars, while a significant portion of its expenses and cash outflows occur in Canadian dollars. Therefore, Swiss Water's financial results are affected by any significant fluctuation in US-Canadian exchange rates. In accordance with its 'Foreign Exchange Risk Management Policy', Swiss Water uses financial instruments to manage its currency risk based on estimates of its net US dollar ("US\$") cash flows up to 60 months in advance.

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Swiss Water purchases forward contracts to sell US dollars at fixed future dates and exchange rates, which allow management to reliably predict how much Canadian currency Swiss Water will receive for its US\$ sales. In addition, Swiss Water purchases forward contracts to buy US dollars for green coffee purchase commitments which will later be sold to certain Canadian customers in Canadian dollars.

With cash flows hedged in this manner, management can make informed decisions about capital and operating expenditures.

All other factors being equal, Swiss Water's profitability and cash from operations will be lower when the Canadian dollar appreciates relative to the US\$. Although the profitability and cash flow impacts of such appreciation may be mitigated in the short term through its foreign currency risk management policy, a long-term appreciation of the Canadian dollar will decrease Swiss Water's long-term profitability and cash generation.

Coffee Prices and Availability

Green coffee bean prices are subject to substantial price fluctuations, generally caused by multiple factors, including weather, pests that affect coffee plants, political and economic conditions in certain coffee-producing countries, climate change and other supply-related matters. In addition, green coffee prices have been affected in the past and may be affected in the future, by the actions of certain organizations and associations, such as the International Coffee Organization and the Association of Coffee Producing Countries, which have historically attempted to influence commodity prices of green coffee through agreements establishing export quotas or restricting coffee supplies worldwide. A material change in the availability of green coffee supply would materially and adversely affect our business.

When green coffee exports are constrained from one or more countries due to poor crops or other factors, Swiss Water may not be able to secure sufficient high-quality coffee to meet demand, resulting in lost sales. Moreover, Swiss Water's toll customers may not receive coffee when they require it, resulting in lower toll volumes.

Green coffee is grown in tropical regions and is typically transported to the Metro Vancouver region in containers by ocean-going vessels. Coffee arriving from origin must pass through the Port Metro Vancouver. In 2014, a month-long strike by local truck drivers who service the Port Metro Vancouver caused significant delays in the receipt of green coffee from the origin. Outbound international shipments were also delayed. A similar labour action at major west-coast ports in the United States throughout 2014 caused vessels to be delayed at Port Metro Vancouver. In 2020 the coronavirus pandemic caused disruption in the supply chain deliveries from their origin and to customers. These types of delays related to reliance on third party logistics facilities and operators can cause Swiss Water to lose sales. Increased costs are also incurred when Swiss Water has to purchase green coffee from warehouses in other North American cities when green coffee is delayed in arrival from the origin.

The company manages risks related to volatility in coffee prices via its Commodity Price Risk Management Policy. The details are described in the 'Derivatives and Hedging Activities' section of the annual financial statements for the year ended December 31, 2020. Although there is a policy to mitigate coffee commodity price risks, the volatility in the coffee commodity price affects Swiss Water in a number of ways. When coffee prices rise rapidly, customers tend to reduce their purchases and inventory levels. In addition, sustained increases in coffee commodity prices are passed onto consumers in the form of higher retail prices, which reduces consumer demand. Both factors tend to reduce Swiss Water's processing volumes and/or sales. Conversely, when the coffee commodity price declines, customers replenish their inventories and reduce retail prices, stimulating demand.

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In addition, Swiss Water sells coffee at current market prices. Thus, when coffee commodity prices rise (fall), Swiss Water's revenue will also rise (fall) even if its processing volumes do not grow. In turn, this increases (decreases) the value of accounts receivable, which may increase (decrease) the credit risk of the business.

Finally, higher coffee prices drive up the cost of coffee inventories, which Swiss Water regularly replaces in order to support its non-toll business. Inventory purchases are funded through Swiss Water's operating line of credit, resulting in increased bank indebtedness when coffee prices rise. This increases the liquidity risk of the business.

Other Commodity Price Risks

Swiss Water is exposed to other commodity price risks relating to electricity, natural gas and water, where fluctuations in the market price or availability of these items could negatively impact Swiss Water's cash flow and production. While Swiss Water manages such risks by entering into contracts over natural gas that secure supply and predictable pricing, Swiss Water may still be negatively impacted by shortages or disruptions in supply of natural gas and long term supply and commodity price increases.

Credit Risk

Credit risk is the risk that counterparties to certain trade and other amounts receivable will not be received when due. Swiss Water is exposed to credit risk with respect to its accounts receivable and derivative financial instruments.

Swiss Water follows a program of credit evaluations of customers and limits the amount of credit extended when deemed necessary. Swiss Water's credit risk has increased, due to a trend in the coffee industry in which large coffee roasters have demanded longer accounts payable terms from their suppliers in order to do business with them. As a result, Swiss Water has extended payment terms to a number of its larger customers.

In addition, Swiss Water manages the credit risk related to its derivative financial instruments by entering into such contracts only with high credit quality institutions. This risk has not changed materially in the past year.

Competition

Swiss Water faces competition from chemical and other natural decaffeinator. A significant drop in pricing for any of these alternative decaffeination methods could affect the demand for Swiss Water's services. Competition could also arise from the development of alternative processing or agricultural technologies. Furthermore, certain competitors have significantly greater financial resources than Swiss Water.

Organic Certification

Swiss Water's processing facilities are certified organic under the Canadian Organic Regime (COR) by the Organic Crop Improvement Association Canada, with equivalence to the National Organic Program (NOP) and the European Union (EU) program. Additionally, Swiss Water's Quality Management System holds a Food Safety System Certification FSSC 22000 as issued by NSF International Strategic Registrations. These certifications and equivalences allow Swiss Water to maintain the organic certification of organic green coffees processed at its facilities. However, there can be no assurances that such standards will not change and that Swiss Water will continue to meet the requirements of such standards.

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Liquidity Risk

Liquidity risk with respect to an asset is the risk that the asset cannot be sold due to a lack of buyers in the market. Liquidity risk with respect to a liability is the risk that a liability cannot be funded when it becomes due.

The primary asset that can be liquidated to fund future obligations is inventory. Swiss Water holds the majority of its green coffee inventory in raw (unprocessed) form, which makes it easier to liquidate should the need arise.

The current liabilities consist primarily of accounts payable. Swiss Water's accounts payable is primarily for green coffee purchases and capital equipment purchases. Swiss Water's construction loan, convertible debenture and credit facility, are long term in nature, however if covenants are breached, they are due upon demand. Nevertheless, management believes that so long as Swiss Water complies with the terms of its banks and creditor agreements, it will not face a demand from its lenders.

In addition, Swiss Water has in place a planning and budgeting process to assist in determining the funds required to support its normal operating requirements on an ongoing basis and its future plans. Swiss Water ensures that there are sufficient committed financing facilities to meet its short-term business requirements, taking into account its anticipated cash flows from operations and its existing bank indebtedness.

Product Liability

Swiss Water is subject to potential product liabilities connected with its operations, including liability and expenses associated with product defects. There are no assurances that Swiss Water will always be adequately insured against all such potential liabilities.

Dependence on Operations

Swiss Water's ability to pay cash dividends is dependent on its ability to generate cash from its operations and its assets. There can be no assurance regarding the amounts of income generated by and therefore funds available to Swiss Water. The actual amount paid or distributed to Swiss Water, and issued as cash dividends to shareholders by Swiss Water, will depend upon numerous factors including profitability, capital expenditures, determination of taxable income and taxes payable, fluctuations in working capital, and the sustainability of margins and capital expenditures. Management is of the view that all expenses to be claimed by Swiss Water and any of its subsidiaries will be reasonable and deductible. However, taxation authorities may take the view that certain expenses should be treated differently for tax purposes, or that income should be imputed to different corporate entities within the group, either of which could materially adversely affect returns to shareholders.

Capital Investment

The timing and amount of capital expenditures directly affect the amount of cash available to pay dividends to shareholders. Dividends may be reduced, or even eliminated, at times when significant capital or other expenditures are made. Swiss Water expects to utilize internally generated and external funds to finance the capital costs associated with the new production facility and future growth. Such outflows affect the amount of cash available to pay dividends to shareholders. As significant capital expenditures were incurred in 2020, the company suspended its dividend.

Restrictions on Potential Growth

The demand for Swiss Water's premium, chemical free decaffeinated coffees has grown substantially since 2009. The decaffeination processing lines have limited production capacity to accommodate

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additional growth in processing volumes. If Swiss Water does not invest additional capital in additional production capacity or complete the construction of the new decaffeination processing line as noted under “Construction of a Second Production Line at the New Production Facility in Delta” when anticipated, the Company’s future growth in cash flow will be restricted.

Catastrophic Events

Swiss Water may be adversely affected by catastrophic events, or the prospect of catastrophic events, including war, terrorism and other domestic and international conflicts, public health issues, including health epidemics or pandemics, and natural disasters such as earthquakes or other adverse weather and climate conditions, whether occurring in Canada, the United States or abroad, which could disrupt Swiss Water’s operations, suppliers or customers or result in political or economic instability. These events could reduce demand for Swiss Water® Process decaffeinated coffee or make it difficult or impossible to receive products from suppliers or ship products to customers.

Risks Related to the Structure of the Company

Shareholder Dilution

The holder of the Company’s outstanding \$15.0 million convertible debenture has the option to convert, from time to time, all or part of the outstanding principal amount to common shares of the Company at a conversion price of \$8.25 per common share, subject to certain maximum limits on the number of common shares issuable upon such conversion. The issue of additional common shares upon such conversion may have a dilutive effect on existing shareholders and an adverse impact on the trading price of the common shares.

Dependence on Key Personnel

Swiss Water’s success is substantially dependent on the continued services of senior management. The loss of the services of one or more members of Swiss Water’s senior management team could adversely affect its operations and financial results. In addition, Swiss Water’s overall financial performance depends on its ability to attract and retain skilled managers and employees and the ability of its personnel to manage Swiss Water’s operations effectively. As a small company, Swiss Water has limited redundancy in a number of positions; turnover in those positions could reduce Swiss Water’s operating efficiency until replacements are hired and sufficiently trained.

Labour Relations

Swiss Water’s plant employees are represented by the United Food and Commercial Workers Union. The current collective agreement expires on December 31, 2024. Failure to agree upon a new collective agreement, strikes, or lockouts could restrict the ability of Swiss Water to operate and to service its customers.

Employees at Swiss Water’s subsidiary, Seaforth, certified with the Teamsters Union in 2016. The first collective agreement was ratified in 2017. The collective agreement expires on May 31, 2022. Strikes or lockouts could restrict the ability of Seaforth to operate and to service its customers, including Swiss Water.

Information Technology Risk

The failure of information technology (“IT”) systems or a component of IT systems could, depending on the nature of any such failure, adversely impact Swiss Water’s reputation and results of operations.

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Swiss Water's systems, including systems relating to the operation of automated decaffeination processing lines, inventory management, and financial reporting systems, may be vulnerable to a variety of sources of failure, interruption or misuse, including by reason of human error, third party suppliers' acts or omissions, natural disasters, telecommunications failures, power failures, computer viruses, unauthorized or fraudulent users (including targeted cyber-attacks or cyber intrusions, malware, ransomware, computer viruses and the like), and other operational and security issues.

Targeted attacks on Swiss Water's systems (or on systems of third parties that Swiss Water relies on), failure or non-availability of a key IT system, or a breach of security measures designed to protect such IT systems could result in disruptions to operations, property damage or financial or reputational risks.

Swiss Water has implemented and tested system controls and disaster recovery infrastructure for certain IT systems. As the threat landscape is ever-changing, Swiss Water makes continuous mitigation efforts, including risk prioritized controls to protect against known and emerging threats; tools to provide automated monitoring and alerting; and backup and recovery systems to restore systems and return to normal operations.

Swiss Water's risk and exposure to failures relating to IT cannot be fully mitigated because of, among other things, the evolving nature of these threats. As cyber threats continue to evolve, Swiss Water may be required to expend additional resources to continue to modify or enhance protective measures or to investigate and remediate any security vulnerabilities.

Intellectual Property Infringement

Among Swiss Water's strategic advantages are brand equity and the proprietary Swiss Water® Process. The process utilizes a number of trade secrets related to improvements to the process which have been made over time. Management has determined that it is preferable to protect these improvements through confidentiality agreements rather than through a patent process. An infringement on Swiss Water's trademark, brand name or trade secrets could have an adverse effect on Swiss Water's business or result in legal expenses.

Insurance

Swiss Water's operations are subject to customary risks of loss or damage that exist in any manufacturing business. Swiss Water maintains insurance policies with insurers in such amounts and with such coverage and deductibles as it believes is reasonable and prudent. However, there can be no assurance that such insurance will be adequate to protect Swiss Water from all material expenses related to potential future claims for personal or property damage. Swiss Water may also be subject to business interruption due to pandemics such as the COVID-19 virus. There can be no assurance that the insurer will cover loss impact due to a pandemic.

Investment Eligibility and Foreign Property

There can be no assurance that Swiss Water's shares will continue to be qualified investments for registered retirement savings plans, deferred profit-sharing plans, registered retirement income trusts, and registered education savings plans or that the shares will not be foreign property under the Tax Act. The Tax Act imposes penalties for the acquisition or holding of non-qualified or ineligible investments and on excess holdings of foreign property

Environmental and Regulatory Risks

Swiss Water is substantially in compliance with material government laws and regulations, including all provisions thereunder requiring certain permits to operate its business. However, there can be no

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assurance that such laws and regulations will not change. Minor exceedances in wastewater generated by Swiss Water’s facilities over the limits prescribed in Swiss Water’s wastewater discharge permit have been registered in the past. Although these exceedances were promptly addressed and corrected, there is no guarantee that exceedances will not occur in the future or penalties or other sanctions by regulatory authorities would not be imposed in respect of such exceedances. The facility in Burnaby was also previously utilized by a food processing enterprise and, prior to being operated by Swiss Water, was operated by Kraft. There are no assurances that Swiss Water will not be held responsible for any prior waste discharges and the effect on the environment thereof that occurred when such entities carried on operations in Swiss Water’s premises.

DIRECTORS AND OFFICERS

The name, province or state and country of residence of each of the Directors and officers of Swiss Water (along with their respective positions and offices held with Swiss Water) and their respective principal occupation is shown in the table below. Note that Frank Dennis, Richard Mahler and Roland Veit were previously Trustees of the Fund, and as such, the date shown under “Director Since” refers to the date such Director first became a Trustee of the Fund. The terms of their respective offices expire at Swiss Water’s annual meeting.

David Rowntree, former Chairman of the Board retired in June of 2020, and Diane Fulton, former interim Chair of the Board retired in February of 2021. Also, during the first quarter of 2021 David Kastle, Senior Vice President of Trading left the Company. We are grateful for their contributions to Swiss Water. During the year 2020 and 2021, we welcomed new Directors, Robert Johnston, Don Tringali (Chairman of the Board), and Nancy McKenzie. Their biographies are discussed below.

Name and Residence	Offices Held	Director Since	Principal Occupation - Past 5 Years
Frank Dennis British Columbia, Canada	President & CEO, Director	April 2002	President & CEO of Swiss Water
Richard Mahler British Columbia, Canada	Director	September 2003	Corporate Director
Roland W. Veit ⁽¹⁾ New York, USA	Director	September 2007	Co-Founder & Chairman, Paragon Coffee Trading Company
Anne Saunders California, USA	Director	November 2017	Corporate Director; previously President, US, NakedWines.com (2016-17), President, Consumer Division, FTD, Inc. (2014-16), President, Redbox (2012-2013)
Robert Johnston South Carolina, USA	Director	June 2020	Chief Strategy Officer of The InterTech Group Inc.
Don Tringali Arizona, USA	Chairman & Director	July 2020	Founder & CEO of Augusta Advisory Group
Nancy McKenzie British Columbia, Canada	Director	February 2021	Corporate Director; previously Chief Financial Officer, Seaspun ULC (2005- 2017)
Barry Close British Columbia, Canada	Vice President, Operations	Not applicable	Vice President, Operations, Swiss Water

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Name and Residence	Offices Held	Director Since	Principal Occupation - Past 5 Years
Iain Carswell British Columbia, Canada	Chief Financial Officer (“CFO”)	Not applicable	Chief Financial Officer, Swiss Water.

⁽¹⁾ Paragon Coffee Trading Company buys decaffeinated coffee and/or decaffeination services from Swiss Water and it sells green coffee to Swiss Water in the normal course of business.

Director’s and Officer’s Biographies

The biographies of each of the Directors and officers of Swiss Water are as follows:

Frank Dennis, President and CEO

Mr. Dennis leads Swiss Water with over 25 years of experience in the coffee industry. His background is in packaged goods marketing with Braun Canada and Kraft Foods Canada. Mr. Dennis led the \$300 million Kraft coffee portfolio in the late 1990s and was responsible for the sale of the Swiss Water Division to private equity interests in 2000. As President and CEO of Swiss Water, he has led the growth of the business through several major expansions, overseen the development of the brand in many jurisdictions and has championed the importance of chemical free decaffeination in the industry. Mr. Dennis is highly involved in the specialty coffee industry has served on several boards including “Grounds For Health”, a charity dedicated to reducing cancer in women living in coffee-producing regions, the World Coffee Research Foundation and the Canadian Coffee Association. Mr. Dennis earned a B.A. in Economics from the University of Western Ontario, and an M.B.A. from the University of Toronto.

Richard T. Mahler

Mr. Mahler was Executive Vice President and CFO of Finning International Inc., the world's largest Caterpillar dealer, from 1990 to 2003. In addition, he was the Chair of the Board of the British Columbia Investment Management Corporation, which manages \$130 billion of pension assets for over 550,000 public service workers in the province, from 2011 to 2016. Previously, Mr. Mahler was a director and chair of Partnerships BC, Sterling Shoes Inc., and the Vancouver General Hospital/UBC Hospital Foundation, and was Vice Chair of the Vancouver Board of Trade. He was awarded the Queen's Golden Jubilee Medal for Distinguished Service in 2002. Mr. Mahler holds a BSc from the University of Waterloo and an MBA from McMaster University.

Roland W. Veit

A native of Switzerland, Mr. Veit is the Co-Founder and Chairman of Paragon Coffee Trading Company (Paragon), a medium sized US green coffee importing/trading house. He started his business and coffee career at Nestle’s world headquarters in Vevey, Switzerland in 1972. He also worked for Nestle USA and South Africa. In 1978, Mr. Veit left Nestle to work as a coffee trader, first in Johannesburg and then in New York, before co-founding Paragon in 1986. He served on the board of the Specialty Coffee Association of America (SCAA) from 1989 to 1992 and the following seven years on SCAA’s International Relations Committee of which the last three years as its Chairman. He also served as a board member of the Green Coffee Association of New York (GCA) from 1998 until 2007, including two terms as the Chairman.

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Anne Saunders

Ms. Saunders has held numerous general management positions, including as US President of NakedWines.com, US President of FTD, Inc., and President of Redbox, owned and operated by Coinstar, Inc. Previously, Ms. Saunders held executive and senior management positions with Knowledge Universe, Bank of America, Starbucks, eSociety, AT&T Wireless, and Young & Rubicam. Currently, she is a member of the board of directors of Nautilus, Inc., where she is the chair of the nominating and corporate governance committee, as well as a member of the audit committee and compensation committee. Additionally, Ms. Saunders is a past director of Blue Nile, Inc. She received a BA from Northwestern University and an MBA from Fordham University. Ms. Saunders is a member of the National Association of Corporate Directors and of Women Corporate Directors. In March 2019 Ms. Saunders was elected to the board of directors of The WD-40 Company where she serves on the audit and governance committees.

Robert B. Johnston

Mr. Johnston is Chief Strategy Officer of The InterTech Group Inc., a leading, private investment company based in South Carolina, USA. He brings extensive public company and related industry experience to Swiss Water having served on the boards of a number of domestic and international companies in the packaging, food and agricultural industries. Mr. Johnston's previous experience includes serving as Deputy Governor, President and CEO of the Hudson's Bay Company. He holds a Master's Degree in Public Policy and Public Administration, and an MBA from Concordia University in Montreal, and has completed the University of Oxford Advanced Management and Leadership Program in the UK. Mr. Johnston also holds the ICD.D designation from the Institute of Corporate Directors.

Don Tringali, Chairman

Mr. Tringali is the founder and Chief Executive Officer of Augusta Advisory Group, a US-based boutique financial and business consulting firm providing a full range of executive, operations and corporate advisory services to companies. He has held a variety of C-level executive positions and directorships for public and private companies across many industries. He is the former Chairman of the Board of National Technical Systems, Inc., a leading international testing and engineering firm that was sold to a private equity firm in 2013, and the former Executive Chairman of the Board of Cartesian, Inc., an international telecom consulting company, which was sold to private equity in 2018. Mr. Tringali began his career as a corporate attorney in Los Angeles, where he was a partner in a prominent firm representing public and private companies in general business matters and M&A transactions. Mr. Tringali holds a BA in Economics from UCLA and a JD (Juris Doctor) degree from Harvard Law School.

Nancy McKenzie

Ms. McKenzie is a former senior financial executive with extensive experience in industrial manufacturing and service businesses, in addition to spending some time in the consumer branded and private label foods sector. Her experience also includes large scale capital project oversight of manufacturing, office and infrastructure facilities and industrial equipment from her experience in the marine and shipbuilding industry. She is currently Chair of the Board of Governors at the University of British Columbia, serves on the Board of Coast Capital Savings Federal Credit Union as Vice Chair, Chair of the Risk Committee and member of the Audit and Finance committee, and is an Advisory Board member for a privately owned manufacturing business. She is a fellow of the Chartered Professional Accountants of BC, obtained her director's designation (ICD.D) from the Institute of Corporate Directors, and holds an Honours Bachelor of Business Administration from Wilfrid Laurier University (Waterloo).

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Barry Close, Vice President of Operations

Heavily focused on achieving operational excellence, Mr. Close is responsible for the quality/productivity of operations and the health/safety of employees at Swiss Water. Mr. Close brings more than 39 years' experience with technical processes in the manufacturing industry to Swiss Water, where he has worked for the past 12 years. He initially joined Swiss Water as the Plant Manager in 2007 and was promoted to VP Operations in 2010. Prior to that, Mr. Close worked in the premium specialty coated paper manufacturing industry where he managed various aspects of paper manufacturing operations. Mr. Close has completed technical training at Cariboo College (now Thompson Rivers University) in Kamloops, BC and the British Columbia Institute of Technology. Additionally, he has trained as an Electrical Technologist and on Six Sigma methodologies with the Lean Kaizen process, which promotes everywhere improvement, everybody improvement, and everyday improvement.

Iain Carswell, Chief Financial Officer

As Chief Financial Officer of Swiss Water, Mr. Carswell is responsible for corporate finance, external financial reporting, compliance, risk management, information technology, and investor relations functions of the Company. He is an experienced financial executive in large multisite manufacturing environments and has broad experience in operating in international markets. Prior to joining Swiss Water, Mr. Carswell spent 15 years with Mars Inc., a global food and confectionery company, most recently as CFO of Mars Turkey. He has been a proven business leader throughout his career and has in-depth knowledge of accounting, financial reporting, risk management, and strategic planning. He holds a Bachelor of Commerce from the University of Edinburgh, and a Master of Science from the University of Stirling. Mr. Carswell is a member of the Chartered Institute of Management Accountants.

Director's security holdings and other

The directors of Swiss Water have established an Audit Committee, which is comprised of Mr. Mahler (Chair), Ms. Fulton and Mr. Tringali and Ms. McKenzie, and a Compensation and Corporate Governance Committee, which is comprised of Ms. Saunders (Chair), and Messrs. Veit and Johnston.

The number and percentage of securities of each class of voting security of Swiss Water beneficially owned, directly and indirectly, or over which control and direction are exercised, by all of the directors and officers of Swiss Water 311,994 shares being 3.4% of the issued and outstanding shares as at December 31, 2020.

None of the directors or officers of Swiss Water is at the date hereof, or has been within the past 10 years, a director or chief executive or financial officer of any issuer that, while such individual was acting in such capacity, or after such individual ceased to act in such capacity, was the subject of an event that resulted in a cease trade order or an order that denied the benefit of the relevant issuer access to any exemption under securities legislation.

Mr. Mahler was a director of Sterling Shoes, Inc., a public issuer when it sought creditor protection under the Companies' Creditor Arrangement Act (Canada) in 2011.

Other than as disclosed herein, none of the directors or officers of Swiss Water is at the date hereof, or has within the past 10 years, been bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or became subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold any of his or her assets.

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AUDIT COMMITTEE

Audit Committee Charter

Swiss Water's Audit Committee charter is attached as an Appendix hereto.

Audit Committee Oversight

During the financial year ended December 31, 2020, there was no recommendation of the Audit Committee to nominate or compensate the external auditor of Swiss Water that was not adopted by the Directors.

Composition of the Audit Committee

Swiss Water's Audit Committee is comprised of three Directors, Ms. McKenzie (since February 2021) and Messrs. Mahler (Chair) and Tringali. Each member of the Audit Committee is "independent" and "financially literate" for the purposes of National Instrument 52-110 of the Canadian Securities Administrators ("NI 52-110").

Education and Experience of the Members of the Audit Committee

The following is a summary of the relevant education and experience of each of the members of the Audit Committee:

Mr. Mahler has served as a director of several companies. He was formerly Executive Vice President and Chief Financial Officer of Finning International Inc., the world's largest distributor of Caterpillar equipment (TSX symbol: FFT). He holds a Master of Business Administration degree (Finance) and a Bachelor of Science degree (Math and Computer Science).

Mr. Tringali has 30 years' experience in law, business and corporate finance, including overseeing finance operations for public companies, and thus brings considerable experience reviewing the financial performance of similar sized companies. In addition, Mr. Tringali has served as a director of numerous public and private companies. Mr. Tringali holds a degree in economics from UCLA and JD from Harvard Law School.

As a fellow of the Chartered Professional Accountants of BC, Ms. McKenzie currently holds Directorship positions at the University of British Columbia where she is the Chair of the Board of Governors, and at Coast Capital Savings Federal Credit Union, where she is the Board Vice Chair, Chair of the Risk Committee, and a member of the audit and finance committee. Ms. McKenzie's extensive, over 30 year experience as a financial professional, includes having articulated at a large public practice firm, and working in industrial manufacturing service businesses including a tenure of 12 years as the Chief Financial Officer at Seaspan ULC. She has completed the Directors' Education Program at the Institute of Corporate Directors and earned the ICD.D designation as well as she holds a BBA from Wilfrid Laurier University (Waterloo). Ms. McKenzie joined Swiss Water in February 2021.

The directors of Swiss Water believe that the education and experience of each of the members of the Audit Committee provide such members with:

- an understanding of the accounting principles used by Swiss Water to prepare its financial statements;
- the ability to assess the general application of such accounting principles in connection with the accounting for estimates, accruals, and reserves;

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- experience in analyzing and evaluating financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by Swiss Water's financial statements; and
- an understanding of internal controls and procedures for financial reporting.

Reliance on Certain Exemptions

During the financial year ended December 31, 2020, Swiss Water did not rely on the exemptions set out in sections 2.4, 3.2, 3.3(2), 3.4, 3.5, 3.6, or 3.8 of form 52-110, nor did Swiss Water rely on section Part 8 of Form 52-110.

External Audit Service Fees

Audit Fees

The following are the aggregate fees billed in each of the last two fiscal years for audit services by Swiss Water's external auditor: 2020: \$197,278 (2019: \$139,125).

Audit Related Fees

Audit related fees for 2020 and 2019 were nil.

Tax Related Fees

In 2020, \$77,500 (2019: \$71,505) in tax related fees were billed by Swiss Water's external auditor for tax compliance and tax related SRED filing in the normal course of business, as well as set up a new subsidiary in France.

All Other Fees

In 2019 and 2020, the Company was billed \$nil by its external auditor for an internal controls review.

Pre-Approval Policies and Procedures

The Audit Committee has adopted specific policies and procedures for the engagement of non-audit services to be provided by Swiss Water's external auditor. These procedures involve pre-approval of any such services by the Audit Committee Chair if the amount falls below a particular dollar amount, and provided that the terms of such engagement are subsequently reviewed by the Audit Committee. For all other non-audit services to be provided by Swiss Water's external auditor, the Audit Committee must approve the engagement prior to commencing any work in respect of such services.

DIVIDENDS AND DISTRIBUTION

In the past three fiscal years, dividends declared per share were as follows:

	Year ended December 31, 2020	Year ended December 31, 2019	Year ended December 31, 2018
Dividends declared, per share	\$0	\$0.250	\$0.250

Swiss Water's dividend policy is subject to the discretion of the board of Directors, who review the level of dividends periodically on the basis of a number of factors including Swiss Water's financial performance, future prospects and capital requirements of the business. The amounts and timing of any future dividends may vary depending on, among other things, Swiss Water's earnings, financing

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requirements, the satisfaction of solvency tests imposed by the *Canada Business Corporations Act* (“CBCA”) for the declaration of dividends and other relevant factors. Swiss Water’s ability to make cash dividends is dependent upon its assets and its operations. In 2020 the Company suspended its dividend payments.

MARKET FOR SECURITIES

Swiss Water’s common shares are listed for trading on the Toronto Stock Exchange under the symbol “SWP” (formerly “TPK”). The following table sets out the opening, high, low and closing trading price, and the number of shares traded, during each month in 2020:

Month	Open	High	Low	Close	Volume Traded
January	6.92	7.00	6.41	6.63	200,800
February	6.69	6.69	5.60	5.75	263,400
March	6.24	6.24	2.30	2.72	629,400
April	2.65	4.12	2.51	3.55	743,500
May	3.52	3.70	2.86	2.93	483,500
June	2.96	3.29	2.78	3.01	441,400
July	3.01	3.02	2.64	2.64	221,200
August	2.65	3.28	2.60	3.07	301,200
September	3.06	3.06	2.76	2.83	240,700
October	2.83	2.93	2.69	2.74	222,972
November	2.85	3.20	2.61	3.09	496,064
December	2.96	3.20	2.70	3.06	513,552

CAPITAL STRUCTURE

The authorized capital of Swiss Water consists of an unlimited number of common shares. The following is a summary of the rights, privileges, restrictions, and conditions attaching to the shares of Swiss Water. As of the date hereof, Swiss Water had 9,129,673 common shares issued and outstanding.

Common Shares

Holders of Common Shares are entitled to one vote per share at meetings of Swiss Water’s shareholders, to receive dividends if, as and when declared by the Board of Directors and to receive pro-rata the remaining property and assets of Swiss Water upon its dissolution or winding-up, subject to the rights of shares having priority over the Common Shares. Holders of Common Shares may make use of the various shareholder remedies available pursuant to the CBCA.

AUDITORS, TRANSFER AGENT AND REGISTRAR

Auditors

In 2019 and 2020, the auditor of Swiss Water was PricewaterhouseCoopers LLP.

Transfer Agent and Registrar

Swiss Water’s transfer agent and registrar is Computershare Trust Company of Canada at its principal offices in Vancouver, British Columbia and Toronto, Ontario.

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INTERESTS OF EXPERTS

PricewaterhouseCoopers LLP is Swiss Water's auditor. To management's knowledge, neither PricewaterhouseCoopers LLP nor its partners hold any registered or beneficial interest, directly or indirectly, in any securities or other property of Swiss Water.

PROMOTERS

Swiss Water does not have Promoters as defined in Form 51-102F2, section 11.

ADDITIONAL INFORMATION

Additional financial information is provided in Swiss Water's comparative financial statements and Management's Discussion and Analysis for its most recently completed fiscal year ended December 31, 2020, which are available at www.sedar.com. Also, additional information, including directors' and officers' remuneration and indebtedness, principal holders of Swiss Water's securities and securities authorized for issuance under equity compensation plans, is contained in Swiss Water's information circular issued in advance of our last annual shareholder meeting, in June of 2020.

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APPENDIX: Audit committee terms of reference

SWISS WATER DECAFFEINATED COFFEE INC.

AUDIT COMMITTEE TERMS OF REFERENCE

(Revised and Approved by the Board: February 21, 2019)

Establishment of the Committee

There shall be a Committee of the Board of Directors (the “Board”) of Swiss Water Decaffeinated Coffee Inc. (the “Company”) to be known as the Audit Committee (“Committee”) whose membership, authority and responsibilities shall be as set out in these terms of reference.

The primary function of the Committee is to assist the Board in fulfilling its oversight responsibilities, primarily through overseeing management’s conduct of the Company’s accounting and financial reporting process and systems of internal accounting and financial controls; selecting, retaining and monitoring the independence and performance of the Company’s external auditors, including overseeing the audit and interim review of the Company’s financial statements and pre-approving any non-audit services performed by the auditors; and providing an avenue of communication among the external auditors, management and the Board.

Membership

- (a) The Committee shall consist of at least three members of the Board all of whom shall be independent as determined in accordance with applicable securities laws, rules, regulations and guidelines (“Securities Laws”). In particular, each member of the Committee must be independent of management and free from any interest, business or other relationship which could, or could reasonably be perceived to, materially interfere with the member’s ability to act in the best interests of the Company.
- (b) All Committee members shall be financially literate. For this purpose, financial literacy shall mean the ability of a member to read and understand a set of financial statements that present a breadth and level of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Company’s financial statements. At least one member should have accounting or related financial expertise and should be able to analyze and interpret a full set of financial statements, including notes, in accordance with International Financial Reporting Standards.
- (c) Members will be appointed by the Board and shall serve until the earlier to occur of the date on which he or she shall be replaced by the Board, resigns from the Committee, or ceases to be a Director.
- (d) The Board shall appoint one of the Directors elected to the Committee as the Chair of the Committee. In the absence of the Chair of the Committee at any meeting, the members shall elect a Chair from those in attendance to act as Chair of the meeting.

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- (e) The secretary of the Committee will be the Chief Financial Officer, the Corporate Secretary, or such other person as is selected by the Committee.

Procedural Matters

- (a) The Committee shall meet as frequently as required, but no fewer than four times annually and at least quarterly. A majority of the members of the Committee present in person or by telephone or by such other telecommunications device that permits all persons participating in the meeting to speak to each other shall constitute a quorum and the act of a majority of the members at a meeting where a quorum is present shall be the act of the Committee. The Committee may meet in person, by telephone or by such other telecommunications device that permits all persons participating in the meeting to speak to each other and may also act by unanimous written consent of its members. The Committee shall maintain minutes or other records of meetings and activities of the Committee.
- (b) The Chief Financial Officer and the Corporate Secretary shall, in consultation with the Chair of the Committee, develop the agenda for meetings of the Committee. The agenda and information concerning the business to be conducted at each Committee meeting shall, to the extent possible, be communicated to the members of the Committee sufficiently in advance of each meeting to permit meaningful review.
- (c) The Committee shall, through its Chair, report regularly to the Board following the meetings of the Committee, addressing such matters as the quality of the Company's financial statements, the Company's compliance with legal or regulatory requirements in relation to those matters within the Committee's purview, the performance and independence of the external auditors, the performance of any internal audit function and other matters related to the Committee's functions and responsibilities.
- (d) Notice of a meeting of the Committee may be given orally or by letter, electronic mail, facsimile transmission or telephone not less than 24 hours before the time fixed for the meeting; provided, however, that a member may in any manner waive a notice of a meeting and attendance of a member at a meeting is a waiver of notice of the meeting, except where a member attends a meeting for the express purpose of objecting to the transaction of any business on the grounds that the meeting is not lawfully called.
- (e) The Committee may invite such other persons (e.g. the CEO, CFO) to its meetings, as it deems necessary. All other Directors that are not members of the Committee may attend Committee meetings but may not vote.
- (f) The external auditors shall be invited to make presentations to the Audit Committee as appropriate.
- (g) The Committee at any time may, and at each regularly scheduled meeting shall, meet without management present, and shall meet with the external auditors, without management present, at each meeting at which the external auditors are in attendance.
- (h) The Chair, any two members of the Committee, the external auditors, the Chief Executive Officer and the Chief Financial Officer may call a special meeting of the Committee at any time.

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General Responsibilities

- (a) The Committee's principal responsibility is one of oversight. The Company's management is responsible for preparing the Company's financial statements and other disclosure documentation required by applicable Securities Laws, and the Company's external auditors are responsible for auditing and/or reviewing those financial statements. In carrying out these oversight responsibilities, the Committee is not required to provide any expert or special assurance as to the Company's financial statements or any professional certification as to the external auditors' work.
- (b) Nothing in these terms of reference is intended or may be construed to impose on any member of the Committee a standard of care or diligence that is in any way more onerous or extensive than the standard to which all Board members are subject. Although the designation of a Committee member as being financially literate or having accounting or related financial expertise for disclosure purposes is based on that individual's education and experience, which that individual will bring to bear in carrying out his or her duties on the Committee, such designation does not impose any duties, obligations or liability greater than the duties, obligations and liability imposed on such person as a member of the Committee and the Board in the absence of such designation.
- (c) While the Committee has the responsibilities set forth in this charter, it is not the duty of the Committee to prepare financial statements, plan or conduct audits, manage the Company's exposure to risk, certify or guarantee the internal or external audit of the Company or to determine that the financial statements and disclosures are complete and accurate and are in accordance with International Financial Reporting Standards and applicable rules and regulations. These are the responsibilities of management and the external auditors, as applicable. The Committee, its Chair and Committee members are members of the Board, appointed to the Committee to provide broad oversight of the financial, risk and control related activities and processes of the Company, and are specifically not accountable or responsible for the day to day operation or performance of such activities.

Specific Responsibilities

The specific responsibilities of the Committee are:

- (a) Internal Control
 - (i) Evaluating whether management is setting the appropriate "control culture" by communicating the importance of internal control and the management of risk and ensuring that all employees have an understanding of their roles and responsibilities.
 - (ii) Reviewing annually the adequacy and quality of the Company's financial and accounting staffing, the need for and scope of internal audit reviews, and the plan, budget and the designations of responsibilities for any internal audit.
 - (iii) Reviewing annually with the external auditors, any significant matters regarding the Company's internal controls and procedures over financial reporting that have come to their attention during the conduct of their annual audit, and review whether internal control recommendations made by the auditors have been implemented by management.

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- (iv) Reviewing major risk exposures (whether financial, operating or otherwise) and the guidelines and policies that management has put in place to govern the process of monitoring, controlling and reporting such exposures.
- (v) Establishing procedures for the receipt, retention and treatment of any complaints received by the Company regarding internal controls or auditing matters, including procedures to enable confidential, anonymous submissions to be made by employees of the Company and its subsidiaries concerning questionable accounting, internal accounting controls or auditing matters; reviewing any issues or complaints raised pursuant to such procedures and annually reviewing the Company's Whistleblower Policy as set out in the Company's Code of Business Ethics and recommend any amendments to the Compensation and Corporate Governance Committee.
- (vi) Reviewing and approving any related party transactions outside of the ordinary course of business, or any material amendment thereto prior to the transaction being entered into.

(b) Financial Reporting

General

- (i) Gaining an understanding of the current areas of financial risk and how management is managing these areas of risk effectively.
- (ii) Considering with the external auditors any fraud, illegal acts, deficiencies in internal control or other similar issues.
- (iii) Reviewing significant accounting and reporting issues, including recent professional and regulatory pronouncements, and understand their impact on the financial statements.
- (iv) Reviewing all critical accounting policies and practises used by the Company, including all alternative treatments of financial information under International Financial Reporting Standards that have been discussed with the external auditors.
- (v) Reviewing any legal matters that could significantly impact the financial statements.
- (vi) Overseeing the work of the external auditor engaged for the purpose of preparing or issuing an auditor's report or performing other audit, review or attest services for the Company, including the resolution of any disagreements between management and the external auditor regarding financial reporting.
- (vii) Reviewing the quarterly CEO and CFO certifications and any sub-certifications from senior management in respect of disclosure controls and procedures and internal controls over financial reporting.
- (viii) Reviewing the internal control report prepared by management, including management's assessment of the effectiveness of the Company's internal controls over financial reporting and disclosure controls and procedures and any related report by the independent auditors.
- (ix) Receiving the certification from the Chief Financial Officer on compliance with statutory liabilities.
- (x) Reviewing with management and the external auditors the effect of off-balance sheet transactions and structures on the financial statements.

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Annual Financial Statements

- (i) Reviewing and recommending to the Board for approval the annual financial statements and Management's Discussion and Analysis and determining whether they are accurate, complete and consistent with the information known to Committee members; assessing whether the financial statements reflect appropriate accounting principles.
- (ii) Focusing on judgmental areas, for example, those involving valuation of assets and liabilities; warranty, product or environmental liability; litigation reserves; and other commitments and contingencies; assessing whether such judgments and estimates are reasonable
- (iii) Meeting with management and the external auditors to review the financial statements and the results of the audit.
- (iv) Reviewing the other sections of the annual report before its release and considering whether the information is accurate, complete and consistent with members' knowledge about the Company and its operations.
- (v) (v) Reviewing the post-audit or management letter from the external auditors and management's response and follow-up in respect of any identified issues.

Annual Information Form, Earnings Releases, Interim Financial Statements, Analysts' Briefings and Other Public Disclosures

- (i) Remaining briefed on how management develops the annual information form, earnings releases, interim financial information, MD&A statements, analysts' briefings and other public disclosures and the extent to which the external auditors review such information.
- (ii) Assessing the fairness, accuracy and completeness of the interim statements and MD&A disclosures, and obtaining explanations from management and internal and external auditors on whether:
 - Actual financial results for the interim period varied significantly from budgeted or projected results;
 - Changes in financial ratios and relationships in the interim financial statements are consistent with changes in the Company's operations and financing practices;
 - International Financial Reporting Standards have been consistently applied;
 - There are any actual or proposed changes in accounting or financial reporting practices;
 - There are any significant or unusual events or transactions;
 - The Company's financial and operating controls are functioning effectively;
 - The preliminary announcements and interim financial statements contain adequate and appropriate disclosures; and
 - There are any breaches of debt covenants.
- (iii) Reviewing, discussing with management and the external auditors the Company's annual information form, financial statements, MD&A, annual and interim earnings news releases, prospectuses and financial information in other public reports and public filings before the Company publicly discloses them.

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- (iv) Being satisfied that adequate procedures are in place for review of the Company's public disclosure of financial information extracted or derived from the Company's financial statements, other than those referred to above immediately above and periodically assessing the adequacy of such procedures.

(c) External Audit

- (i) Reviewing the external auditors' proposed audit scope, staffing and approach and ensure no unjustified restrictions or limitations have been placed on the scope.
- (ii) Approve the fees for the audit and interim reviews to be performed by the external auditors.
- (iii) Reviewing the qualifications and performance of the external auditors and reviewing the external auditors' report on its internal quality control procedures.
- (iv) Considering the independence of the external auditor, including reviewing the range of services provided in the context of all consulting services bought by the Company and ensuring the rotation of the lead audit partner and the audit partner with responsibility for reviewing the audit in accordance with Securities Laws.
- (v) Making recommendations to the Board regarding the appointment and reappointment of the external auditors.
- (vi) Reviewing and approving the employment of any partner, employee, former partner or former employee of the external auditor or a former external auditor.
- (vii) Ensuring that significant findings and recommendations made by the external auditors are received and discussed on a timely basis.
- (viii) Ensuring that management responds to recommendations by the external auditors.
- (ix) Pre-approve the retention of the independent auditor for any non-audit service and the fee for such service. The Committee may satisfy the pre-approval requirement if:
 - the aggregate amount of all the non-audit services that were not pre-approved constitutes no more than five per cent of the total amount of revenues paid by the Company to its independent auditors during the fiscal year in which the services are provided;
 - the services were not recognized by the Company at the time of the engagement to be non-audit services; and
 - the services are promptly brought to the attention of the Committee and are approved, prior to the completion of the audit, by the Committee or by one or more members of the Committee to whom authority to grant such approvals has been delegated by the Committee.

The Committee may delegate to one or more independent members the authority to pre-approve non-audit services provided that the pre-approval of non-audit services by any member to whom authority has been delegated must be presented to the full Committee at its first scheduled meeting following such pre-approval.

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- (d) Compliance with Laws and Regulations
 - (i) Reviewing the effectiveness of the system for monitoring compliance with laws and regulations (including insider reporting) and the results of management's investigation and follow-up (including disciplinary action) of any fraudulent acts or non-compliance.
 - (ii) Obtaining regular updates from management and the Company's legal counsel regarding compliance matters.
 - (iii) Being satisfied that all regulatory compliance matters have been considered in the preparation of the financial statements.
 - (iv) Reviewing the findings of any examinations by regulatory agencies.
- (e) Compliance with The Company's Code of Business Ethics
 - (i) Ensuring that the Company's Code of Business Ethics is in writing and that arrangements are made for all employees to be aware of its contents.
 - (ii) Evaluating whether management is setting the appropriate "tone at the top" by communicating the importance of the Code of Business Ethics and the guidelines for acceptable behavior.
 - (iii) Reviewing the process for monitoring compliance with the Company's Code of Business Ethics.
 - (iv) Obtaining regular updates from management regarding compliance and reviewing any issues of non-compliance.
- (f) Reporting Responsibilities
 - (i) Regularly updating the Board about Committee activities and making appropriate recommendations.
 - (ii) Ensuring the Board is aware of matters that may significantly impact the financial condition or affairs of the business.
 - (iii) Reviewing and updating these terms of reference and recommending any amendments to the Compensation and Corporate Governance Committee.
 - (iv) Evaluating the Committee's own performance on a regular basis.

Authority

The Board grants authority to the Audit Committee, within the scope of its responsibilities, to:

- (a) Study or investigate any matter of interest or concern that the Committee considers appropriate or necessary.
- (b) Seek any information it requires from any employee (and all employees are directed to co-operate with any request made by the Audit Committee) or external parties and review all books and records of the Company.

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- (c) Obtain outside legal or other professional advice as deemed necessary and to set and authorize the compensation to be paid to such advisors at the Company's expense.
- (d) Ensure the attendance of officers of the Company at meetings as appropriate.
- (e) Communicate directly with the external auditors or any internal auditors.
- (f) Delegate its authority and duties to subcommittees or individual members of the Committee as it deems appropriate.
- (g) Approve the Company's key accounting and finance policies.

APPENDIX A

**AUDIT COMMITTEE
CALENDAR OF ACTIVITIES**

	March	May	August	November
<u>Review and Approve Financial Statements and Reports</u>				
Financial Statements	X	X	X	X
Review major accounting policies and significant estimates.	X	X	X	X
Consider changes in accounting principles and whether industry standards are being followed	X	X	X	X
Consider unresolved differences of opinion between management and the auditor	X	X	X	X
Annual Report, including MD&A.	X			
Annual Information Form	X			
Interim Report, including MD&A.		X	X	X
<u>External Auditors</u>				
Review auditor independence	X	X	X	X
Review cooperation and services provided by management.	X	X	X	X
Meeting with auditors without management	X	X	X	X
Review non-audit services	X	X	X	X
Discuss audit report and findings	X			
Review recommendations and response to audit report.	X			
Review qualifications and performance of auditors and recommend appointment of auditors	X			
Receive interim review report from auditors		X	X	X
Review recommendations and responses from interim review		X	X	X
Approve audit fees				X
Review scope of audit and audit plan			X	

	March	May	August	November
<u>Risk Management and Control</u>				
Update on financial risks and review of risk management plans	X	X	X	X
Report on and review of effectiveness of internal controls over financial reporting and disclosure controls and procedures; CEO & CFO certifications	X	X	X	X
Receive a report on any complaints/concerns received under the Whistleblowing Policy or Code of Business Ethics and any fraud, illegal acts or similar issues	X	X	X	X
Review related party and off-balance sheet transactions	X	X	X	X
Receive CFO liability certificate	X	X	X	X
Review adequacy of and changes in financial personnel		X		
Review Whistleblower Policy				X
Assessment of adequacy of insurance coverage		X		
<u>Other</u>				
Report on Company activities	X	X	X	X
Review tax reserves	X	X	X	X
Review litigation	X	X	X	X
Review key accounting and finance policies: <ul style="list-style-type: none"> - Commodity Price Risk Management Policy - Foreign Exchange Risk Management Policy 	X			X
Review terms of reference and calendar				X