SWISS WATER DECAFFEINATED COFFEE INC.

2021 ANNUAL REPORT

MANAGEMENT DISCUSSION AND ANALYSIS

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

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

FORWARD-LOOKING STATEMENTS

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

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

EXECUTIVE SUMMARY

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

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

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

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

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

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

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

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

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

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

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

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

Operational highlights

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

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

Financial highlights

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

NON-IFRS MEASURES

Adjusted EBITDA

Adjusted EBITDA is a Non-GAAP measure and is often used by publicly traded companies as a measure of cash from operations, as it excludes financing costs, taxation and non-cash items. We believe that disclosing this Non-IFRS measure provides readers of this MD&A with important information regarding Swiss Water's financial performance and its ability to pay distribution to stakeholders. By considering Adjusted EBITDA in combination with IFRS, we believe that readers are provided with additional and more useful information about Swiss Water than readers would have if they simply considered IFRS measures alone. Reported Adjusted EBITDA is intended to assist readers with their own financial analysis. However, since this measure does not have a standardized meaning prescribed by IFRS, it is unlikely to be comparable to similar measures presented by other entities.

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

Adjusted EBITDA for the three months and year ended December 31, 2021 was $2.1 million and $10.5 million respectively, compared to $1.2 million and $7.0 million for the same periods in 2020. Operationally, the change in Adjusted EBITDA was driven by increased volumes, revenue growth, efficiency gains due to higher capacity utilization rates, and an increased financial contribution from Seaforth. These gains were offset by an increase in green coffee costs and inflationary pressure on our underlying cost structure.

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

(In $000s) (unaudited)	3 months ended December 31, 2021	 2020	Year ended December 31, 2021	 2020
Operating income	$ 1,517	$ 126	$ 6,686	$ 5,137
Depreciation & amortization	1,095	1,653	6,208	4,677
Share-based compensation expense (recovery)	205	192	690	(129)
Gain (loss) on risk management activities	179	289	(323)	122
Unrealized (gain) loss on foreign exchange forwards	(183)	(371)	80	(48)
Impact of IFRS 16 - Leases	(702)	(700)	(2,808)	(2,717)
Adjusted EBITDA	$ 2,111	$ 1,189	$ 10,533	$ 7,042

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

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

OUTLOOK

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

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

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

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

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

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

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

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

BUSINESS OVERVIEW

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

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

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

Swiss Water Decaffeinated Coffee's Business

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

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

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

CAPACITY TO DELIVER RESULTS

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

- Proprietary Chemical Free Production Lines – We have three decaffeination production lines. This enables us to align our production capacity with changes in demand throughout the year. We are able to better control our variable cost by operating a reduced number of lines when demand is lower and all lines when demand is higher. In Q3 2020 we initiated production from our new processing facility in Delta, B.C. In prior years we completed an efficiency enhancement project in Q2 2018 to increase capacity at our Burnaby operating facility and in 2016, we expanded the capacity of one of our production lines, which enabled us to meet near-term growth in demand for our products. The construction of our fourth processing line in Delta, which commenced in 2021 will enable us to meet our medium term growth ambition.
- Consumer Branding as the Premium, 100% Chemical Free Method of Decaffeinating Green Coffee – We have been successful in establishing our brand as a leading chemical free processor of green decaffeinated coffee. Consumers and participants in the coffee trade are increasingly aware of the value of the chemical free Swiss Water® Process due to its quality and taste. We believe that there is significant potential to continue to broaden consumer awareness of the benefits of the Swiss Water® Process.
- Established Customer Base – The Swiss Water® Process has an established customer base across North America and in many international markets. Our customers include some of North America's largest roasters, roaster-retailers and leading coffee brands.
- Broad Distribution Channels – Green coffee decaffeinated using the Swiss Water® Process is sold through the coffee market's key distribution channels: roaster retailers, commercial roasters and coffee importers. This diversity ensures that we access all key segments of the specialty coffee trade and consumer coffee markets.

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

KEY PERFORMANCE DRIVERS

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

Internal Factors

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

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

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

External Factors

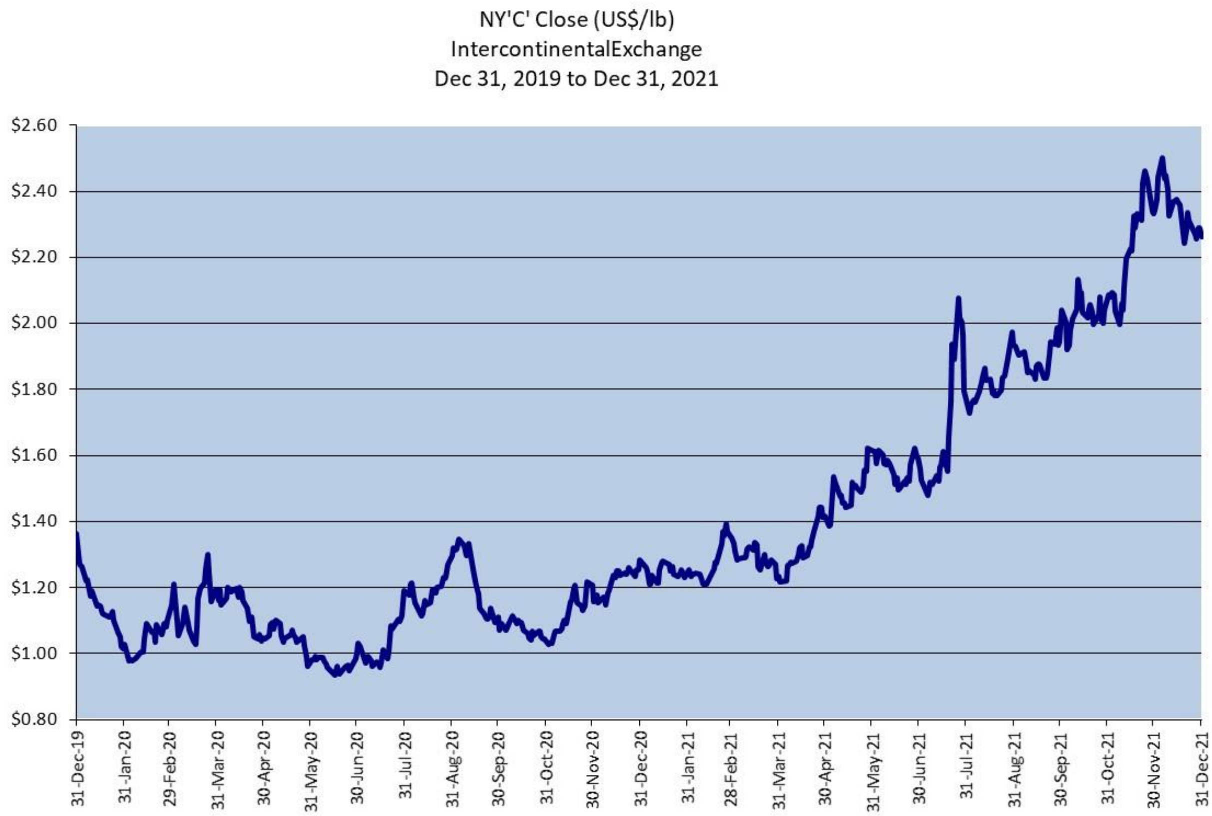
Coffee Futures Prices

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

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

In Q4 2021, the NY'C' averaged US$2.1989/lb compared to an average of US$1.14/lb in Q4 2020. For 2021, the NY'C averaged US$1.6832/lb, compared to US$1.11/lb for 2020. The rise and fall of the NY'C' affects our volume of shipments, our revenues and our cost of sales. In an upward trending market, our customers tend to consume their inventories rather than build them. When the NY'C' declines over a sustained period, our customers tend to add to their inventories.

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



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

As noted above, the majority of our ("C$") revenues are generated in US dollars ("US$"), while a significant portion of our costs are paid in Canadian dollars. We, therefore, have exposure to changes in the US$/C$ exchange rates. This is managed, in part, through derivative financial instruments. All other factors being equal, our profitability and cash from operations will be higher when the US dollar appreciates relative to the Canadian dollar. A long-term depreciation of the Canadian dollar will improve our long-term profitability and cash generation.

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

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

OPERATING RESULTS

Revenue

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

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

Our revenue by category for the indicated period was:

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

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

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

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

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

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

Cost of Sales

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

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

Gross Profit

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

Administration Expenses

Administration includes general management, inbound and outbound logistics, finance and accounting, quality control and assurance, engineering, research and development, and other administrative or support functions. Administration expenses include compensation expenses, travel and other personnel-related expenses for administrative staff, directors' fees, investor relations expenses, professional fees, depreciation of office-related equipment, and amortization of the brand asset.

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

Sales and Marketing Expenses

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

Sales and marketing expenses were down by $0.5 million, or 40%, to $0.8 million in Q4 2021, and down by $0.9 million, or 21%, to $3.5 million for 2021, compared to the same periods in 2020. The variability of these expenses throughout the year is mainly driven by timing differences in advertising and marketing campaign activities and savings following the restructuring of this department during Q1 2021.

Gains and Losses on Risk Management Activities

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

For the three months and the year ended December 31, 2021, we recorded a gain of $0.2 million and a loss of 0.3 million, compared to gains of $0.3 million and $0.1 million recorded for the same periods in 2020.

Finance Expenses and Income

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

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

On July 20, 2021 we amended our convertible debenture agreement with Mill Road Capital into a debenture with warrants. Until the amendment, the interest on the 2016 convertible debenture agreement was expensed at an effective interest rate of 12.15% (a rate determined in accordance with IFRS), while the contractual interest paid on this loan is at a rate of 6.85%, causing the amortization of the bond discount to change over time. The new agreement effective July 20, 2021 with Mill Road Capital has an effective interest rate of 16.19% and a contractual interest paid rate of 9%. There is also an additional 1.5% interest calculated quarterly and paid at the debt maturity date. Refer to note 11.2 of the financial statements for the year ended December 31, 2021 for discussion on the amended debt agreement with Mill Road Capital.

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

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

Loss on extinguishment of convertible debenture

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

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

Fair Value Adjustment on Embedded Option

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

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

Gains and Losses on Foreign Exchange

We realize gains and losses on transactions denominated in foreign currencies when they occur, and on assets and liabilities denominated in foreign currencies when they are translated into Canadian dollars as at the financial statement date.

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

Income Before Taxes and Net Income

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

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

Other Comprehensive Income

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

Basic and Diluted Earnings per Share

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

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

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

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

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

QUARTERLY INFORMATION / SEASONALITY

There is an element of seasonality in our business, in that the second half of the year tends to have higher volumes and revenues. The pandemic masked the typical seasonality pattern in 2020, however, this trend re-emerged in 2021.

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

In $000s except for per share amounts (unaudited)	8 Quarter Average	Q4 2021	Q3 2021	Q2 2021	Q1 2021	Q4 2020	Q3 2020	Q2 2020	Q1 2020
Revenue	27,831	35,129	35,496	28,759	25,692	24,512	24,862	26,380	21,817
Gross Profit	4,158	4,389	6,018	3,652	3,552	2,861	3,431	5,154	4,206
Operating income	1,478	1,517	3,325	1,106	738	126	606	2,370	2,035
Adjusted EBITDA[1]	2,196	2,111	3,974	2,461	1,987	1,186	1,335	2,536	1,981
Net income (loss)	431	241	135	216	(96)	(320)	106	1,716	1,448
Per Share[2]									
Net income (loss) - basic	0.05	0.03	0.01	0.02	(0.01)	(0.04)	0.01	0.19	0.16
Net income (loss) - diluted	0.03	0.03	0.01	0.02	(0.01)	(0.04)	0.01	0.19	0.02

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

[2] Per-share calculations are based on the weighted average number of shares outstanding during the periods.

SELECTED ANNUAL INFORMATION

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

[1] Adjusted EBITDA is defined in the 'Non-IFRS Measures' section of this MD&A and is a "Non-GAAP Financial Measure" as defined by CSA Staff Notice 52-306.
[2] Dividend paid in 2020 was for dividend declared in Q4 2019.
[3] Per-share calculations are based on the weighted average number of shares outstanding during the periods.

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

LIQUIDITY AND CAPITAL RESOURCES

Operating activities

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

Investing Activities

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

Financing Activities

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

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

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

Inventory

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

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

Accounts Receivable

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

Credit Facilities and Liquidity

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

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

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

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

We have certain bank and creditor covenants that relate to the maintenance of specified financial ratios, and as of December 31, 2021 we were, and remain as of the date hereof, in compliance with all covenants in the years 2020 and 2021.

Construction Loan with BDC and FCC

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

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

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

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

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

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

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

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

Debenture with Warrants / Convertible Debenture with Mill Road Capital

On July 20, 2021, Swiss Water amended the $15.0 million convertible debenture agreement with MRC to a $15.0 million debenture with warrants. Under the new terms of the agreement, the maturity date was extended by one year from October 11, 2023, to October 31, 2024. The other amended terms were: (i) the interest rate increased from a maximum of 7.85% to 9%, (ii) a 1.5% additional interest "payment in kind" was added, (iii) the debt to shares conversion feature was amended, and (iv) the senior debt covenant was increased from $45.0 million to $60.0 million. The debt to shares conversion was amended by (a) cancelling the existing conversion feature and (b) replacing the existing conversion feature with warrants to allow MRC to purchase up to 2.25 million common shares at a price of $3.33 per share. The warrants expire on October 31, 2024.

We have determined that this modification should be considered an extinguishment as the terms of the agreement are substantially different given as there is a 2.15% change in the interest rate and a replacement of the conversion shares with warrants and we recognized a loss on extinguishment of debt in the amount of $1.4 million for the year ended December 31, 2021. There was no such cost last year.

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

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

Contractual Obligations

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

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

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

Swiss Water leases the following offices, warehouses and equipment:

On August 26, 2016, we signed a lease agreement for a build-to-suit production facility. From the lease commencement date, the lease has an initial term of five years and can be renewed at our option in five-year increments up to a total of 30 years. The lease commenced date was in July 2018. Under the lease, Swiss Water has multiple options to buy-out the lease starting at the end of the second five-year term. The buy-out value will be equal to the fair market value of the property as determined by an appraisal process, subject to specified maximum and minimum values.

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

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

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

Swiss Water Decaffeinated Coffee Company USA, Inc. leases a sales office in Seattle, Washington, which expires in October 2022.

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

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

OFF-BALANCE SHEET ARRANGEMENTS

Swiss Water has no off-balance sheet arrangements.

RELATED PARTY TRANSACTIONS

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

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

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

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

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

In 2017, a subsidiary of the Company and a member of key management entered into a promissory note in the amount of US$0.1 million. For as long as the person remained an employee, the obligation to repay the principal is forgiven against current and future awards under the RSU Plan, by forfeiture of awards. The loan was interest free other than in the event of default, in which case the promissory note would bear simple interest at a rate of 10% per annum. In 2021 the loan was settled against vested RSUs and cash payments and no amounts remain receivable as at December 31, 2021 (2020: $0.04 million).

RISKS AND UNCERTAINTIES

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

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

ENVIRONMENTAL RISKS

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

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

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

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

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

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

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

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

CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES

Measurement of Uncertainty

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

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

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

Asset Retirement Obligation

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

Property, plant, equipment and intangible asset

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

Income Taxes

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

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

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

Leases and right of use assets

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

Debenture with Warrants

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

Convertible Debenture with Embedded Derivative

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

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

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

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

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

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

CHANGES IN ACCOUNTING STANDARDS

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

- IAS 1 amendments address the classification of liabilities between current and non-current;
- IFRS 9/ IAS 39 and IFRS 7 (phase 2) were amended to address issues arising from the implementation of interest rate benchmark reform ("IBOR"), including the replacement of one benchmark with an alternative one. The Company has not currently transitioned its agreements to address IBOR reform. Currently, the Credit Facility, under the Borrowings note, is exposed to LBOR which is currently scheduled to cease publication in the near future. We will continue to monitor developments on alternative benchmark interest rates and we expect to transition to alternative rates as the widespread market practice is established. We do not expect the replacement to result in a significant change to our risk management strategy.

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

- IFRS 9 was amended to address which fees should be included in the 10% test for derecognition of financial liability.
- IAS 37 was amended to clarify (i) the meaning of "costs to fulfil a contract", and (ii) that, before a separate provision for an onerous contract is established, an entity recognizes any impairment loss that has occurred on assets used in fulfilling the contract, rather than on assets dedicated to that contract.
- IAS 16 was amended to (i) prohibit an entity from deducting from the cost of an item of property plant and equipment any proceeds received from selling items produced while the entity is preparing the asset for its intended use (for example, the proceeds from selling samples produced when testing a machine to see if it is functioning properly), (ii) clarify that an entity is "testing whether the asset is functioning properly" when it assesses the technical and physical performance of the asset, and (iii) require certain related disclosures.
- IAS 12 was amended to require companies to recognize deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. Consequential amendment to IFRS 1 to add an exception to retrospective application, effective January 1, 2023.
- IAS 8 amended the definition of accounting estimates, effective January 1, 2023.
- IFRS 16 encompasses property, plant and equipment: proceeds before intended use.

HEDGE ACCOUNTING

There are risks related to unpredictability over coffee commodity prices and foreign exchange rates. To minimize these risks, we follow our risk management program, which is carried out under two policies approved by the Board of Directors: The Foreign Exchange Risk Management Policy and the Commodity Price Risk Management Policy. With the use of derivative financial instruments, we hedge potential adverse effects on our financial performance and cash flows. Under the risk management program, we enter into three types of hedges and each type is discussed below:

1) Commodity price risk hedges on coffee purchase commitments and coffee inventory (“commodity hedges”);
2) Currency risk hedges related to US$ denominated future process revenues (“revenue hedges”); and
3) Currency risk hedges related to US$ denominated purchases of green coffee (“purchase hedges”).
4) Currency risk hedges related to US$ denominated purchases of property, plant and equipment (“purchase hedges”).

Commodity Hedges

When we enter into a purchase commitment to buy green coffee, the contract specifies that the purchase price will be based, in part, on the future (to-be-determined) coffee futures price, or NY’C’. We agree on or ‘fix’ the NY’C’ price with the vendor on or before receiving the coffee into inventory. When we bear the economic risk of a change in the commodity price, we offset this risk by selling short a futures contract on the Intercontinental Exchange. When we later sell such coffee at a fixed price to a customer, we cover our short by going long on a futures contract on the Intercontinental Exchange.

At each period-end, commodity hedges are re-measured to their fair value. Under hedge accounting, gains /losses for hedged coffee purchase commitments and inventory are recorded in the statement of financial position until such coffee is sold, at which time the gains/losses on our commodity hedges are recognized in cost of sales. In this way, gains/losses on our commodity hedges are matched to our sales in the period.

Revenue Hedges

We enter into forward contracts to sell US$ at future dates to hedge the foreign exchange cash flow variability of expected US$ processing fee revenue up to 60 months in advance. The hedged process revenue includes both process revenue from tolling arrangements (processing of customer-owned coffee) as well as the US$ processing fee layer of inventory sales agreements. This enables us to more reliably predict how much Canadian currency we will receive for our US$ process revenue. Cash flows in the immediate 12-month period are hedged at a higher percentage of expected future revenues than those farther out, reflecting greater uncertainty in the 13-to 60-month period.

At each period end, revenue hedges are re-measured to their fair value. Under hedge accounting, unrealized gains/losses for open revenue hedges are recorded in other comprehensive income. When a revenue hedge matures, the realized gain/loss on that contract is reclassified from accumulated other comprehensive income to process revenue.

Purchase Hedges

We enter into forward contracts to buy US$ for green coffee inventory which, once decaffeinated, will be sold at a fixed C$ price pursuant to a customer-specific contract. Similarly, on occasions, we enter into forward contracts to buy US$ to be used to pay for purchases of equipment. To mitigate the exposure to margin changes on these transactions arising from fluctuations in the US$/C$ exchange rate, we enter into US$ forward purchase contracts which economically lock in the US$/C$ exchange rate, and effectively locks in the C$ cost of inventory to be sold at the fixed C$ amount.

The hedge accounting allows for matching of US$ purchases with the associated gains/losses on the forward contracts used to economically hedge these items. At each period-end, customer-specific hedges are re-measured to their fair value. Under hedge accounting, the gains/losses on these hedges are deferred on the statement of financial position until the inventory is sold, at which time the gains/losses are recorded in cost of sales on the income statement. Similarly, hedges related to property plant and equipment are re-measured at each period end and once the hedges mature the gains and losses on these hedges are recorded in property plant and equipment.

FINANCIAL INSTRUMENTS

We use financial instruments to mitigate economic risks associated with our business. The three types of hedges we enter into, and the hedging instruments used, are discussed in more detail under 'Hedge Accounting' above.

We classify our financial assets and financial liabilities in the following measurement categories (i) those to be measured subsequently at fair value (either through other comprehensive income or through profit or loss); and (ii) those to be measured at amortized cost. We have implemented the following classifications for financial instruments other than derivatives:

- Cash and cash equivalents and short-term investments are classified as assets at fair value and any period change in fair value is recorded through interest income in the consolidated statement of income, as applicable.
- Accounts receivable and other receivables are classified as assets at amortized cost using the effective interest rate method. Interest income is recorded in the consolidated statement of income, as applicable.
- Accounts payable, credit facilities, the debt portion of the debenture with warrants/ convertible debenture and other liabilities are classified as other financial liabilities and are measured at amortized cost using the effective interest rate method. Interest expense is recorded in the consolidated statement of income, as applicable.

Commodity Price Risk

Commodity price risk is the risk that the fair value of inventory will fluctuate as a result of changes in commodity prices. The Company utilizes futures contracts to manage its commodity price exposure. The Company buys and sells futures contracts for coffee on the Intercontinental Exchange in order to offset its inventory position and fix the input cost of green coffee. As at December 31, 2021, the Company had futures contracts to buy 1.7 million lbs of green coffee with a notional value of US$3.1 million, and contracts to sell 11.8 million lbs of green coffee with a notional value of US$25.1 million. The furthest contract matures in December 2022 (2020: buy 2.5 million lbs of green coffee with a notional value of US$3.0 million, and contracts to sell 6.6 million lbs of green coffee with a notional value of US$7.9 million). An estimated 1% decrease in the mark-to-market rate applied to coffee futures would have resulted in an estimated gain of $0.3 million to the net income before tax, and vice versa.

Foreign Currency Risk

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

As at December 31, 2021, the Company had forward currency contracts to buy US$8.0 million and sell US$47.7 million (2020: buy US$5.6 million and sell US$51.0 million) from January 2022 through to February 2025 at various Canadian exchange rates ranging from $1.2115 to $1.3626. An estimated CAD 1 cent decrease in the value of US dollar would have resulted in an estimated gain of $0.4 million to the net income and other comprehensive income before tax, and vice versa.

As at December 31, 2021, the Company designated as hedging instruments US$27.3 million in forward contracts to sell US dollars, which relate to highly probable forecasted sales revenue (2020: US$38.7 million), US$7.0 million in forward contracts to buy US dollars, which relate to coffee purchases (2020: US$5.6 million), and US$1.0 million in forward contracts to buy US dollars, with the purpose to purchase equipment for the new production line (2020: nil).

INTERNAL CONTROLS OVER FINANCIAL REPORTING & DISCLOSURE CONTROLS AND PROCEDURES

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

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

The CEO and CFO evaluated or caused to be evaluated under supervision, the effectiveness of our disclosure controls and procedures and based on this evaluation, the CEO and CFO concluded that, as of December 31, 2021, Swiss Water's disclosure controls and procedures were effective. There were no changes in our ICFR that occurred during the period beginning on January 1, 2021 and ended on December 31, 2021 that have materially affected or are reasonably likely to materially affect, Swiss Water's ICFR.

SUBSEQUENT EVENTS

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

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

SWISS WATER DECAFFEINATED COFFEE INC.
CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2021

Independent auditor's report

To the Shareholders of Swiss Water Decaffeinated Coffee Inc.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Swiss Water Decaffeinated Coffee Inc. and its subsidiaries (together, the Company) as at December 31, 2021 and 2020, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited
The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2021 and 2020;
- the consolidated statements of income for the years then ended;
- the consolidated statements of comprehensive income for the years then ended;
- the consolidated statements of changes in equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence
We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

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Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2021. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Application of hedge accounting for derivative financial instruments *Refer to note 3.13 – Summary of significant accounting policies - Financial instruments, note 8 – Derivative financial instruments - assets (liabilities), note 23.2 – Commodity price risk hedges and note 23.3 – Foreign currency risk hedges to the consolidated financial statements.* The Company uses derivative financial instruments and applies hedge accounting to manage and hedge commodity price risks and foreign currency risks. The Company designates derivative financial instruments as hedging instruments and the change in fair value of designated coffee inventory and hedged firm commitments as hedged items in a fair value relationship to manage the risk of changes in benchmark commodity prices. As well, the Company designates derivative financial instruments as hedging instruments and the change in fair value of designated purchase commitments as hedged items in a fair value hedge relationship to manage the risk of changes in foreign exchange. At each period end, management calculates the effective portion of the changes in the fair value of the hedging instruments and hedged items, which are recorded in the consolidated statement of income and in inventory, and derivative assets/liabilities and hedged firm commitments. The Company's hedging instruments designated in a fair value relationship amounted to $3.4 million (derivative assets of $3.5 million and derivative liabilities of $0.1 million) as at December 31, 2021.	Our approach to addressing the matter included the following procedures, among others: • Obtained the Company's documented risk management objective and strategy for undertaking the hedge**.** • Assessed the appropriateness of management's hedge documentation and eligibility of hedge designation. • Tested the operating effectiveness of relevant internal controls related to management's hedge designations. • Assessed the ongoing hedge effectiveness by evaluating if there are any changes in the economic relationships between the hedged item and hedging instrument. • Evaluated management's assessment that the hedged forecasted sales revenue is highly probable by comparing to historical results. • Tested the completeness, accuracy and existence of underlying hedging instruments and hedged items outstanding as at year-end used in management's calculations on a sample basis, which included confirming with third parties and inspecting the underlying contracts. • With the assistance of professionals with specialized skill and knowledge: – recalculated measurements of hedge ineffectiveness as at December 31, 2021;

Key audit matter	How our audit addressed the key audit matter
The Company also designates derivative financial instruments as hedging instruments and designates highly probable forecasted sales revenue as hedged items in a cash flow hedge relationship to manage the foreign exchange risk associated with the cash flows of highly probable forecast transactions. The portion of the gains/losses on the hedging instruments determined to be effective are recorded in other comprehensive income and cash flow hedge reserve within equity until the hedged expected future cash flows affect profit or loss; at which time, the gains/losses are reclassified to the consolidated statement of income. The Company's hedging instruments designated in a cash flow hedge relationship amounted to $1.1 million (assets of $1.2 million and liabilities of $0.1 million) as at December 31, 2021. The Company's cash flow hedge reserve recorded within equity amounted to $1.1 million as at December 31, 2021. We considered this a key audit matter due to the pervasive impact of hedge accounting on the Company's financial performance, the complexity and audit effort in performing audit procedures to assess the appropriateness of hedge accounting and the presentation of the related fair value adjustments. Professionals with specialized skills and knowledge assisted us in performing the procedures.	– recalculated the fair value adjustments from the change in fair value of the hedging instruments and hedged items as at December 31, 2021; and – recalculated the gains/losses on the cash flow hedging instruments. • Traced the hedge accounting adjustments to the related financial statement line items. • Assessed the appropriateness of consolidated financial statement disclosures in relation to hedging instruments and hedged items designated in the hedge accounting relationship.

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Robert Coard.

/s/PricewaterhouseCoopers LLP

Chartered Professional Accountants

Vancouver, British Columbia
March 30, 2022

SWISS WATER DECAFFEINATED COFFEE INC.

Consolidated Statements of Financial Position as at

(Tabular amounts are in thousands of Canadian dollars)

	Note	December 31, 2021	December 31, 2020
Assets			
Current assets			
Cash		$ 4,250	$ 2,749
Accounts receivable	6	14,075	15,422
Inventories	7	35,308	18,660
Prepaid expenses and other receivables		917	830
Derivative assets and hedged firm commitments	8, 23	5,618	1,380
Total current assets		60,168	39,041
Non-current assets			
Receivables	6	255	219
Property, plant and equipment	9	106,654	98,124
Intangible assets	10	375	640
Deferred tax assets	12	151	138
Derivative assets	8, 23	642	1,071
Total non-current assets		108,077	100,192
Total assets		$ 168,245	$ 139,233
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable		$ 8,602	$ 9,367
Accrued liabilities		6,658	2,698
Borrowings	11	23,416	918
Income tax payable	12	149	35
Other liabilities	13	426	632
Lease liabilities	14	1,793	1,688
Derivative liabilities and hedged firm commitments	8, 23	823	639
Total current liabilities		41,867	15,977
Non-current liabilities			
Other liabilities	13	146	108
Borrowings	11	43,436	42,067
Lease liabilities	14	19,926	21,729
Asset retirement obligation	15	1,911	1,415
Deferred tax liabilities	12	5,346	4,486
Derivative liabilities	8, 11.2, 23	18	457
Total non-current liabilities		70,783	70,262
Total liabilities		112,650	86,239
Shareholders' equity			
Share capital	16	$ 43,992	$ 43,710
Warrants	16	1,773	-
Share-based compensation reserve		351	419
Accumulated other comprehensive income		832	714
Retained earnings		8,647	8,151
Total equity		55,595	52,994
Total liabilities and shareholders' equity		$ 168,245	$ 139,233

Commitments (Note 24)

Subsequent events (Note 25)

Approved on behalf of the Board

(signed) ***"Donald Tringali"***, Director (signed) ***"Frank Dennis"***, Director

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

SWISS WATER DECAFFEINATED COFFEE INC.

Consolidated Statements of Income for the Years Ended

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

	Note	December 31, 2021	December 31, 2020
Revenue	17, 22	$ 125,076	$ 97,571
Cost of sales		(107,465)	(81,919)
Gross profit		17,611	15,652
Operating expenses			
Administration expenses		(7,462)	(6,121)
Sales and marketing expenses		(3,463)	(4,394)
Total operating expenses		(10,925)	(10,515)
Operating income		6,686	5,137
Non-operating or other			
(Loss) gain on risk management activities		(323)	122
(Loss) gain on fair value on embedded option	11.2	(48)	1,328
Finance income		442	488
Finance expense		(4,364)	(3,087)
Loss on extinguishment of Mill Road convertible debenture	11.2	(1,381)	-
(Loss) gain on foreign exchange		(7)	19
Total non-operating or other		(5,681)	(1,130)
Income before tax	12	1,005	4,007
Income tax expense	12	(509)	(1,058)
Net income		$ 496	$ 2,949
Basic earnings per share	20	$ 0.05	$ 0.32
Diluted earnings per share	20	$ 0.05	$ 0.25

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

SWISS WATER DECAFFEINATED COFFEE INC.

Consolidated Statements of Comprehensive Income and Consolidated Statements of Changes in Equity

(Tabular amounts are in thousands of Canadian dollars)

Consolidated Statements of Comprehensive Income
For the Years Ended

	December 31, 2021	December 31, 2020
Net income	$ 496	$ 2,949
Other comprehensive income, net of tax		
Items that may be subsequently reclassified to income:		
Unrealized gain		
Derivatives designated as cash flow hedges - currency risk hedges on US$ future revenue	473	1,344
Items reclassified to income:		
Realized (gain) loss recognized in income		
Derivatives designated as cash flow hedges		
- currency risk hedges on US$ future revenue, recognized in revenue	(302)	545
Other comprehensive income related to hedging activities	171	1,889
Tax expense on other comprehensive income relating to hedging activities	(46)	(510)
Cumulative translation adjustment	(7)	(19)
Other comprehensive income, net of tax	118	1,360
Net income and other comprehensive income	$ 614	$ 4,309

Consolidated Statements of Changes in Equity

		Share capital			Share-based compensation reserve	Accumulated other comprehensive income	Retained earnings	Total equity
	Note	Shares	Amount	Warrants				
Balance at December 31, 2019		**9,061,210**	**$ 43,591**	**$ -**	**$ 353**	**$ (646)**	**$ 5,202**	**$ 48,500**
Shares issued for restricted share units		17,570	119	-	(119)	-	-	-
Share-based compensation		-	-	-	185	-	-	185
Net income and other comprehensive income		-	-	-	-	1,360	2,949	4,309
Balance at December 31, 2020		**9,078,780**	**$ 43,710**	**$ -**	**$ 419**	**$ 714**	**$ 8,151**	**$ 52,994**
						-		
Balance at December 31, 2020		**9,078,780**	**$ 43,710**	**$ -**	**$ 419**	**$ 714**	**$ 8,151**	**$ 52,994**
Shares issued for restricted share units		50,893	282	-	(282)	-	-	-
Share-based compensation		-	-	-	214	-	-	214
Warrants issued	16	-	-	1,773	-	-	-	1,773
Net income and other comprehensive income		-	-	-	-	118	496	614
Balance at December 31, 2021		**9,129,673**	**$ 43,992**	**$ 1,773**	**$ 351**	**$ 832**	**$ 8,647**	**$ 55,595**

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

Consolidated Statements of Cash Flows For the Years Ended

(Tabular amounts are in thousands of Canadian dollars)

	Note	December 31, 2021	December 31, 2020
Operating activities			
Net income		$ 496	$ 2,949
Items not affecting cash:			
Depreciation and amortization		6,208	4,677
Share-based compensation expense (recovery)		690	(129)
Unrealized loss (gain) on risk management activities		80	(48)
Unrealized loss (gain) on fair value adjustment of embedded option		48	(1,328)
Finance income		(442)	(488)
Finance expense		4,364	3,087
Loss on extinguishment of debt		1,381	-
Income tax expense		509	1,058
Other		(132)	(3)
		13,202	9,775
Change in non-cash working capital relating to operating activities	21	(16,832)	(2,534)
Net cash (used in) generated from operations		**(3,630)**	**7,241**
Interest received		551	411
Interest paid	21	(3,272)	(3,232)
Income taxes paid		(26)	(48)
Net cash (used in) generated from operating activities		**(6,377)**	**4,372**
Investing activities			
Additions to plant and equipment	21	(13,716)	(12,535)
Net cash used in investing activities		**(13,716)**	**(12,535)**
Financing activities			
Dividends paid		-	(566)
Payment of lease liabilities		(1,698)	(1,508)
Proceeds from credit facility		16,500	11,600
Repayments of credit facility		(3,500)	(5,300)
Proceeds from construction loans		10,648	-
Transaction costs related to debt financing activities		(327)	(53)
Transaction costs related to warrants issuance		(29)	-
		-	-
Net cash generated from financing activities		**21,594**	**4,173**
Increase (decrease) in cash and cash equivalents		1,501	(3,990)
Cash and cash equivalents, beginning of the year		2,749	6,739
Cash and cash equivalents, end of the year		$ 4,250	$ 2,749

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

1. NATURE OF BUSINESS AND LIQUIDITY RISK

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

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

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

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

The Company has a revolving credit facility agreement (note 11.3) for up to $30.0 million. As of December 31, 2021 amounts drawn on the credit facility total $23.4 million and are classified as a part of current liabilities in the consolidated statement of financial position as the Credit Facility matures on October 18, 2022. The Credit Facility can be extended, subject to lenders' approval. There is a risk that the Company may not be able to extend or renew the Credit Facility or renew on the same credit terms at the time of maturity.

2. BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). IFRS comprises IFRSs, International Accounting Standards ("IAS"), and interpretations issued by the IFRS Interpretations Committee ("IFRIC") and the former Standing Interpretations Committee ("SIC").

These consolidated financial statements for the year ended December 31, 2021 were approved for issuance by the Company's Directors on March 29, 2022. There were no significant non-adjusting events that occurred between the reporting date and the date of authorization, except as disclosed in Note 25.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies used in the preparation of these consolidated financial statements are as follows:

3.1 Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments that are measured at fair values at the end of each reporting period. Historical cost is based on the fair value of the consideration given in exchange for assets.

3.2 Currency of presentation

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

3.3 Basis of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly owned. Subsidiaries are all entities over which the Company has the power to control the financial and operating policies generally accompanying a shareholding of more than half of the voting rights. The existence and effect of potential voting rights that are currently exercisable, or convertible, are considered when assessing whether the Company controls another entity. All intercompany transactions, balances, income and expenses are eliminated on consolidation.

3.4 New and amended standards adopted by the Company

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

- *IAS 1* amendments address the classification of liabilities between current and non-current;
- *IFRS 9/ IAS 39 and IFRS 7* (phase 2) were amended to address issues arising from the implementation of interest rate benchmark reform ("IBOR"), including the replacement of one benchmark with an alternative one. The Company has not currently transitioned its agreements to address IBOR reform. Currently, the Credit Facility, under the Borrowings note, is exposed to LBOR which is currently scheduled to cease publication in the near future. We will continue to monitor developments on alternative benchmark interest rates and we expect to transition to alternative rates as widespread market practice is established. We do not expect the replacement to result in a significant change to our risk management strategy.

3.5 Changes in accounting standards not yet effective

These standards are effective for periods beginning after January 1, 2022 and the Company does not anticipate a material impact on its financial statements:

- *IFRS 9* was amended to address which fees should be included in the 10% test for derecognition of financial liability.
- *IAS 37* was amended to clarify (i) the meaning of "costs to fulfil a contract", and (ii) that, before a separate provision for an onerous contract is established, an entity recognizes any impairment loss that has occurred on assets used in fulfilling the contract, rather than on assets dedicated to that contract.
- *IAS 16* was amended to (i) prohibit an entity from deducting from the cost of an item of PP&E any proceeds received from selling items produced while the entity is preparing the asset for its intended use (for example, the proceeds from selling samples produced when testing a machine to see if it is functioning properly), (ii) clarify that an entity is "testing whether the asset is functioning properly" when it assesses the technical and physical performance of the asset, and (iii) require certain related disclosures.
- *IAS 12* was amended to require companies to recognize deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. Consequential amendment to IFRS 1 to add an exception to retrospective application, effective January 1, 2023.
- *IAS 8 a*mended the definition of accounting estimates, effective January 1, 2023.
- *IFRS 16* encompasses property, plant and equipment: proceeds before intended use.

3.6 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision makers, the Chief Executive Officer and the Chief Financial Officer. A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment reflects the provision of products or services within a particular economic environment that is subject to risks and returns that are different from those of other economic environments. The Company's sales are primarily generated in a single business segment of decaffeination of green coffee beans. The chief operating decision makers examine the Company's performance and operating activities of the single business segment from a reported geographic perspective.

3.7 Foreign currency translation

Functional and presentation currency

Items included in the consolidated financial statements of each of the Company's subsidiaries are measured using the currency of the primary economic environment in which each entity operates ("the functional currency"). The functional and presentation currency of Swiss Water is the Canadian dollar. The functional currencies of the USA and the European subsidiaries are the United States dollar and the Euro, respectively.

Foreign currency transactions

Foreign currency transactions and balances are translated as follows: (i) monetary assets and liabilities denominated in foreign currencies are translated to Canadian dollars at the exchange rate prevailing at the reporting date; (ii) non-monetary items which are measured using historical cost in a foreign currency are translated using the exchange rate at the date of the transaction; (iii) non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined; and (iv) foreign currency transactions are translated into functional currency of the entity at the exchange rates prevailing at the date of the transaction. Foreign exchange gains and losses are recognized in net income and presented in the Consolidated Statement of Income in accordance with the nature of the transactions to which the foreign currency gains and losses relate, in the period in which they occur.

Foreign operations

Foreign operations are translated from their functional currencies into Canadian dollars on consolidation as follows: (i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of the statement of financial position; (ii) income and expenses for each statement of loss are translated at a quarterly average exchange rate (unless this rate is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); (iii) share capital for each statement of financial position presented are translated at historical rate; and (iv) all resulting exchange differences are recognized in other comprehensive income as cumulative translation adjustments. Exchange differences that arise relating to long-term intercompany balances that form part of the net investment in a foreign operation are also recognized in this separate component of equity through other comprehensive income.

3.8 Cash and cash equivalents

Cash and cash equivalents include cash on hand, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the statement of financial position.

3.9 Inventories

Raw materials are stated at the lower of cost, determined on a specific identification basis, and net realizable value, being the estimated selling price of finished goods less the estimated cost of completion of the finished goods.

Finished goods are stated at the lower of cost and net realizable value. Cost of finished goods includes all expenses directly attributable to the manufacturing process like direct labour and direct materials, as well as suitable portions of related fixed and variable production overheads, based on normal operating capacity. Costs of ordinarily interchangeable items are assigned on a first-in-first-out basis. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

3.10 Property, plant and equipment

The Company leases facilities that house its production facility, offices and warehouse facilities. Property, plant and equipment are carried at acquisition cost or manufacturing cost less depreciation and impairment losses. Historical cost includes expenditures that are directly attributable to the acquisition of the items, costs related to interest on the lease liability and depreciation of right of use assets relating to leased properties. Cost may also include asset retirement obligation and transfers from the equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment. Subsequent costs are recognized in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance expenditures are recognized in the statement of income during the financial period in which they are incurred.

Borrowing costs directly attributed to the construction of any qualifying asset, are capitalized during the period of time that is required to complete and prepare the asset for its intended use.

Major renovations are depreciated over the remaining useful life of the related asset or to the date of the next major renovation, whichever is sooner.

The costs related to the property, plant and equipment in the course of construction are classified as construction-in-progress. Such items are transferred to the appropriate category of property, plant and equipment when they are completed and ready for use as intended. Depreciation of these assets commences when the asset is available for use.

Depreciation is recognized on a straight-line basis to allocate the cost or valuation of each asset to its residual value over its estimated useful life commencing when the asset is ready for its intended use. The estimated useful lives of property, plant and equipment are as follows:

Buildings	to the expiry of the lease renewal option or lease term
Right of use assets	to the expiry of the lease renewal option or lease term

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

Leasehold improvements	to the expiry of the lease renewal option or lease term
Production machinery and equipment	5 to 35 years
Warehouse and office equipment	10 years
Computer hardware and software	5 years
Furniture and fixtures	5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing proceeds with carrying amounts. These are included in profit or loss.

For additional policies related to Right-of-use assets, refer to 'Lease liabilities and right of use assets'.

3.11 Intangible assets

Proprietary process technology ("PPT")

PPT represents intangible assets of Swiss Water with a finite life and is carried at cost less accumulated amortization. Amortization is recognized on a straight-line basis to allocate the cost of PPT to its residual value over its estimated useful life of 14 years.

Brand

Swiss Water's brand has a finite useful life and is carried at cost less accumulated amortization. Amortization is recognized on a straight-line basis over its estimated useful life of 14 years.

3.12 Impairment of assets

Property, plant and equipment, and intangible assets with finite lives, that are subject to depreciation or amortization, are tested for impairment indicators at the end of each reporting period. If any such indicator exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss.

An impairment loss is recognized for the amount by which the carrying amount of an asset or cash generating unit ("CGU") exceeds its recoverable amount. The Company has determined that it has only one CGU and that all assets relate to that CGU. To determine the recoverable amount, management estimates either the fair value less costs to sell, or the value-in-use based on the present value of expected future cash flows from the CGU. In estimating the value-in-use, management must determine the appropriate discount rate in order to calculate the present value of those cash flows, as well as make certain assumptions about future profits which relate to future events and circumstances. Discount factors are determined individually for each asset, or CGU, and reflect their respective risk profiles as assessed by management. In the year 2020 the Company identified an impairment indicator for one of the production lines in the Burnaby location due to the lease at that location not being renewed past June 2023. As such, the Company tested property, plant and equipment for impairment in accordance with IAS 36, Impairment of Assets, using a fair value less cost to sell method and determined that no write-down of property, plant and equipment was required. No impairment indicators were noted in the year 2021.

3.13 Financial instruments

IFRS 9 requires the classification and measurement of financial assets and for all recognized financial assets to be measured at amortized cost or fair value in subsequent accounting periods following initial recognition. IFRS 9 also outlines the treatment of hedge accounting and introduces a single, forward-looking expected credit loss impairment model.

All financial assets, other than accounts receivable, are included in the measurement category of fair value through profit and loss. There was no change to the measurement category for financial liabilities at amortized cost.

Classification

The Company classifies its financial assets and financial liabilities in the following measurement categories:

a) those to be measured subsequently at fair value (either through other comprehensive income or through profit or loss) and
b) those to be measured at amortized cost.

The classification of financial assets depends on the business model for managing the financial assets and the contractual terms of the cash flows. Financial liabilities are classified as those to be measured at amortized cost unless they are designated as those to be measured subsequently at fair value through profit or loss (“FVPL”) (irrevocable election at the time of recognition).

For assets and liabilities measured at fair value, gains and losses are either recorded in profit or loss or other comprehensive income. The Company reclassifies financial assets when and only when its business model for managing those assets changes. Financial liabilities are not reclassified.

The Company has implemented the following classifications for financial instruments, other than derivatives:

a) Cash and cash equivalents and short-term investments are classified as assets at fair value and any period change in fair value is recorded through interest income in the consolidated statement of income, as applicable.
b) Accounts receivable and other receivables are recognized initially at fair value and subsequently are classified as assets at amortized cost using the effective interest rate method, less loss allowance. Interest income is recorded in the consolidated statement of income, as applicable.
c) Accounts payable, credit facilities, the debt portion of the convertible debenture, debt portion of debenture with warrants, the construction loans, borrowings and other liabilities are classified as other financial liabilities and are measured at amortized cost using the effective interest rate method. Interest expense is recorded in the consolidated statement of income, as applicable.

With the adoption of hedge accounting, “gains/losses on risk management activities” reflects the change in fair value of undesignated revenue hedges and gains or losses on designated hedging instruments that are not otherwise recorded in the income statement with the hedged item (revenue or cost of sales).

Also, with the adoption of hedge accounting, “gains/losses on fair value on embedded option” are gains or losses on the embedded derivative in the convertible debenture debt instrument.

The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months, and it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

Recognition and de-recognition

Financial assets and financial liabilities, including derivatives, are recognized on the consolidated statement of financial position when the Company becomes a party to the financial instrument or derivative contract. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

Measurement

At initial recognition, the Company measures a financial asset at its fair value, plus, in the case of a financial asset or liability not at FVPL, transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability. Transaction costs of financial assets and financial liabilities carried at FVPL are expensed in profit and loss. Financial assets and financial liabilities with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Company's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Company classifies its debt instruments:

a) Amortized cost: Assets that are held for the collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognized directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as a separate line item in the statement of profit or loss.
b) FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through other comprehensive income (FVOCI). Movements in the carrying amount are taken through other comprehensive income ("OCI"), except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as a separate line item in the statement of profit or loss.
c) FVPL: Assets that do not meet the criteria for amortized cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognized in profit or loss and presented net within other gains/(losses) in the period in which it arises.

Impairment

The Company assesses all information available, including on a forward-looking basis, the expected credit losses associated with its assets carried at amortized cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk. The Company's only financial asset at amortized cost are accounts receivable and other receivables, for these the Company applies the simplified approach as permitted by IFRS 9 which requires expected lifetime credit losses to be recognized from the initial recognition of the receivables.

Derivatives and Hedging Activities

Recognition and measurement

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged, and the type of hedge relationship designated. The Company designates certain derivatives as either:

a) hedges of the fair value of recognized assets or liabilities or a firm commitment (fair value hedges),
b) hedges of a particular risk associated with the cash flows of recognized assets and liabilities and highly probable forecast transactions (cash flow hedges), or
c) hedges of a net investment in a foreign operation (net investment hedges).

The Company documents at the inception of the hedging transaction the economic relationship between hedging instruments and hedged items including whether the hedging instrument is expected to offset changes in cash flows of hedged items. The Company documents its risk management objective and strategy for undertaking various hedge transactions at the inception of each hedging relationship.

Cash flow hedges that qualify for hedge accounting

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in the cash flow hedge reserve within equity until the hedged expected future cash flows affect profit or loss; at which time, the gains/losses are reclassified to the consolidated statement of income. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss. When option contracts are used to hedge forecast transactions, the group designates only the intrinsic value of the options as the hedging instrument.

Gains or losses relating to the effective portion of the change in the intrinsic value of the options are recognized in the cash flow hedge reserve within equity. The changes in the time value of the options, that relate to the hedged item (‘aligned time value’), are recognized within other comprehensive income in the costs of hedging reserve within equity.

Commodity and Currency risk hedges

The Company applied hedge accounting to economic hedges entered into in accordance with its Foreign Exchange Risk Management Policy (FX Policy) and the Commodity Price Risk Management Policy (Commodity Policy). Economically, the specific hedging activities carried out under these policies by the Company are as follows.

The Company designates derivative financial instruments as hedging instruments and the change in fair value of designated coffee inventory and hedged firm commitments as hedged items in a fair value relationship to manage the risk of changes in benchmark commodity prices, as described under ‘*Commodity price risk hedges*’.

The Company designates derivative financial instruments as hedging instruments and designates highly probable forecasted sales revenue as hedged items in a cash flow hedge relationship to manage the foreign exchange risk associated with the cash flows of highly probable forecast transactions, as described under '*Currency risk hedges related to US$ denominated future process revenue'*.

As well, the Company also designates derivative financial instruments as hedging instruments and the change in fair value of designated purchase commitments as hedged items in a fair value hedge relationship to manage the risk of changes in foreign exchange, as described under '*Currency risk hedges related to US$ denominated purchases',* below.

a) Commodity price risk hedges

Commodity price risk hedges relate to purchase commitments and inventory ("commodity hedges"). When the Company enters into a purchase commitment to purchase green coffee and fixes the New York 'C' ("NY'C") price component (which it will later sell at a to-be-determined price based on the NY'C'), the Company enters into an offsetting short position on the Intercontinental Exchange. The Company monitors, on a macro basis, the amount of purchase commitments and amount of inventory on hand for which the ultimate sale price is variable and has not yet been fixed based on the NY'C' and compares this to the amount of coffee covered by future net short positions to determine whether the net short position requires adjustment.

At each period end, commodity hedges are remeasured to their fair value. Under hedge accounting, the effective portion of the gains (losses) for price fixed hedged coffee contracts and coffee inventory will be held on the consolidated statement of financial position until inventory for such contracts is received and subsequently sold, at which time the gains (losses) will flow to cost of sales on the consolidated statement of income.

b) Currency risk hedges

Currency risk hedges related to US$ denominated future process revenue:

The Company enters into forward contracts to sell US$ at future dates to hedge the foreign exchange cash flow variability of expected US$ from processing fee revenue. The hedged processing revenue includes both processing fee revenue from tolling arrangements (processing of customer owned coffee) as well as the US$ processing fee layer of inventory sales agreements.

At each period end, currency risk hedges on US$ future revenues are remeasured to their fair value. Under hedge accounting, unrealized gains (losses) for US$ forward contracts are reclassified so that the impact on the consolidated statement of income is deferred through other comprehensive income, until the hedge instrument matures, at which time the realized gain (loss) is reflected in revenue on the consolidated statement of income.

Currency risk hedges related to US$ denominated purchases:

The Company enters into forward contracts to buy US dollars (US$) for significant purchase commitments denominated in US$. Purchase commitments denominated in US$ include procurements of equipment for Company use and purchases of green coffee inventory which, once decaffeinated, is sold at a fixed Canadian dollar (C$) price. To mitigate the exposure to changing margin on these transactions arising from fluctuations in the US$/C$ exchange rate, the Company enters into US$ forward purchase contracts which economically lock in the US$/C$ exchange rate and effectively locks in the C$ cost of equipment or inventory (inventory which is to be sold at the fixed C$ amount).

At each period end, currency risk hedges on US$ denominated purchases are remeasured to their fair value and:

a) under hedge accounting, the effective portion of the gains (losses) will be held on the consolidated statement of financial position until the inventory is received and subsequently sold, at which time the gains (losses) will flow to the cost of sales on the consolidated statement of income, as well as

b) under hedge accounting, the effective portion of the gains (losses) will be held on the consolidated statement of financial position until the equipment is received at which time the gains (losses) will flow to the property plant and equipment on the consolidated statement of financial position.

On all hedges entered into, if the hedge ratio for risk management purposes is no longer optimal but the risk management objective remains unchanged and the hedge continues to qualify for hedge accounting, the hedge relationship will be rebalanced by adjusting either the volume of the hedged instrument or the volume of the hedged item so that the hedge ratio aligns with the ratio used for risk management purposes. Any hedge ineffectiveness is calculated and accounted for in profit or loss at the time of the hedge relationship rebalancing.

Fair Value Hierarchy

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

a) Level 1 – valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
b) Level 2 – valuation techniques based on inputs other than quoted prices that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
c) Level 3 – valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. The Company classifies a financial instrument to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

3.14 Lease liabilities and right of use assets

Adoption of IFRS 16 Leases

IFRS 16 introduces a single, on-balance sheet accounting model for lessees that is similar to the former finance lease accounting, with limited exceptions for short-term leases or leases of low-value assets. Lessees recognize a right-of-use asset representing its rights to use the underlying asset and a lease liability representing its obligation to make lease payments. IFRS 16 replaces existing leases guidance, including *IAS 17, Leases*, *IFRIC 4: Determining whether an Arrangement contains a Lease*, *SIC-15: Operating Leases – Incentives* and *SIC-27: Evaluating the Substance of Transactions Involving the Legal Form of a Lease.*

Management judgement and estimates over leases

The preparation of consolidated financial statements requires that the Company's management makes assumptions and estimates on the classification of leases. When assessing the classification of a lease agreement, certain estimates and assumptions need to be made and applied, which include, but are not limited to, the determination of the expected lease term and minimum lease payments, implicit borrowing rate, the assessment of the likelihood of exercising options, and estimation of the fair value of the leased property at lease inception.

Lease policy

At the inception of a lease contract, the Company assesses whether the contract is or contains a lease. A contract is, or contains, a lease if the contract conveys that right of control of the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether: (i) the contract involves the use of an identified asset; (ii) the Company has the right to obtain substantially all of the economic benefits from the use of the asset throughout the period, and; (iii) the Company has the right to direct the use of the asset. The Company has determined that contracts for its offices, warehouses, and select equipment contain a lease.

At inception or on a reassessment of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices. However, for the leases of land and buildings, the Company has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Company presents right-of-use assets in ‘Property, plant and equipment’ and related liabilities in ‘Lease liabilities’.

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term plus expected renewal options which are available to the Company. The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant and equipment. In addition, the right-of-use asset is reduced by impairment losses, if any identified, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, and if that rate cannot be readily determined, the Company’s incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise of: (i) fixed payments; (ii) variable lease payments that depend on an index rate, initially measured using the index as at the commencement date; (iii) amounts expected to be payable under a residual value guarantee, and : (iv) the exercise price under purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company has elected not to recognize right-of-use assets and lease liabilities for short-term leases of machinery that have a lease term of 12 months or less and leases of low-value assets. The Company recognizes these lease payments as an expense on a straight-line basis over the lease term.

The Company recognizes a depreciation charge for right-of-use assets and interest expense on lease liabilities in the consolidated income statement.

On the statement of cash flows, the Company includes repayments of the principal portion of the lease liabilities under financing activities whereas before the implementation of IFRS 16 they were included in cash flows from operations. The interest portion of the lease continues to be classified within cash flows from operating activities. Lease payments for short-term leases, lease payments for leases of low-value assets that are not included in the measurement of the lease liability are classified as cash flows from operating activities.

3.15 Current and deferred income taxes

Income tax expense or credit comprises current and deferred tax. Income tax expense is recognized in the statement of income and comprehensive income except to the extent that it relates to items recognized either in other comprehensive income or directly in equity. The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date, and any adjustments to taxes payable in respect of previous years. The Company periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred income tax arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable income or loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the reporting date and are expected to apply when the related asset is realized, or the liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable income will be available against which temporary differences and non-capital loss carry forwards can be utilized.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Current and deferred tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

3.16 Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of a past event, it is probable that it will lead to an outflow of economic resources from the Company and amounts can be estimated reliably, although timing or amount of the outflow may still be uncertain.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date, including the risks and uncertainties associated with the present obligation. The discount rate used to determine the present value reflects current market assessments of the time value of money and the increases specific to the liability.

Any reimbursement that the Company can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset. However, this asset may not exceed the amount of the related provision.

All provisions are reviewed at the end of each reporting period and adjusted or reversed to reflect management's current best estimate of the expenditure required to settle the present obligation at the end of the reporting period. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed. Provisions are reduced by actual expenditures for which the provision was originally recognized.

Where discounting has been used, the carrying amount of a provision is accreted during the period to reflect the passage of time.

3.17 Revenue recognition

IFRS 15 requires revenue recognition to follow a five-step model of identifying contracts, separating performance obligations, determining and allocating the transaction price, and recognizing the revenue as each performance obligation is satisfied.

The Company's primary sources of revenue are proceeds from sales of Swiss Water's decaffeinated coffee and from services provided to decaffeinate customers' owned coffee.

Swiss Water's revenue is measured based on consideration agreed on in contracts with customers and is recognized when the Company transfers control over products and services to the customer either at a point in time or over time.

For all revenue contracts, no significant judgements are made with respect to evaluating the timing of satisfaction of performance obligations, transaction prices, and amounts allocated to performance obligations. Consideration amounts are not variable. Payment terms are typically between 30 and 60 days, apart from select customers where payment terms are extended. For contracts with extended payment terms, the Company charges customers an insignificant financing component. Warranty, returns or refunds do not apply to the Company.

Revenue is disaggregated based on the customer's geographic region as described in the segmented reporting accounting policy. Also, the revenue, from contracts with customers, is disaggregated by major products and services: decaffeinated coffee sales, decaffeination services, and distribution.

Decaffeinated coffee sales

Decaffeinated coffee sales are the amounts that are charged to customers for the sale of decaffeinated coffee. The performance obligation is satisfied at a point in time when a customer obtains control of the product, which is when decaffeinated coffee is picked-up by or delivered to the customer.

Decaffeination services

Decaffeination services represent the amount charged to customers for the service to decaffeinate customer-owned coffee. The performance obligation is to provide the service, which is satisfied over time.

Distribution

Distribution revenue consists of shipping, handling and warehousing charges billed to customers. The performance obligation is satisfied over time as services are provided, which is at the same time as these services are consumed.

3.18 Employee benefits

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related services are recognized in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations on the statement of financial position.

The Company provides benefits to employees through a registered retirement savings plan ("RRSP"). The Company contributes a percentage of earnings into an RRSP administered by an independent entity. Ultimately, each employee manages his or her own RRSP within the scope of the plan provided by the third-party administrator. The RRSP has no assurance of defined benefits to employees, and as such the Company has no legal or constructive obligations to make further contributions.

The Company also pays contributions to government pension insurance plans. The contributions are recognized as employee benefit expenses when they are due.

3.19 Share-based compensation

The Company has a restricted share unit ("RSU") plan for certain officers and employees and a deferred share unit ("DSU") plan for non-employee directors (collectively, "participants").

The RSUs granted are compound financial instruments as they are expected to be settled using a combination of cash and equity.

The equity-settled share-based compensation is measured at the fair value of the Company's common shares as at the grant date using a volume weighted average share price in accordance with the terms of the RSU plan. The fair value determined at the grant date is charged to income on a straight-line basis over the vesting period, based on the estimate of the number of RSUs that will eventually vest and be converted to common shares, with a corresponding increase in equity (share-based compensation reserve). As necessary, the Company revises its estimate if subsequent information indicates that the number of RSUs expected to vest differs from previous estimates. On the vesting date, the Company revises the estimate to equal the number of equity instruments that ultimately vested. The impact of the revision of estimates, if any, is recognized in income or expense such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share-based compensation reserve.

For cash-settled share-based compensation, a long-term liability is recognized, measured initially at the fair value of the long-term liability using a volume weighted average share price. The amount of the liability is charged to income on a straight-line basis over the vesting period, based on the estimate of the number of RSUs that will eventually vest and be settled in cash. As necessary, the Company revises its estimate if subsequent information indicates that the number of RSUs expected to vest differs from previous estimates. On the vesting date, the Company revises the estimate to equal to the number of RSUs that ultimately vested and are settled in cash. The impact of the revision of estimates, if any, is recognized in income or expenses such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the long-term liability or current liability depends on the timing when the liability becomes due. At the end of each reporting period until the liability is settled, and at the date of settlement, the fair value of the liability is remeasured using a volume weighted average share price, with any change in fair value recognized in income or expense for the year.

DSUs are issued to participants who elect to defer a portion of their current compensation in exchange for DSUs. DSUs are classified as cash-settled share-based payment transactions as participants receive cash following a redemption. The DSUs do not contain any vesting conditions or forfeiture provisions, as they are issued in exchange for deferred compensation. The Company recognizes the expense and the liability to pay for the eventual redemption when the DSUs are issued. Thereafter, the Company remeasures the liability at the end of each reporting date and the date of settlement, with the difference recognized in income or expense for the period. The fair value of DSUs is determined in accordance with the DSU Plan, which uses the average closing price for Swiss Water shares for the five trading days immediately preceding the relevant date.

3.20 Warrants

The Company issues warrants subject to shareholders, regulatory body and creditor approvals. Each warrant allows the holder to obtain one share of Swiss Water in exchange for cash at a price per share determined at the time the warrants are issued. Each warrant can be exercised at any time and not later than the exercise date of the warrant. The initial fair value of the warrants is measured at the grant date using the Black-Scholes option-pricing model and is recognized as a component of equity. When the warrant holder holds a warrant where a fixed amount of shares are issued for a fixed amount of cash, the fair value of the warrants in the statement of equity is not remeasured at each period end. If the holder of warrants decides to exercise the warrants, the fair value of the warrants will be de-recognized from warrants reserve component of the equity and recognised as a part of share capital. No adjustment is made for warrants that expire. As at each period end warrants are tested for potential dilution effect when calculating basic and diluted earnings per share.

3.21 Earning per share (“EPS”)

The Company presents basic and diluted EPS for its common shares. Basic EPS is calculated by dividing income or loss attributable to shareholders of the Company by the weighted average number of common shares outstanding during the year. Diluted EPS is calculated by dividing income or loss attributable to shareholders of the Company by the weighted average number of common shares outstanding, adjusted for the effects of all dilutive potential common shares.

4. MANAGEMENT JUDGMENTS AND ESTIMATION UNCERTAINTY

Judgment is used by management in selecting accounting policies, the determination of functional currency, the identification of cash generating units ("CGUs"), and the identification of revenue streams. In addition, judgment is often required in applying accounting policies, and in respect of items where the choice of a specific policy, accounting estimate or assumption to be followed could materially affect the reported results or net asset position of the Company should it later be determined that a different choice would be more appropriate.

Management considers the accounting estimates and assumptions discussed below to be its critical accounting estimates and accordingly, provides an explanation of each below. Actual results could differ from those estimates and assumptions.

4.1 Useful lives of depreciable assets

Management reviews the useful lives of depreciable assets at each reporting date. As at December 31, 2021 management determined that the useful lives represent the expected utility of the assets to the Company. For some equipment, the useful life could exceed the number of years of the life of the related building and lease as equipment life is based on the expected utility of those specific assets.

4.2 Provision for asset retirement obligations

Analysis and estimates are performed by the Company in order to determine the amount of restoration costs to be recognized as a provision in the Company's consolidated financial statements. The estimates consider the contract language in the lease, the expected useful lives of the Company's equipment, inflation rates, discount rates, and the expected costs that would be paid to a third party to remove property and equipment.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When the final determination of such obligation amounts differs from the recognized provisions, the Company's financial statements will be impacted.

4.3 Income taxes

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

Deferred tax assets also reflect estimates of the recoverability of non-capital loss carry forwards. The Company has recognized the benefit of loss carry forwards to the extent that it is probable that taxable income will be available in the future against which the non-capital loss carry forwards can be utilized.

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

4.4 Leases and right of use assets

The preparation of consolidated financial statements requires that the Company's management makes assumptions and estimates on the classification of operating and finance leases. When assessing the classification of a lease agreement, certain estimates and assumptions need to be made and applied, which include, but are not limited to, the determination of the expected lease term and minimum lease payments, the discount rate/implicit borrowing rate, the assessment of the likelihood of exercising options, and estimation of the fair value of the leased property at lease inception.

4.5 Debenture with Warrants

At initial recognition, in the calculation of the fair value of the liability portion of the debenture with warrants, management estimates the interest rate on a similar instrument of comparable credit status providing for substantially the same cash flows, on the same terms, but without the warrants exercise option.

4.6 Convertible Debenture

Management estimates the interest rate on a similar instrument of comparable credit status and providing for substantially the same cash flows, on the same terms, but without the equity conversion option in the calculation of the fair value of the liability portion of the convertible debenture upon initial recognition. Management also estimates the fair values of the derivative liability related to the convertible debenture at initial recognition and at the end of each reporting period using the Black-Scholes option pricing model which requires management estimates.

5. CAPITAL MANAGEMENT

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

The Company manages its capital in order to meet its growth objectives and payments of quarterly dividends to its shareholders. The dividend policy of Swiss Water is subject to the discretion of the Board of Directors, which reviews the level of dividends periodically on the basis of a number of factors including Swiss Water's financial performance, future prospects, and the capital requirements of the business.

6. ACCOUNTS RECEIVABLE

Accounts receivable are amounts due from customers for goods sold or services performed in the ordinary course of business. Information about the Company's exposure to foreign currency risk, interest rate risk and credit risk can be found in 'Financial risk management' note. The Company monitors lifetime expected credit losses using the simplified approach which is determined based on historic and adjusted relevant forward-looking information. The Company's customers have a negligible default rate and the Company's experience both in frequency and amount of losses are trivial. As a result, the expected credit losses provision as at December 31, 2021 and December 31, 2020 are de minimis.

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

7. INVENTORIES

During the year ended December 31, 2021, the cost of inventories recognized in cost of sales was $102.4 million (2020: $76.1 million). The hedge accounting component represents the derivative adjustment related to designated hedges for inventory on hand as at each period. As at December 31, 2021, the inventory provision was $0.08 million (2020: $0.09 million).

	December 31, 2021	December 31, 2020
Raw materials	$ 13,607	$ 6,436
Finished goods	17,238	10,442
Carbon	365	501
Packaging	292	159
Hedge accounting component	3,806	1,122
	$ 35,308	$ 18,660

8. DERIVATIVE FINANCIAL INSTRUMENTS

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

	December 31, 2021	December 31, 2020
Coffee futures contracts, net	$ 3,458	$ 505
US Dollar forward contracts, current	187	(52)
US Dollar forward contracts, long-term	-	-
Convertible debenture	-	(352)
	$ 3,645	$ 101

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

	December 31, 2021	December 31, 2020
US Dollar forward contracts, current	$ 505	$ (10)
US Dollar forward contracts, long-term	623	967
	$ 1,128	$ 957

9. PROPERTY, PLANT AND EQUIPMENT

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

	December 31, 2021	December 31, 2020
Property, plant and equipment	$ 87,036	$ 76,295
Right-of-use assets	19,618	21,829
	$ 106,654	$ 98,124

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

9.1 Property, plant and equipment

During the year ended December 31, 2021, depreciation expense of $3.5 million (2020: $2.5 million) was charged to cost of sales and $0.2 million (2020: $0.2 million) was included in administrative expenses.

In 2021, the Company recognized in leasehold improvements $0.5 million of asset retirement obligations related to the Delta facility (2020: $0.1 million).

As at December 31, 2021 and 2020, the majority of the construction in progress are costs related to the construction of the second production line at the Delta location. In 2021, the Company included in construction in progress $0.1 million of interest expense on construction loans, while in 2020 the Company included in construction in progress $0.6 million of interest expense, $0.5 million of depreciation expense for right-of-use of assets and $0.4 million of financing costs related to lease liabilities.

In 2020, Swiss Water commenced producing decaffeinated coffee at the new Delta manufacturing facility. As such, the Company transferred $64.2 million of costs from construction in progress to building, leasehold improvements and production machinery. Management determined that the estimated useful lives for the first production line machinery, buildings, leasehold improvements, equipment and furniture ranges between 5 and 35 years.

In 2020, the Company received notification from the landlord of the Delta lease that they will not renew the lease after 2023. The location houses two production lines, of which, one line is anticipated to have utility past the year 2023, and therefore is depreciated beyond the life of the lease. The Company continues to pursue options to utilize this production line in future operations. As a result, as at December 31, 2020, the Company tested the property, plant and equipment for impairment in accordance with IAS 36, Impairment of Assets, using a fair value less cost to sell method and determined that no write-down of property, plant and equipment was required. No impairment indicators were noted for the year ended December 31 2021.

	Machinery and equipment	Building	Leasehold improvement	Computer equipment	Furniture and fixtures	Construction in progress	Total
Cost							
January 1, 2021	$ 83,002	$ 13,880	$ 8,546	$ 1,066	$ 248	$ 2,085	$ 108,827
Additions	137	-	492	-	17	14,447	15,093
Transfers	416	-	691	114	17	(1,238)	-
December 31, 2021	$ 83,555	$ 13,880	$ 9,729	$ 1,180	$ 282	$ 15,294	$ 123,920
Accumulated depreciation							
January 1, 2021	$ (26,745)	$ (351)	$ (4,517)	$ (749)	$ (170)	$ -	$ (32,532)
Depreciation	(2,907)	(769)	(527)	(124)	(25)	-	(4,352)
December 31, 2021	$ (29,652)	$ (1,120)	$ (5,044)	$ (873)	$ (195)	$ -	$ (36,884)
December 31, 2021	$ 53,903	$ 12,760	$ 4,685	$ 307	$ 87	$ 15,294	$ 87,036

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

	Machinery and equipment	Building	Leasehold improvement	Computer equipment	Furniture and fixtures	Construction in progress	Total
Cost							
January 1, 2020	$ 34,440	$ 1,601	$ 5,160	$ 853	$ 212	$ 57,705	$ 99,971
Additions	67	-	84	52	5	8,660	8,868
Disposals	(12)	-	-	-	-	-	(12)
Transfers	48,507	12,279	3,302	161	31	(64,280)	-
December 31, 2020	$ 83,002	$ 13,880	$ 8,546	$ 1,066	$ 248	$ 2,085	$ 108,827
Accumulated depreciation							
January 1, 2020	$ (25,000)	$ (14)	$ (4,043)	$ (639)	$ (150)	$ -	$ (29,846)
Depreciation	(1,757)	(337)	(474)	(110)	(20)	-	(2,698)
Disposals	12	-	-	-	-	-	12
December 31, 2020	$ (26,745)	$ (351)	$ (4,517)	$ (749)	$ (170)	$ -	$ (32,532)
December 31, 2020	$ 56,257	$ 13,529	$ 4,029	$ 317	$ 78	$ 2,085	$ 76,295

9.2 Right-of-use assets

For the year ended December 31, 2021, right-of-use assets depreciation expense of $1.9 million (2020: $1.4 million) was charged to cost of sales and $0.3 million (2020: $0.3 million) was included in administrative expenses. There was no impairment loss recognized for the year ended December 31, 2021 and 2020.

	Equipment	Property	Total
Cost			
Balance at January 1, 2021	$ 207	$ 25,737	$ 25,944
Balance at December 31, 2021	$ 207	$ 25,737	$ 25,944
Accumulated depreciation			
Balance at January 1, 2021	$ (68)	$ (4,047)	$ (4,115)
Depreciation	(46)	(2,154)	(2,200)
Balance at December 31, 2021	$ (114)	$ (6,201)	$ (6,315)
Foreign exchange	-	(11)	(11)
Balance at December 31, 2021	$ 93	$ 19,525	$ 19,618

	Equipment	Property	Total
Cost			
Balance at January 1, 2020	$ 110	$ 25,814	$ 25,924
Additions	97	-	97
Remeasurement	-	(77)	(77)
Balance at December 31, 2020	$ 207	$ 25,737	$ 25,944
Accumulated depreciation			
Balance at January 1, 2020	$ (26)	$ (1,898)	$ (1,924)
Depreciation	(42)	(2,149)	(2,191)
Balance at December 31, 2020	$ (68)	$ (4,047)	$ (4,115)
Balance at December 31, 2020	$ 139	$ 21,690	$ 21,829

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

10. INTANGIBLE ASSETS

For the year ended December 31, 2021, amortization expense of $0.2 million (2020: $0.2 million) relating to proprietary process technology ("PPT") has been charged to cost of sales and $0.02 million (2020: $0.02 million) relating to brand was included in administrative expenses. There was no impairment loss recognized for the years ended December 31, 2021 and 2020.

		PPT		Brand		Total
Cost						
Balance January 1, 2021	$	3,246	$	1,000	$	4,246
Balance December 31, 2021	$	3,246	$	1,000	$	4,246
Amortization						
Balance January 1, 2021	$	(2,650)	$	(956)	$	(3,606)
Amortization		(246)		(19)		(265)
Balance December 31, 2021	$	(2,896)	$	(975)	$	(3,871)
Balance at December 31, 2021	$	350	$	25	$	375

		PPT		Brand		Total
Cost						
Balance January 1, 2020	$	3,246	$	1,000	$	4,246
Balance December 31, 2020		3,246	$	1,000	$	4,246
Amortization						
Balance January 1, 2020	$	(2,405)	$	(937)	$	(3,342)
Amortization		(245)		(19)		(264)
Balance December 31, 2020	$	(2,650)	$	(956)	$	(3,606)
Balance December 31, 2020	$	596	$	44	$	640

11. BORROWINGS

As at and during the year ended December 31, 2021 and 2020, the Company was in compliance with all banks' and creditor's covenants. The Company's borrowings and credit facilities are as follows.

			December 31, 2021		December 31, 2020
Construction loans with BDC and FCC	Note 11.1	$	30,655	$	20,083
Debenture with warrants/Convertible debenture	Note 11.2		12,890		13,102
Credit facility	Note 11.3		23,307		9,800
Borrowings, total		$	66,852	$	42,985
Less current portion					
Construction loans interest	Note 11.1		(109)		(918)
Credit facility	Note 11.3		(23,307)		-
Borrowings, current		$	(23,416)	$	(918)
Borrowings, non-current		$	43,436	$	42,067

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

11.1 Construction loans with BDC and FCC

As of December 31, 2021 and 2020, the construction loans' balances due to BDC and FCC are as follows:

	December 31, 2021	December 31, 2020
Construction loans interest, current	$ 109	$ 918
Construction loan with BDC, non-current, fixed (2020: 4.95%) 4.45%	15,330	19,165
Construction loan with FCC, non-current, fixed 4.38%	9,778	-
Construction loan with FCC, non-current, variable 2.95%	5,438	-
	$ 30,655	$ 20,083

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

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

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

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

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

BDC/FCC - Finance expense and interest paid

Interest is based on the outstanding loan balance and is paid monthly. Interest expense on the BDC loan was $0.7 million during the year ended December 31, 2021 (2020: $0.9 million). Interest expense on FCC loan was $0.3 million and nil during the same periods. Interest expensed and interest paid during 2021 and 2020 were as follows:

	December 31, 2021	December 31, 2020
Balance, open	$ 20,083	$ 20,084
Additions	10,793	-
Interest charged	938	992
Interest paid	(937)	(993)
Less unamortized transaction costs	(222)	-
Balance, end	$ 30,655	$ 20,083

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

FCC variable rate loan effective interest rate is 2.95%. The finance costs and the effective interest rate based on the average balance drawn on variable loan due to FCC were as follows:

	December 31, 2021	December 31, 2020
Weighted average daily balance	$ 3,335	$ n/a
Finance costs	$ 57	n/a
Number of days outstanding	212	n/a
Effective interest rate	% 2.95	% n/a

BDC/FCC - Loss on extinguishment of debt

Management determined that the terms within the BDC Amended Term Loan and the terms within the original BDC Term Loan were substantially different, as such this debt restructuring transaction was accounted for using the extinguishment method of accounting for debt reconstruction. The loss on extinguishment of the original Term Loan with BDC was de minimis.

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

BDC/FCC - Security

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

11.2 Debenture with warrants/Convertible debenture

As at December 31, 2021 and 2020 the value of the debenture with warrants/convertible debenture, which consists of principal amount due to Mill Road Capital LLC ("MRC"), net of valuation of conversion-to-shares-option, and net of valuation of warrants is as follows:

	December 31, 2021	December 31, 2020
Principal amount due to MRC, 9%+1.5% (2020: 6.85%)	$ 15,000	$ 15,000
Conversion of debt to shares option	-	(1,898)
Unamortized bond discount	(2,212)	-
Accrued interest	102	-
Debenture with warrants/ Convertible debenture	$ 12,890	$ 13,102

In 2016, the Company issued an unsecured subordinated convertible debenture to MRC for gross proceeds of $15.0 million. The convertible debenture maturity date was on October 11, 2023. The Company paid financing costs of $0.5 million in respect of issuing the convertible debenture. As at December 31, 2020 and until the debt extinguishment on July 20, 2021, the Company used the residual value method to allocate the fair value of the convertible debenture between the liability component and the derivative liability.

On July 20, 2021, Swiss Water amended the convertible debenture agreement with MRC to a debenture with warrants. Under the new terms of the agreement, the maturity date was extended by one year from October 11, 2023, to October 31, 2024. The other amended terms were: (i) the interest rate increased from a maximum of 7.85% to 9%, (ii) a 1.5% additional interest "payment in kind" was added, and (iii) the debt to shares conversion feature was amended. The debt to shares conversion was amended by (a) cancelling the existing conversion feature and (b) replacing the existing conversion feature with warrants to allow MRC to purchase up to 2.25 million common shares at a price of $3.33 per share. The warrants expire on October 31, 2024.

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

MRC - Finance expense and interest paid

For the year ended December 31, 2021 and 2020, interest expensed and interest paid on debt due to MRC was as follows:

		December 31, 2021		December 31, 2020
Balance, open	$	13,102	$	12,560
Interest charged for convertible debenture		840		1,569
Interest paid on convertible debenture		(510)		(1,027)
July 20, 2021 Convertible debenture		13,432		13,102
Extinguishment of liability component of convertible debt		1,568		-
		15,000		13,102
Warrants value, July 20, 2021		(2,468)		-
Interest charged for debt with warrants		1,022		-
Interest paid on debt with warrants		(664)		-
Balance, end	$	12,890	$	13,102

The debenture with warrants interest rate is 9% per annum, paid quarterly in arrears. The 9% is subject to reaching a specific covenant threshold, in excess of these, the interest rate increases to 12.5 % per annum. The Company also incurs an additional 1.5% of interest “payment in kind”, which accrues quarterly and is due at the maturity date.

Prior to the amendment on July 20, 2021, the convertible debenture’s interest rate was 6.85% per annum, paid quarterly in arrears. The 6.85% interest rate was subject to reaching specific covenant thresholds, in excess of these, the interest rate would have increased to 7.85% per annum. Under the terms of the agreement, Swiss Water had the option to pay interest-in-kind for the first two years. If elected, this option would have increased the principal sum by the interest owing. The Company chose not to elect to pay interest-in-kind and this option is now extinguished.

Convertible debenture - Loss on extinguishment of debt

Under IFRS 9, the accounting for the transaction to amend the agreement with MRC depends on whether the debt restructuring is considered an extinguishment or an adjustment to the existing liability (“extinguishment accounting” vs “modification accounting”).

Given there is a 2.15% change in the interest rate and a replacement of the debt conversion to shares with warrants, management determined that the terms within the convertible debenture and the terms within the debenture with warrants are substantially different. As such, this debt restructuring transaction was accounted for using the extinguishment method of accounting for debt reconstruction.

Related to the extinguishment of convertible debenture on July 20, 2021, during the year ended December 31, 2021, the Company recognized a $1.4 million loss in the ‘Loss on extinguishment of Mill Road convertible debenture’ on the statement of income. It consists of the liability component and the derivative liability component of the convertible debenture. There was no such loss in the year 2020. The details of loss on the liability component of the convertible debenture and gain on the derivative embedded in the convertible debenture on extinguishment date are disclosed below.

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

		Total
Professional fees	$	213
Loss on extinguishment of the liability component of the convertible debenture		1,568
Gain on extinguishment of derivative embedded in the convertible debenture		(400)
Loss on extinguishment of Mill Road convertible debenture	$	1,381

Convertible debenture - Liability component of the convertible debenture

In 2016 the liability component of the convertible debenture was initially measured at a fair value of $11.2 million, which represented the present value of the contractually determined stream of cash flows discounted at the prevailing market interest rate at that time applicable to instruments of comparable credit status and providing substantially the same cash flows, on the same terms, but without derivative components, of 12.15% per annum. The liability component of the convertible debenture in the amount of $1.6 million was extinguished on July 20, 2021 and a loss of $1.6 million was recognized in the statement of income under loss on extinguishment of convertible debenture (2020: $nil).

Convertible debenture - Derivative financial liability component embedded in the debenture

Before the amendment to debenture with warrants on July 20, 2021 and as at December 31, 2020, under the residual value method, the derivative liabilities included the fair value of the derivative liability embedded in the convertible debenture in the amount of $0.4 million. During the year ended December 31, 2021, this revaluation resulted in a loss of $0.05 million being recorded in the statement of income (2020: a gain of $1.3 million). This conversion option was extinguished on July 20, 2021 resulting in the derivative liability being written off where a gain of $0.4 million was recognized in the statement of income under loss on extinguishment of convertible debenture (2020: $nil).

		December 31, 2021		December 31, 2020
Balance, open	$	352	$	1,680
Change in fair valuation of derivative embedded option		48		(1,328)
Extinguishment of derivative embedded option		(400)		-
Balance, end	$	-	$	352

The fair value of the derivative liability was determined using the Black-Scholes Option Pricing Model. The variables and assumptions used in computing the fair value are based on management's best estimate. The value varies with different variables of certain subjective assumptions. Inputs into the Black-Scholes Option Pricing Model to determine the fair value of the conversion option as at the date the convertible debenture was extinguished, on July 20, 2021, and as at December 31, 2020, were as follows:

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

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

Convertible debenture - Conversion option in the convertible debenture

Before the amendment to debenture with warrants on July 20, 2021 and as at December 31, 2020, the convertible debenture was convertible into common shares of the Company at a conversion price of $8.25 per common share. The convertible debenture also included a net share settlement feature that allowed Swiss Water, upon conversion, to elect to pay cash equal to the face value of the convertible debenture and to issue common shares equal to the excess value of the underlying equity above the face value of the convertible debenture. If the net share settlement option were elected, it would have resulted in fewer common shares being issued. This conversion option was extinguished on July 20, 2021.

Debenture with warrants - Liability component of debenture with warrants

On July 20, 2021, the liability component of the new debenture with warrants was initially measured at a fair value of $12.5 million which represents the present value of the contractually determined flow of cash discounted at the prevailing market interest rate applicable to instruments of comparable credit status and providing substantially the same cash flows on the same terms, but without the warrants rights, of 16.99%.

As at July 20, 2021, the amendment date, the value of the principal amount due to MRC and the value of the warrants were as follows:

	At inception on July 20, 2021
Principal amount	$ 15,000
Warrants value	(2,468)
Liability component of debenture with warrants	$ 12,532

Debenture with warrants - Warrants component

As a part of the debenture with warrants agreement, on July 20, 2021, the Company issued 2.25 million of the Company's warrants to MRC with a value calculated using the Black Scholes model of $2.5 million. Details on the valuation of the warrants are disclosed in the share capital note disclosure, under warrants.

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

11.3 Credit Facility

As at December 31, 2021 and 2020, the Credit Facility due to a Canadian Bank is comprised of:

	December 31, 2021	December 31, 2020
Credit Facility	$ 23,412	$ 10,021
Less unamortized transaction costs	(105)	(221)
	$ 23,307	$ 9,800

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

The maturity date of October 18, 2022 can be extended, subject to lenders' approval. The amounts drawn on the credit facility are classified in the consolidated statement of financial position as a part of current liabilities. The Company is not required to repay any balance outstanding until maturity, as long as the outstanding balance is not in excess of the Borrowing Base.

During the year ended December 31, 2021, the Company incurred $0.01 million (2020: $0.05 million) in financing transaction costs in connection with the Credit Facility which were recorded as deferred financing transaction costs in the current period of loans and borrowings. These transaction costs are amortized until the Credit Facility's maturity date.

Credit Facility - Finance expense and interest paid

The Credit Facility has multiple interest rate options that are based on the Canadian Prime Rate, Base Rate, LIBO Rate, Bankers' Acceptance Rate plus an acceptance fee, in addition to an Applicable Margin for each of these rates. Fees apply to outstanding letters of credit and the unused portion of the credit. For the year ended December 31, 2021, finance expenses on the credit facility were as follows:

	December 31, 2021	December 31, 2020
Balance, open	$ 9,800	$ 3,182
Advances	16,500	11,600
Repayments	(3,500)	(5,300)
Fees and interest charged	391	315
Interest paid	-	(100)
Financing transaction costs	(15)	(53)
Amortized financing transaction costs	131	156
Balance, end	$ 23,307	$ 9,800

The finance costs and the effective interest rate based on the average balance drawn were as follows:

	December 31, 2021	December 31, 2020
Weighted average daily balance	$ 14,166	$ 9,232
Finance costs	$ 353	$ 253
Number of days outstanding	365	366
Effective interest rate	2.49%	2.74%

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

Credit Facility - Security

The Company has pledged substantially all of its assets, except for assets pledged to BDC and FCC (see Note 11.1), as a collateral for the Credit Facility, including a first priority security interest over all inventory, accounts receivable, excess margin and gains on the commodity account, gains in the foreign exchange line of credit and other assets of the Company.

Credit Facility - Borrowing base

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

As at December 31, 2021, the Company's borrowing availability was as follows:

	December 31, 2021	December 31, 2020
Gross borrowing base availability	$ 25,912	$ 15,028
Advances, repayments, fees and interest from inception	(23,412)	(10,021)
Outstanding letters of credit	(300)	(300)
Interests and fees accrued	47	35
	$ 2,247	$ 4,742

Credit Facility - Foreign exchange and commodity futures contract facilities

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.

11.4 Foreign exchange facility guarantee

On June 1, 2020, the Company entered into a foreign exchange facility guarantee with EDC to cover margin requirements in relation to the foreign exchange facility. On August 4, 2020, the Company's Credit Facility Lender amended the credit agreement to recognize the foreign exchange facility guarantee provided by the third party. The facility guarantees a maximum aggregate liability of up to $6.0 million and it is valid until May 31, 2022. This guarantee provides additional borrowing capacity within the referenced credit facility.

12. INCOME TAXES

12.1 Income tax expense

For the year ended December 31, 2021, tax expense on other comprehensive income related to hedging activities was $0.05 million (2020: $0.5 million). Current and deferred income tax expense was as follows:

	December 31, 2021	December 31, 2020
Current income tax expense	$ 141	$ -
Deferred tax expense	368	1,058
Total income tax expense	$ 509	$ 1,058

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

12.2 Current income tax receivable and payable

As at December 31, 2021 income tax payable was $0.2 million (2020: payable $0.04 million).

12.3 Reconciliation

Income tax expense for the year can be reconciled to the accounting profit as follows:

	December 31, 2021	December 31, 2020
Statutory rate	27%	27%
Income before tax	$ 1,005	$ 4,007
Income tax calculated at applicable tax rates	$ 271	$ 1,082
Non-deductible expenses	247	(20)
Foreign tax rate differential	(9)	(4)
Income tax expense	$ 509	$ 1,058

12.4 Deferred income tax assets (liabilities)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. The movement in deferred income tax assets and liabilities during the year was as follows:

	Goodwill and intangibles	Property plant and equipment	Financing issuance costs and other	ARO	Lease Liability	Share based compen-sation	Derivatives liability and convertible debenture	Debenture with warrants	Other compre-hensive income	Tax Losses	Total
Balance at January 1, 2020	$ 682	$ (11,529)	$ 41	$ 334	$ 6,674	$ 339	$ (629)	-	$ 237	$ 974	**$ (2,877)**
To income tax expense	2	(5,180)	70	48	(358)	(139)	(122)	-	(510)	4,718	**(1,471)**
Balance at December 31, 2020	**$ 684**	**$ (16,709)**	**$ 111**	**$ 382**	**$ 6,316**	**$ 200**	**$ (751)**	**-**	**$ (273)**	**$ 5,692**	**$ (4,348)**
Balance at January 1, 2021	$ 684	$ (16,709)	$ 111	$ 382	$ 6,316	$ 200	$ (751)	-	$ (273)	$ 5,692	**$ (4,348)**
To income tax expense	8	(2,165)	290	134	(454)	(46)	(496)	-	-	2,525	**(204)**
To equity	-	-	-	-	-	-	-	$ (597)	$ (46)	-	**$ (643)**
Balance at December 31, 2021	**$ 692**	**$ (18,874)**	**$ 401**	**$ 516**	**$ 5,862**	**$ 154**	**$ (1,247)**	**$ (597)**	**$ (319)**	**$ 8,217**	**$ (5,195)**

During the year ended December 31, 2021, the Company recognized in the property plant and equipment and the administrative expenses a Scientific Research and Development tax credit of $0.1 million and $0.1 million, respectively. During the year ended December 31, 2020, the Company collected $0.08 million related to Canadian Scientific Research and Experimental Development, a Canadian Government tax incentive program and this amount was included in the administrative expenses.

Swiss Water has $30.4 million non-capital tax losses carry forwards as of the end of December 31, 2021, which will begin to expire in 2039. Seaforth has non-capital tax loss carry forwards of $0.02 million, which will begin to expire in 2038.

13. OTHER LIABILITIES

Other liabilities balances represent the fair value of the deferred share units ("DSUs") and the cash-settled portion of the restricted share units ("RSUs") outstanding as follows:

	December 31, 2021	December 31, 2020
Other liabilities, current	$ 426	$ 632
Other liabilities, non-current	146	108
	$ 572	$ 740

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

14. LEASE LIABILITIES

14.1 Lease liabilities

Lease liabilities are as follows:

	December 31, 2021	December 31, 2020
Lease liabilities, current	$ 1,793	$ 1,688
Lease liabilities, non-current	19,926	21,729
	$ 21,719	$ 23,417

The Company leases the following offices, warehouses, and equipment:

- Swiss Water leases a build-to-suit production facility in Delta. The lease has an initial term of five years and can be renewed at the Company's option in five-year increments up to a total of 30 years. The lease commenced in July 2018. Under the lease, the Company has multiple options to buy-out the lease starting at the end of the second five-year term. The buy-out value will be equal to the fair market value of the property as determined by an appraisal process, subject to specified maximum and minimum values.
- Seaforth leases a warehouse in Delta and the lease expires in June 2027. The Company has two options to renew the lease for an additional term of five years each.
- Swiss Water leases a sales office in France which expires in October 2027.
- Swiss Water leases a facility in Burnaby that houses its decaffeination plant and offices. The lease expires in May 2023. There are no options to renew the lease.
- Swiss Water Decaffeinated Coffee Company USA, Inc. leases a sales office in Seattle, Washington, which expires in October 2022.
- Seaforth leases a truck. The lease expires in April 2023.
- Swiss Water leases various office equipment with expiring dates of October 2024 and January 2025.

14.2 Adjustments recognized on the adoption of IFRS 16

On adoption of IFRS 16, the Company recognized $19.1 million in lease liabilities in relation to leases that had previously been classified as operating leases under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments plus anticipated exercise of renewal options that are at the discretion of the Company, discounted using the incremental borrowing rate as of January 1, 2019. The weighted average incremental borrowing rate applied to the lease liabilities at inception was 4.92%.

14.3 Amounts recognized in the statement of net income and statement of cash flows

During the year ended December 31, 2021, no finance expense (2020: $0.4 million) related to a lease was added to construction in progress. Also, during the 2020 year a gain of $0.01 million was recognized upon the termination of a lease. There was no such termination gain in 2021.

From the total of lease cash payments, the portion relating to finance expense is recognized in the operating activities while the principal portion of lease payments is recognized in the financing component of statement of cash flows.

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

	December 31, 2021	December 31, 2020
Balance, open	$ 23,417	$ 24,910
Additions	-	97
Remeasurement	-	(77)
Terminations	-	(5)
Finance expense	1,120	1,209
Lease cash payments	(2,818)	(2,717)
Balance, end	$ 21,719	$ 23,417

14.4 Minimum lease payments

As at December 31, 2021, the minimum payments under leases liabilities are as follows:

	December 31, 2021
No later than 1 year	$ 2,827
Later than 1 year and no later than 5 years	5,858
Later than 5 years	648
	$ 9,333

15. ASSET RETIREMENT OBLIGATION (ARO)

The Company estimates the total undiscounted amount of cash flows required to settle its ARO is approximately $2.3 million. This estimate assumes relocation from the current location upon expiry of lease in Burnaby, in 2023, at an estimated cost of $0.9 million, and the expiry of lease in Delta, before lease renewal in 2038 at an estimated cost of $1.4 million. As at December 31, 2021, the Company has a long-term liability ARO of $1.9 million (2020: $1.4 million), reflecting the present value of the ARO using risk-free rates between 0.25% and 1.75%.

	December 31, 2021	December 31, 2020
Balance, open	$ 1,415	$ 1,343
Additions	487	-
Remeasurement	-	52
Interest accretion	9	20
Balance, end	$ 1,911	$ 1,415

16. SHARE CAPITAL

16.1 Common shares

Swiss Water is authorized to issue an unlimited number of common shares. Each share is equally eligible to receive dividends when declared and represents one vote at meetings of shareholders. As of December 31, 2021, there were 9,129,673 common shares issued and outstanding.

16.2 Warrants

As a part of the debenture with warrants agreement with Mill Road Capital LLC, on July 20, 2021, the Company issued 2.25 million of Swiss Water's warrants to MRC. The warrant value of $2.5 million was recorded as a component of equity as it will be settled by the exchange of a fixed amount of cash for a fixed number of the Company's common shares and will not be subsequently remeasured. Each warrant is exercisable for one common share of Swiss Water at a price of $3.33 per share, expiring on October 31, 2024. The Company incurred $0.03 million in transaction costs related to these warrants.

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

		At inception on July 20, 2021
Warrant value	$	2,468
Warrant transaction costs		(29)
Warrant defered tax		(666)
Warrants	$	1,773

The fair value of warrants cannot be reliably measured, therefore, at the time of issuance the valuation was using the Black-Scholes option pricing models with assumptions as follows. As at December 31, 2021, the remaining life of the warrants is 2.84 years.

		At inception on July 20, 2021
Share price	$	3.33
Exercise price	$	3.33
Option life		3.28 years
Volatility		46%
Risk-free interest rate		0.38%
Dividend yield		0.00%

Pricing models require the input of highly subjective assumptions including the expected share price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore the existing models do not necessarily provide a reliable single measure of the fair value of the Company's warrants.

16.3 Restricted share units

The Company has a restricted share unit plan ("RSU Plan") which allows it to grant RSUs to officers, employees and consultants of Swiss Water or its subsidiaries. The RSU Plan is administered by the Board of Directors, which sets the terms of incentive awards under the RSU Plan. On June 19, 2019, Swiss Water shareholders approved an increase in the number of common shares available for issuance under the 2011 Restricted Share Unit Plan as amended in June 2019. The increase is from a maximum of 333,760 common shares to a maximum of 815,509 common shares. All RSUs grants vest on the third anniversary of issuance (with certain exceptions) provided the grant recipient is still employed by Swiss Water or one of its subsidiaries as at the date of vesting. Grants are forfeited (with certain exceptions) if a recipient is no longer employed by Swiss Water or one of its subsidiaries. Upon vesting, each RSU converts to one common share. These grants allow participants to receive up to 50% of the market value of the award in cash (instead of shares) upon vesting, in order to facilitate payment of taxes owing on the awards. Any RSUs paid in cash are returned to the pool and may be re-issued, subject to the maximum number of common shares available under RSU.

Periodically, the Company grants RSU awards. Non-performance based RSUs vest over time on the third anniversary of issuance, while performance based RSUs, which also vest overtime, are subject to meeting performance objectives specified by the Board of Directors.

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

Each award is increased by the value of dividends paid to shareholders during the vesting period, using a formula that uses the higher of the then-current share price and $3.20. The Company values the RSUs using the volume based weighted average share price ("VWAP"). VWAP is based on the Canadian dollar trading price of the Company's common shares on the Toronto Stock Exchange for the five trading days immediately preceding that relevant date, calculated by dividing the total value by the total volume of common shares traded, according to the RSU Plan.

During the year ended December 31, 2021 the Company issued performance based and non-performance based RSUs. The movement in RSUs for the years ended December 31, 2021 and December 31, 2020 was as follows:

	Number of RSUs		Volume based weighted average share price	Average remaining vesting period in years	Performance based
Balance at January 1, 2020	**224,836**	**$**	**7.07**	**1.40**	
RSUs granted	121,140	$	2.95	2.15	No
RSUs issued for dividends	2,098	$	6.70	0.67	No
RSUs cash-settled	(23,654)	$	6.28	-	No
RSUs exercised	(17,570)	$	6.28	-	No
Balance at December 31, 2020	**306,850**	**$**	**2.88**	**1.26**	
Balance at January 1, 2021	**306,850**	**$**	**2.88**	**1.26**	
RSUs granted	87,000	$	3.13	2.25	No
RSUs granted - performance	158,300	$	3.07	2.21	Yes
RSUs cash-settled	(45,792)	$	3.51	-	No
RSUs exercised	(50,893)	$	6.07	-	No
RSUs forfeited	(15,718)	$	3.70	-	No
Balance at December 31, 2021	**439,747**	**$**	**3.07**	**1.56**	

16.4 Deferred share units

The Company has a deferred share unit plan (the "DSU Plan") in order to issue deferred share units ("DSUs") to non-employee directors (collectively, "participants") of Swiss Water. The DSU Plan was adopted to allow participants the opportunity to defer compensation and encourage a sense of ownership in Swiss Water. Under the DSU Plan, participants may elect to defer compensation and receive DSUs equal to the value of the deferred compensation.

The first DSUs were issued in April 2012. The number of DSUs was determined by dividing the amount of deferred compensation by the Fair Market Value ("FMV"). The FMV of DSUs is defined in the DSU Plan as the weighted average closing price of Swiss Water shares for the five business days immediately preceding the relevant date.

Upon the occurrence of a redemption event, the affected participant will be entitled to receive a lump sum cash payment, net of applicable withholding taxes, equal to the product of the number of DSUs held by that participant and the FMV on the date of the redemption event. The DSUs do not contain any vesting conditions or forfeiture provisions, as they are issued in exchange for deferred compensation.

Under the DSU Plan, outstanding DSUs as at the record date are increased by the dividend whenever dividends are paid to shareholders.

The movement in DSUs for the years ended December 31, 2021, and December 31, 2020, was as follows:

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

	Number of DSUs		Weighted average share price	Performance based
Balance at January 1, 2020	**126,267**	**$**	**6.92**	
DSUs issued	55,340	$	3.33	No
DSUs redeemed	(10,289)	$	2.99	No
Balance at December 31, 2020	**171,318**	**$**	**3.06**	
Balance at January 1, 2021	**171,318**	**$**	**3.06**	
DSUs issued	82,356	$	3.06	No
DSUs redeemed	(153,813)	$	3.17	No
Balance at December 31, 2021	**99,861**	**$**	**3.11**	

17. REVENUE

17.1 Disaggregation of revenue

Revenue disaggregated by geographical markets is disclosed in the note under segment reporting. The Company also disaggregates revenue by major products and services: decaffeinated coffee sales, decaffeination services, and distribution with the following results for the years ended December 31, 2021 and 2020:

		December 31, 2021		December 31, 2020
Decaffeinated coffee sales	$	109,001	$	83,417
Decaffeination services		7,547		6,862
Distribution		8,528		7,292
	$	125,076	$	97,571

17.2 Contract balances

As at December 31, 2021 the accounts receivable balance of $14.1 million (2020: $15.4 million) consists of amounts due from customer contracts and reflects the Company's right to a consideration that is unconditional. The Company did not have other contract assets or liabilities from contracts with customers.

18. EMPLOYEE BENEFITS EXPENSES

Expenses recognized for employee benefits are detailed below:

		December 31, 2021		December 31, 2020
Short-term benefits	$	11,637	$	10,635
Long-term benefits		690		(129)
Post-employment benefits		1,000		1,001
	$	13,327	$	11,507

Short-term benefits comprise salaries, accrued bonuses, benefits and director fees. Long-term benefits comprise share-based compensation under the RSU Plan and the DSU Plan.

Post-employment benefits are contributions to employee retirement accounts, as well as statutory remittances related to post-employment benefits. These are recognized as an expense when employees have rendered service entitling them to the contributions.

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

19. RELATED PARTY TRANSACTIONS

The Company's related parties include its subsidiaries, key management personnel and a company related to a director. Details of transactions between the Company and related parties (other than its subsidiaries identified in Note 1, Nature of Business) are discussed below. All intercompany transactions, balances, income and expenses are eliminated on consolidation.

19.1 Compensation of Key Management Personnel

The remuneration of directors and key management personnel during the year was as follows:

	December 31, 2021	December 31, 2020
Short-term benefits	$ 2,388	$ 2,149
Long-term benefits	571	(193)
Post-employment benefits	230	240
	$ 3,189	$ 2,196

19.2 Trading transactions

During the year, the Company entered into the following transactions with a company that is related to a director:

	December 31, 2021	December 31, 2020
Sales	$ 648	$ 479
Purchases of raw materials	$ 5,344	$ 3,891

As at December 31, 2021, the Company had the following balances receivable from and payable to a company that is related to a director:

	December 31, 2021	December 31, 2020
Accounts receivable	$ 38	$ 40
Accounts payable	$ 2	$ 279

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

19.3 Employee Loans

In 2017, a subsidiary of the Company and a member of key management entered into a promissory note in the amount of US$0.1 million. For as long as the person remained an employee, the obligation to repay the principal is forgiven against current and future awards under the RSU Plan, by forfeiture of awards. The loan was interest free other than in the event of default, in which case the promissory note would bear simple interest at a rate of 10% per annum. During 2021 the loan was settled against vested RSUs and cash payments and no amounts remain receivable as at December 31, 2021 (2020: $0.04 million).

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

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

20. BASIC AND DILUTED EARNINGS PER SHARE ("EPS")

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

		December 31, 2021		December 31, 2020
Basic earnings per share				
Net income attributable to shareholders	$	496	$	2,949
Weighted average number of shares		9,122,283		9,076,188
Basic earnings per share	**$**	0.05	$	0.32
Diluted earnings per share				
Net income attributable to shareholders	$	496	$	2,949
Interest on convertible debenture		-		1,145
Gain on fair value adjustment of embedded option		-		(1,328)
Net income after effect of diluted securities	$	496	$	2,766
Weighted average number of shares - basic		9,122,283		9,076,188
Effect of diluted securities: convertible debenture		-		1,818,182
Weighted average number of shares - diluted		9,122,283		10,894,370
Diluted earnings per share	$	0.05	$	0.25

Potential common shares are antidilutive when their conversion to common shares increases earnings per share or decreases loss per share from continuing operations. Antidilutive potential common shares are excluded from weighted average number of shares outstanding for the purposes of calculating the diluted earnings per share. The following potential common shares are antidilutive and are therefore excluded from the weighted average number of common shares outstanding for the purposes of calculating the diluted earnings per share:

	December 31, 2021	December 31, 2020
Weighted average number of RSUs granted	284,730	253,056
Weighted average number of Warrants issued	1,017,123	-

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

21. SUPPLEMENTAL CASH FLOW INFORMATION

Cash and cash equivalents comprise of cash on hand. Changes in non-cash working capital are as follows:

	December 31, 2021	December 31, 2020
Accounts receivable	$ 1,239	$ (757)
Inventories	(13,361)	(956)
Other assets and liabilities	(682)	(531)
Prepaid expenses and other receivables	(87)	(151)
Accounts payable and accrued liabilities	2,363	61
Derivative assets, liabilities and hedged firm commitments at fair value through profit and loss	(6,304)	(200)
	$ (16,832)	$ (2,534)

As at December 31, 2021, a $3.3 million (2020: $2.5 million) in additions to construction in progress was accrued in accounts payable and accrued liabilities. These are operating and investing transactions that did not require the use of the Company's cash.

In the year 2021, $0.1 million of interest paid on construction loans was capitalized during the construction phase of new manufacturing equipment, while in the prior year 2020, $0.6 million of interest paid on the construction loan and $0.4 million of interest on lease liability were capitalized during the construction phase of the manufacturing equipment and the new facility in Delta, BC.

During the year ended December 31, 2021 Swiss Water capitalized $0.5 million of asset retirement obligation, while in the year 2020 the Company capitalized $0.05 million of asset retirement obligation and $0.5 million depreciation of right-of use assets related to the new facility.

Cash paid to settle RSUs was $0.2 million during the year ended December 31, 2021 (2020: $0.1 million).

In 2021, the Company incurred $0.2 million in financing transaction costs related to the renegotiation of the BDC and FCC construction loans, of which $0.1 million was added to the loan balance and the remainder was paid in cash (2020: $0.05 million).

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

In the year 2021 the Company recognized in the property plant and equipment, and in the administrative expenses a Scientific Research and Development tax credit of $0.1 million and $0.1 million, respectively. The tax credit was a non cash transaction recognized within the financing and operating activities.

As at December 31, 2021, a total of $0.6 million (2020: nil) of depreciation on manufacturing equipment was allocated to inventory. This is a non cash item within cash flows from operating activities.

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

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

22. SEGMENT REPORTING

The Company's sales are primarily generated by the decaffeination of green coffee segment and in three geographic areas: Canada, the United States and other international markets. The Company's revenue from external customers and its non-current assets (excluding deferred tax assets), by location, are detailed below.

22.1 Revenue

		December 31, 2021		December 31, 2020
Canada	$	38,325	$	29,907
United States		54,050		47,664
International and other		32,701		20,000
	$	125,076	$	97,571

22.2 Non-current assets (excluding deferred tax assets)

		December 31, 2021		December 31, 2020
Canada	$	107,676	$	99,651
United States		97		207
Europe		153		196
	$	107,926	$	100,054

23. FINANCIAL RISK MANAGEMENT

The Company's exposure to and management of financial risks related COVID-19, commodity, foreign exchange, interest rates, credit liquidity and other risks.

The Company's risk management program focuses on the unpredictability of coffee commodity prices and foreign exchange rates and seeks to minimize potential adverse effects on the Company's financial performance and cash flows. The Company uses derivative financial instruments to hedge these risk exposures. Commodity and foreign exchange risk management is carried out under the Foreign Exchange Risk management Policy and the Commodity Price risk Management Policy, both approved by the Board of Directors. In addition, the Company monitors other financial and other risks on a regular basis as discussed below.

23.1 Risks related to COVID-19

In March 2020, the World Health Organization declared a global pandemic known as COVID-19. As a result of measures taken by governments to curb the spread of COVID-19, many countries have entered into an economic recession since the second quarter of 2020. Swiss Water was deemed an essential service and continued to operate largely uninterrupted despite the pandemic with appropriate protocols in place to protect the safety and health of employees. During the early stages of the pandemic, the Company experienced strong short term volume pull from customers that service the retail grocery trade as consumers loaded their pantries in anticipation of quarantines and supply disruptions, or simply consumed their coffee at home. Also, the demand for coffee shifted between customer types. During 2021 the Company was affected by supply chain delays. This pandemic may continue to impact the demand for Swiss Water's products and services in the near term as well as continue to impact the supply chain. It may also impact expected credit losses on 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 is discontinued.

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

23.2 Commodity price risk hedges

Commodity price risk hedges on purchase commitments and inventory

Commodity price risk is the risk that the fair value of inventory will fluctuate as a result of changes in commodity prices. The Company utilizes futures contracts to manage its commodity price exposure. The Company buys and sells futures contracts for coffee on the Intercontinental Exchange in order to offset its inventory position and fix the input cost of green coffee. As at December 31, 2021, the Company had futures contracts to buy 1.7 million lbs of green coffee with a notional value of US$3.1 million, and contracts to sell 11.8 million lbs of green coffee with a notional value of US$25.1 million. The furthest contract matures in December 2022 (2020: buy 2.5 million lbs of green coffee with a notional value of US$3.0 million, and contracts to sell 6.6 million lbs of green coffee with a notional value of US$7.9 million). An estimated 1% decrease in the mark-to-market rate applied to coffee futures would have resulted in an estimated gain of $0.3 million to the net income before tax, and vice versa.

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

Carrying amount of hedging instruments	**December 31, 2021**	**December 31, 2020**
Fair value hedge	Commodity price risk Coffee futures	Commodity price risk Coffee futures
Nominal amount of hedging instruments (in US$'000)	$ 22,039	$ 4,935
Line item in the statement of financial position where hedging instrument is located		
Derivative Assets	$ 3,458	$ 515
Derivative Liabilities	-	10
Changes in fair value used for calculating hedge ineffectiveness	-	-

Accumulated amount of fair value hedge adjustment on hedged item included in the carrying amount of the hedged items	**December 31, 2021**	**December 31, 2020**
Fair value hedge	Purchase commitments and coffee inventory	Purchase commitments and coffee inventory
Nominal amount of hedged item (in '000 lbs)	10,142	4,019
Line items in the statement of financial position where hedged item is located	Inventories & hedged firm commitments	Inventories & hedged firm commitments
Assets	$ 5,148	$ 1,288
Liabilities	611	190
Changes in fair value used for calculating hedge ineffectiveness	-	-

23.3 Foreign exchange currency risk hedges

The Company realizes a significant portion of its revenues in US$, purchases equipment in US$, and purchases green coffee in US$ which is, in some cases, sold to customers in Canadian dollars. The Company enters into forward foreign currency contracts to manage its exposure to currency rate fluctuations and to minimize the effect of exchange rate fluctuations on business decisions.

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

As at December 31, 2021, the Company had forward currency contracts to buy US$8.0 million and sell US$47.7 million (2020: buy US$5.6 million and sell US$51.0 million) from January 2022 through to February 2025 at various Canadian exchange rates ranging from $1.2115 to $1.3626. An estimated CAD 1 cent decrease in the value of US dollar would have resulted in an estimated gain of $0.4 million to the net income and other comprehensive income before tax, and vice versa.

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

Currency risk hedges related to US$ sales

As at December 31, 2021, the Company designated as hedging instruments US$27.3 million in forward contracts to sell US dollars, which relate to highly probable forecasted sales revenue. (2020: US$38.7 million).

Carrying amount of hedging instruments		**December 31, 2021**		**December 31, 2020**
Cashflow hedge		Currency risk Foreign currency forwards		Currency risk Foreign currency forwards
Nominal amount of hedging instruments (in US$'000)	$	27,289	$	38,709
Line items in the statement of financial position where hedging instrument is located				
Derivative Assets	$	1,192	$	1,226
Derivative Liabilities		63		269
Changes in fair value used for calculating hedge ineffectiveness		-		-
Accumulated amount of fair value hedge adjustment on hedged item included in the carrying amount of the hedged items		**December 31, 2021**		**December 31, 2020**
Cashflow hedge		Currency risk Foreign currency forwards		Currency risk Foreign currency forwards
Nominal amount of hedged item (in US$'000)	$	27,289	$	38,709
Line items in the statement of financial position where hedged item is located		Accumulated other comprehensive income		Accumulated other comprehensive income
Assets	$	n/a	$	n/a
Liabilities		n/a		n/a
Changes in fair value used for calculating hedge ineffectiveness		-		-
Cashflow hedge reserve		1,128		957

Currency risk hedges related to US$ purchases

As at December 31, 2021, the Company designated as hedging instruments US$7.0 million in forward contracts to buy US dollars, which relate to coffee purchases (2020: US$5.6 million).

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

Carrying amount of hedging instruments		**December 31, 2021**		**December 31, 2020**
Fair value hedge		Foreign currency purchase forwards		Foreign currency purchase forwards
Nominal amount of hedging instruments (in US$'000)	$	6,962	$	5,646
Line item in the statement of financial position where hedging instrument is located				
Derivative Assets	$	62	$	-
Derivative Liabilities		50		263
Changes in fair value used for calculating hedge ineffectiveness		-		-
Accumulated amount of fair value hedge adjustment on hedged item included in the carrying amount of the hedged items		**December 31, 2021**		**December 31, 2020**
Fair value hedge		Firm purchase commitments & inventories		Firm purchase commitments & inventories
Nominal amount of hedged item (in US$'000)	$	6,962	$	5,646
Line item in the statement of financial position where hedged item is located		Inventories & hedged firm commitments		Inventories & hedged firm commitments
Assets	$	3	$	323
Liabilities		60		-
Changes in fair value used for calculating hedge ineffectiveness		-		-

Also, as at December 31, 2021, the Company designated as hedging instruments US$1.0 million in forward contracts to buy US dollars, with the purpose to purchase equipment for the new production line (2020: nil).

Carrying amount of hedging instruments		**December 31, 2021**		**December 31, 2020**
Fair value hedge		Foreign currency purchase forwards		Foreign currency purchase forwards
Nominal amount of hedging instruments (in US$'000)	$	1,048	$	-
Line item in the statement of financial position where hedging instrument is located				
Derivative Assets	$	17	$	-
Changes in fair value used for calculating hedge ineffectiveness		-		-
Accumulated amount of fair value hedge adjustment on hedged item included in the carrying amount of the hedged items		**December 31, 2021**		**December 31, 2020**
Fair value hedge		Firm purchase commitments		Firm purchase commitments
Nominal amount of hedged item (in US$'000)	$	1,048	$	-
Line item in the statement of financial position where hedged item is located		Hedged firm commitments		Hedged firm commitments
Liabilities		28		-
Changes in fair value used for calculating hedge ineffectiveness		-		-

23.4 Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company does have interest rate risk related to its credit facilities and FCC variable loan, where a 1% increase in the Canadian prime rate loan, holding all other variables constant, would result in a $0.3 million decrease to income before taxes. There is no interest rate risk on the debenture with warrants, BDC construction loan and the FCC fixed loan as the interest rates are fixed.

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

23.5 Credit risk

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

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

The Company follows a program of credit evaluations of customers. A customer's credit check is performed in advance of providing credit to a customer and by reviewing their external credit ratings and interviewing customers' reputable vendors and then reviewed annually.

For the year ended December 31, 2021, revenues from three major customers of $41.4 million (2020: $31.7 million) represented 33% (2020: 32%) of total revenues for the year. Three major customers represented 36% of total accounts receivable as at December 31, 2021 (2020: 58%).

The Company had 18% of its accounts receivable past due but not impaired as at December 31, 2021 (2020: 11%). Of the past due accounts receivable, 80% are 1-30 days past due (2020: 92%), while 23% are over 31 days past due (2020: 8%).

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

23.6 Liquidity risk

Non-derivative financial liabilities are as follows:

	Carrying Amount December 31, 2021	Contractual Cash Flows 2022	2023 to 2024	2025 to 2026	Thereafter
Accounts payable	$ 8,602	$ 8,602	$ -	$ -	$ -
Other liabilities	572	426	146	-	-
Lease liabilities	21,719	2,827	3,327	2,531	648
Credit facility	23,307	23,412	-	-	-
Construction loans and interest	30,655	109	1,974	7,895	20,899
Debenture with warrants	12,890	-	15,102	-	-
Total	$ 97,745	$ 35,376	$ 20,549	$ 10,426	$ 21,547

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

23.7 Fair value of financial instruments

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

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

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

Financial instruments that are measured at fair value are categorized as follows. During the year ended December 31, 2021, there were no transfers between level 1 and 2 instruments.

	December 31, 2021	Level 1	Level 2	Level 3
Financial assets				
Cash	$ 4,250	$ 4,250	$ -	$ -
Derivative assets	4,915	3,457	1,458	-
	$ 9,165	$ 7,707	$ 1,458	$ -
Financial liabilities				
Derivative liabilities	$ 142	$ -	$ 142	$ -
Credit facility	23,307	-	23,307	-
Construction loan	30,655	-	30,655	-
Other liabilities	572	-	572	-
	$ 54,676	$ -	$ 54,676	$ -

	December 31, 2020	Level 1	Level 2	Level 3
Financial assets				
Cash	$ 2,749	$ 2,749	$ -	$ -
Derivative assets	1,962	514	1,448	-
	$ 4,711	$ 3,263	$ 1,448	$ -
Financial liabilities				
Derivative liabilities	$ 906	$ 10	$ 896	$ -
Credit facility	10,021	-	10,021	-
Construction loan	20,083	-	20,083	-
Other liabilities	740	-	740	-
	$ 31,750	$ 10	$ 31,740	$ -

24. COMMITMENTS

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

The Company has provided a standby letter of credit in the amount of $0.3 million as security to the landlord.

Also, the Company has, in the normal course of business, entered into various contracts. As at December 31, 2021, these contracts related to the purchase of green coffee in the amount of $76.4 million (2020: $44.2 million), natural gas purchase commitments of $nil (2020: $0.2 million), and equipment purchase commitments in the amount of $18.4 million (2020: $8.2 million). Of these contracts, $94.6 million will become payable within twelve months from December 31, 2021.

25. SUBSEQUENT EVENTS

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

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

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