SWISS WATER DECAFFEINATED COFFEE INC.

(formerly TEN PEAKS COFFEE COMPANY INC.)

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (unaudited)

For the Nine Months Ended September 30, 2018

SWISS WATER DECAFFEINATED COFFEE INC.
(formerly TEN PEAKS COFFEE COMPANY INC.)

Condensed Consolidated Interim Statements of Financial Position as at
(Tabular amounts are in thousands of Canadian dollars)

(Unaudited)	**Note**	**September 30, 2018**	**December 31, 2017**
Assets			
Current assets			
Cash and cash equivalents		$ 7,388	$ 9,486
Accounts receivable	4	13,208	12,127
Inventories	5	13,323	14,671
Short-term investments	6	-	7,067
Prepaid expenses and other receivables		963	1,031
Derivative assets and hedged firm commitments	7, 21	1,301	1,244
Total current assets		36,183	45,626
Non-current assets			
Receivables		233	230
Plant and equipment	8	38,824	23,341
Intangible assets		1,232	1,427
Deferred tax assets		1,943	1,484
Derivative assets	7, 21	205	740
Total non-current assets		42,437	27,222
Total assets		$ 78,620	$ 72,848
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable		$ 2,569	$ 2,639
Accrued liabilities		2,908	1,844
Income tax payable		629	105
Other liabilities	10	528	591
Dividend payable	14, 23	566	565
Derivative liabilities	7, 21	248	229
Total current liabilities		7,448	5,973
Non-current liabilities			
Other liabilities	10	96	45
Construction loan	11	4,442	844
Convertible debenture	12	11,970	11,658
Asset retirement obligation		802	802
Deferred tax liabilities		3,792	3,426
Derivative liabilities	7, 12, 21	2,151	2,722
Total non-current liabilities		23,253	19,497
Total liabilities		30,701	25,470
Shareholders' equity			
Share capital		$ 43,591	$ 43,496
Retained earnings		4,170	2,257
Accumulated other comprehensive income		40	1,485
Share-based compensation reserve		118	140
Total equity		47,919	47,378
Total liabilities and shareholders' equity		$ 78,620	$ 72,848

Commitments (Note 22)
Subsequent events (Note 23)
Approved on behalf of the Board
(signed) ***"David Rowntree"***, Director (signed) ***"Frank Dennis"***, Director

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

SWISS WATER DECAFFEINATED COFFEE INC.
(formerly TEN PEAKS COFFEE COMPANY INC.)

Condensed Consolidated Interim Statements of Income
(Tabular amounts are in thousands of Canadian dollars except per share amounts)
(Unaudited)

for the	Note	3 months ended September 30, 2018	3 months ended September 30, 2017	9 months ended September 30, 2018	9 months ended September 30, 2017
Revenue	16	$ 23,087	$ 21,955	$ 66,960	$ 63,093
Cost of sales		(18,648)	(18,941)	(55,725)	(53,680)
Gross profit		4,439	3,014	11,235	9,413
Operating expenses					
Administration expenses		(1,504)	(1,237)	(4,468)	(3,595)
Sales and marketing expenses		(975)	(626)	(2,663)	(1,861)
Occupancy expenses		(33)	(34)	(91)	(101)
Total operating expenses		(2,512)	(1,897)	(7,222)	(5,557)
Operating income		1,927	1,117	4,013	3,856
Non-operating or other					
Gain on risk management activities		620	129	597	825
Fair value gain (loss) on embedded option	12	102	(56)	986	909
Finance income		139	103	387	406
Finance expense		(361)	(355)	(1,084)	(1,047)
(Loss) gain on foreign exchange		(81)	633	(316)	745
Total non-operating or other		419	454	570	1,838
Income before tax		2,346	1,571	4,583	5,694
Income tax expense		(518)	(186)	(971)	(1,153)
Net income		$ 1,828	$ 1,385	$ 3,612	$ 4,541
Basic earnings per share	19	$ 0.20	$ 0.15	$ 0.40	$ 0.50
Diluted earnings per share	19	$ 0.18	$ 0.15	$ 0.31	$ 0.41

SWISS WATER DECAFFEINATED COFFEE INC.
(formerly TEN PEAKS COFFEE COMPANY INC.)

Condensed Consolidated Interim Statements of Comprehensive Income and Condensed Consolidated Interim Statements of Changes in Equity
(Tabular amounts are in thousands of Canadian dollars)
(Unaudited)

Condensed Consolidated Interim Statements of Comprehensive Income

for the	3 months ended September 30, 2018	3 months ended September 30, 2017	9 months ended September 30, 2018	9 months ended September 30, 2017
Net income	$ 1,828	$ 1,385	$ 3,612	$ 4,541
Other comprehensive income, net of tax				
Items that may be subsequently reclassified to income:				
Unrealized (loss) gain				
Derivatives designated as cash flow hedges - currency risk hedges on US$ future revenue	791	1,105	(1,243)	2,522
Items reclassified to income:				
Realized gains				
Derivatives designated as cash flow hedges				
- currency risk hedges on US$ future revenue, recognized in revenue	(194)	(396)	(737)	(625)
Other comprehensive income related to hedging activities	597	709	(1,980)	1,897
Tax on other comprehensive income relating to hedging activities	(161)	(184)	535	(493)
Cumulative translation adjustment	(2)	-	-	-
Other comprehensive income, net of tax	434	525	(1,445)	1,404
Net income and other comprehensive income	$ 2,262	$ 1,910	$ 2,167	$ 5,945

Condensed Consolidated Interim Statements of Changes in Equity

	Note	Share capital Shares	Share capital Amount	Share-based compensation reserve	Accumulated other comprehensive income	Retained earnings	Total equity
Balance at December 31, 2016		**9,038,862**	**$ 43,496**	**$ 63**	**$ 419**	**$ 357**	**$ 44,335**
Share-based compensation		-	-	14	-	-	14
Dividends	14	-	-	-	-	(1,695)	(1,695)
Net income and other comprehensive income		-	-	-	1,404	4,541	5,945
Balance at September 30, 2017		**9,038,862**	**$ 43,496**	**$ 77**	**$ 1,823**	**$ 3,203**	**$ 48,599**
Balance at December 31, 2017		**9,038,862**	**43,496**	**140**	**1,485**	**2,257**	**47,378**
Shares issued for restricted share units		22,348	95	(95)	-	-	-
Share-based compensation		-	-	73	-	-	73
Dividends	14	-	-	-	-	(1,699)	(1,699)
Net income and other comprehensive income		-	-	-	(1,445)	3,612	2,167
Balance at September 30, 2018		**9,061,210**	**$ 43,591**	**$ 118**	**$ 40**	**$ 4,170**	**$ 47,919**

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

SWISS WATER DECAFFEINATED COFFEE INC.
(formerly TEN PEAKS COFFEE COMPANY INC.)

Condensed Consolidated Interim Statements of Cash Flows
(Tabular amounts are in thousands of Canadian dollars)
(Unaudited)

for the	**Note**	**3 months ended September 30, 2018**	**3 months ended September 30, 2017**	**9 months ended September 30, 2018**	**9 months ended September 30, 2017**
Operating activities					
Net income		$ 1,828	$ 1,385	$ 3,612	$ 4,541
Items not affecting cash:					
Depreciation and amortization		412	531	1,263	1,589
Share-based compensation expense		94	52	260	105
Unrealized gain on risk management activities		(336)	(152)	(438)	(782)
Unrealized (gain) loss on fair value adjustment of embedded option		(102)	56	(986)	(909)
Finance income		(139)	(103)	(387)	(406)
Finance expense		361	355	1,084	1,046
Income taxes expense		518	186	971	1,153
Other		16	-	18	-
		2,652	2,310	5,397	6,337
Change in non-cash working capital relating to operating activities	18	1,075	655	(1,865)	(2,358)
Net cash generated from operations		**3,727**	**2,965**	**3,532**	**3,979**
Interest received		126	90	431	341
Interest paid		(253)	(259)	(772)	(764)
Income taxes received (paid)		397	(492)	(57)	(507)
Net cash generated from operating activities		**3,997**	**2,304**	**3,134**	**3,049**
Investing activities					
Proceeds from (investment in) short-term investments		-	(11,147)	7,067	(6,187)
Additions to plant and equipment		(3,286)	(2,505)	(10,603)	(5,138)
Net cash used in investing activities		**(3,286)**	**(13,652)**	**(3,536)**	**(11,325)**
Financing activities					
Dividends paid		(566)	(565)	(1,696)	(1,695)
Net cash used in financing activities		**(566)**	**(565)**	**(1,696)**	**(1,695)**
Increase (decrease) in cash and cash equivalents		145	(11,913)	(2,098)	(9,971)
Cash and cash equivalents, beginning of the period		7,243	14,439	9,486	12,497
Cash and cash equivalents, end of the period		$ 7,388	$ 2,526	$ 7,388	$ 2,526

1. NATURE OF BUSINESS

Swiss Water Decaffeinated Coffee Inc., formerly Ten Peaks Coffee Company 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', formerly 'TPK'. The Company's registered office is located at 3131 Lake City Way, Burnaby, British Columbia, V5A 3A3.

On September 28, 2018, Ten Peaks Coffee Company Inc. amalgamated with its 100% owned subsidiary Swiss Water Decaffeinated Coffee Company Inc. As a result of amalgamation Ten Peaks Coffee Company Inc. remained as the successor entity and concurrently the Company changed its name to Swiss Water Decaffeinated Coffee Inc.

Swiss Water is a leading specialty coffee company that owns all of the interests of Swiss Water Decaffeinated Coffee USA, Inc., an entity registered in Washington State, USA, and Seaforth Supply Chain Solutions Inc. ("Seaforth"), which is incorporated under CBCA and operates in Canada.

2. BASIS OF PREPARATION

The Company's condensed consolidated interim financial statements for the three and nine months ended September 30, 2018 have been prepared in accordance with International Accounting Standards 34 – Interim Financial Reporting ("IAS 34") as issued by the International Accounting Standards Board ("IASB"). Accordingly, certain disclosures included in the annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the IASB have been condensed or omitted. These condensed consolidated interim financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2017.

The accounting policies applied in the preparation of these condensed consolidated interim financial statements are consistent with those applied and disclosed in the Company's audited consolidated financial statements for the year ended December 31, 2017, except for those policies disclosed below.

These condensed consolidated interim financial statements are presented in Canadian dollars, the Company's functional currency.

The following amendments to accounting standards became effective for annual periods beginning on or after January 1, 2018. The adoption of these revised standards by the Company did not have a material impact on its condensed consolidated interim financial statements.

- *IFRS 15: Revenue from Contracts with Customers*: The Company has evaluated the impact of applying IFRS 15 by analyzing revenue recognition from the following revenue streams: decaffeinated coffee sales, decaffeination services, and distribution. The Company concluded that there is no material change in the timing of revenue recognized under the new standard as the point of transfer of risk and reward for goods and services and transfer of control occurs at the same time. Accordingly, the Company has applied IFRS 15 retrospectively with no impact of transitioning to IFRS 15 on retained earnings as at January 1, 2018.

3. 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, adjust its capital spending, modify its dividend policy, and/or dispose of certain assets to manage current and projected debt levels.

(Tabular amounts are in thousands of Canadian dollars)

The Company manages its capital in order to meet its growth objectives while continuing to pay 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. Quarterly dividends are paid on a level basis in order to smooth out normal seasonal fluctuations that occur over the course of a year.

4. RECEIVABLES

Accounts receivable as of September 30, 2018 and December 31, 2017 are recorded net of expected credit losses of nil. Non-current accounts receivable includes a $0.1 million balance due from a related party, refer to Note 20.

5. INVENTORIES

During the three and nine months ended September 30, 2018, the cost of inventories recognized in cost of sales was $16.7 million (2017: $17.7 million) and $50.5 million (2017: $50.0 million). The hedge accounting component represents the derivative gain (loss) on designated hedges for inventory on hand as at each period end.

	September 30, 2018	December 31, 2017
Raw materials	$ 6,312	$ 8,147
Finished goods	7,072	6,072
Carbon	341	397
Packaging	186	32
Hedge accounting component	(588)	23
	$ 13,323	$ 14,671

6. SHORT-TERM INVESTMENTS

Short-term investment, which consisted of a guaranteed investment certificate, matured and was reclassified to cash and cash equivalents.

7. DERIVATIVE FINANCIAL INSTRUMENTS

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

	September 30, 2018	December 31, 2017
Coffee futures contracts, net	$ 318	$ 247
US Dollar forward contracts, current	(42)	(3)
US Dollar forward contracts, long term	(66)	(13)
Derivative financial liability, convertible debenture	(1,723)	(2,709)
	$ (1,513)	$ (2,478)

(Tabular amounts are in thousands of Canadian dollars)

8. PLANT AND EQUIPMENT

For the three months ended September 30, 2018, depreciation expense of $0.3 million (2017: $0.4 million) was charged to cost of sales and $0.03 million (2017: $0.03 million) was included in administrative expenses.

For the nine months ended September 30, 2018, depreciation expense of $1.0 million (2017: $1.3 million) was charged to cost of sales and $0.1 million (2017: $0.09 million) was included in administrative expenses.

There was no impairment loss recognized for the three and nine months periods ended September 30, 2018 (2017: Nil).

	Machinery and equipment	Leasehold improvements	Computer equipment	Furniture and fixtures	Construction in progress	Total
Cost						
Balance at January 1, 2018	$ 33,744	$ 5,113	$ 1,204	$ 189	$ 10,660	$ 50,910
Additions	174	2	54	-	16,319	16,549
Disposals	(61)	-	-	-	-	(61)
Balance at September 30, 2018	$ 33,857	$ 5,115	$ 1,258	$ 189	$ 26,979	$ 67,398
Accumulated depreciation						
Balance at January 1, 2018	$ (23,061)	$ (3,501)	$ (862)	$ (145)	$ -	$ (27,569)
Depreciation	(733)	(222)	(103)	(8)	-	(1,066)
Disposals	61	-	-	-	-	61
Balance at September 30, 2018	$ (23,733)	$ (3,723)	$ (965)	$ (153)	$ -	$ (28,574)
Balance at September 30, 2018	$ 10,124	1,392	293	36	26,979	38,824
Cost						
Balance at January 1, 2017	$ 33,557	$ 5,052	$ 1,062	$ 181	$ 2,083	$ 41,935
Additions	187	61	142	8	8,577	8,975
Balance at December 31, 2017	$ 33,744	$ 5,113	$ 1,204	$ 189	$ 10,660	$ 50,910
Accumulated depreciation						
Balance at January 1, 2017	$ (21,546)	$ (3,227)	$ (750)	$ (134)	$ -	$ (25,657)
Depreciation	(1,515)	(274)	(112)	(11)	-	(1,912)
Balance at December 31, 2017	$ (23,061)	$ (3,501)	$ (862)	$ (145)	$ -	$ (27,569)
Balance at December 31, 2017	$ 10,683	$ 1,612	$ 342	$ 44	$ 10,660	$ 23,341

9. CREDIT FACILITIES

The Company had no outstanding bank debt as at September 30, 2018, or December 31, 2017. As at September 30, 2018, the following credit facilities were available to the Company:

a. a $14.5 million revolving operating line of credit which bears interest at the bank's prime lending rate plus 0.75% per annum; and

b. a $1.5 million swing operating line of credit which bears interest at the bank's prime lending rate plus 0.75% per annum.

Any US dollar ("US$") denominated debt under the revolving operating line of credit or swing line can be financed using LIBOR loans at the LIBOR rate plus 2.35% per annum.

(Tabular amounts are in thousands of Canadian dollars)

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

These facilities are collateralized by a general security agreement over all of the assets of the Company and a floating hypothecation agreement over cash balances.

As at September 30, 2018, the Company was in compliance with its debt covenants.

10. OTHER LIABILITIES

The balance represents the fair value of the deferred share units ("DSUs") and the cash-settled portion of the restricted share units ("RSUs") outstanding as follows:

	September 30, 2018	December 31, 2017
Other liabilities, current	$ 528	$ 591
Other liabilities, non-current	96	45
	$ 624	$ 636

11. CONSTRUCTION LOAN

On August 26, 2016, Swiss Water signed a lease agreement, which includes a construction management agreement to build a highly specialized building to house the production plant. The landlord will finance a portion of the building, with loan payments commencing on the earlier of substantial completion of construction and January 1, 2019.

The loan is repayable in equal monthly installments over fifteen years and can be repaid without penalty at any time. Interest is calculated monthly on the total expended cost, at an annual rate of Royal Bank of Canada's prime commercial lending rate for commercial loans in Canada plus 1.5%, compounded semi-annually, up to the date of substantial completion of construction or up to December 31, 2018, whichever is earlier. Subsequently, the interest rate will be 8% per annum, compounded semi-annually. As at September 30, 2018 the Company accrued $4.4 million (2017: $0.8 million) for the construction loan related to work done to date, plus interest in the amount of $0.06 million (2017: $0.01 million). Interest is capitalized during the construction phase.

12. CONVERTIBLE DEBENTURE

On October 11, 2016, the Company issued an unsecured subordinated convertible debenture for gross proceeds of $15,000,000. The convertible debenture bears interest at a rate of 6.85% per annum to be paid quarterly in arrears and is due on October 11, 2023.

The convertible debenture is 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 has the option to pay interest-in-kind for the first two years. If elected, this option will increase the principal sum by the interest owing. The Company did not elect to pay interest-in-kind.

The convertible debenture also includes a net share settlement feature that allows 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 is elected, it will result in fewer common shares being issued. In 2016, the Company paid financing costs of $0.5 million in respect of issuing the convertible debenture.

(Tabular amounts are in thousands of Canadian dollars)

The liability component was initially measured at a fair value of $11.2 million, which represents 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.

	September 30, 2018	December 31, 2017
Balance, open	$ 11,658	$ 11,283
Interest charged	1,081	1,403
Interest paid	(769)	(1,028)
Balance, end	$ 11,970	$ 11,658

The Company uses the residual value method to allocate the fair value of the convertible debentures between the liability component and the derivative liability. Under this method, as at September 30, 2018, the derivative liabilities include the fair value of the derivative liability related to a convertible debenture in the amount of $1.7 million (2017: $2.7 million).

	September 30, 2018	December 31, 2017
Balance, open	$ 2,709	$ 3,313
Change in fair valuation of derivative embedded option	(986)	(604)
Balance, end	$ 1,723	$ 2,709

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 were as follows:

	September 30, 2018	December 31, 2017
Share price	$ 6.03	$ 6.70
Exercise price	$ 8.25	$ 8.25
Option life	5.03 years	5.79 years
Volatility	37%	40%
Risk-free interest rate	2.33%	1.90%
Dividend yield	4.15%	3.73%

For the three and nine months ended September 30, 2018, this revaluation resulted in a gain being recorded in the statement of income in the amount of $0.1 million and $1.0 million respectively (2017: loss of $0.06 million; gain of $0.9 million).

13. SHARE CAPITAL

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.

(Tabular amounts are in thousands of Canadian dollars)

As of September 30, 2018, there were 9,061,210 common shares issued and outstanding.

Deferred share units

The movement in DSUs for the nine months period ended September 30, 2018, and the year ended December 31, 2017, is as follows:

	Number of DSUs	Weighted average share price		Performance based
Balance at January 1, 2017	68,879	$	7.08	
DSUs issued	11,276	$	6.63	No
DSUs exercised	(9,581)	$	6.24	No
Balance at December 31, 2017	**70,574**	**$**	**6.60**	
Balance at January 1, 2018	70,574	$	6.60	
DSUs issued	17,049	$	6.33	No
Balance at September 30, 2018	**87,623**	**$**	**6.60**	

Restricted share units

The movement in RSUs for the nine months period ended September 30, 2018, and the year ended December 31, 2017, is as follows:

	Number of RSUs	Volume based weighted average share price		Average remaining vesting period (years)	Performance based
Balance at January 1, 2017	**48,285**	**$**	**7.86**	**1.14**	
RSUs granted	52,480	$	6.15	2.15	
RSUs issued for dividends	3,522	$	6.30	1.06	No
RSUs forfeited	(3,504)	$	6.26	-	No
Balance at December 31, 2017	**100,783**	**$**	**6.58**	**1.15**	
Balance at January 1, 2018	**100,783**	**$**	**6.58**	**1.15**	
RSUs granted	91,000	$	6.35	2.40	No
RSUs issued for dividends	3,513	$	6.34	2.31	No
RSUs cash-settled	(28,304)	$	7.04	-	
RSUs exercised	(22,348)	$	7.04	-	
RSUs forfeited	(23,288)	$	6.25	-	No
Balance at September 30, 2018	**121,356**	**$**	**6.16**	**2.08**	

14. DIVIDENDS

For the nine months ended September 30, 2018, the Company declared quarterly eligible dividends to shareholders totaling $1.7 million or $0.0625 per share (2017: $1.7 million or $0.0625 per share). On October 15, 2018, the Company paid the third quarterly dividend in the amount of $0.6 million.

(Tabular amounts are in thousands of Canadian dollars)

15. SEGMENT REPORTING

The Company's sales are primarily generated in a single segment (decaffeination of green coffee) 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 by location are detailed below.

Revenue

	3 months ended September 30, 2018	3 months ended September 30, 2017	9 months ended September 30, 2018	9 months ended September 30, 2017
Canada	$ 7,833	$ 8,524	$ 22,950	$ 25,824
United States	12,068	10,880	35,013	30,261
International and other	3,186	2,551	8,997	7,008
	$ 23,087	$ 21,955	$ 66,960	$ 63,093

Non-current assets (not including deferred tax assets)

	September 30, 2018	December 31, 2017
Canada	$ 39,193	$ 25,663
United States	96	75
	$ 39,289	$ 25,738

16. REVENUE

Revenue from contracts with customers is disaggregated by geographical markets: Canada, United States, and international. Also, revenue is disaggregated by major products and services: decaffeinated coffee sales, decaffeination services, and distribution.

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, with the exception of select customers where payment terms are extended. For contracts with extended payment terms, the Company charges customers an insignificant financing component. There are no warranties, returns or refunds that apply to the Company.

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. This performance obligation 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.

(Tabular amounts are in thousands of Canadian dollars)

16.1 Disaggregation of revenue

Revenue's geographic disaggregation is disclosed in Note 15. Revenue disaggregation by major products and services is as follows:

	3 months ended September 30, 2018	3 months ended September 30, 2017	9 months ended September 30, 2018	9 months ended September 30, 2017
Decaffeinated coffee sales	$ 19,716	$ 19,361	$ 58,869	$ 56,086
Decaffeination services	1,755	1,279	3,842	3,420
Distribution	1,616	1,315	4,249	3,587
	$ 23,087	$ 21,955	$ 66,960	$ 63,093

16.2 Contract balances

As at September 30, 2018 accounts receivable balance of $13.2 million (2017: $12.1 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.

17. EMPLOYEE BENEFITS EXPENSES

Expenses recognized for employee benefits are detailed below:

	3 months ended September 30, 2018	3 months ended September 30, 2017	9 months ended September 30, 2018	9 months ended September 30, 2017
Short-term benefits	$ 2,290	$ 1,884	$ 6,353	$ 5,067
Long-term benefits	96	62	270	100
Post-employment benefits	155	138	558	519
	$ 2,541	$ 2,084	$ 7,181	$ 5,686

Short-term benefits comprise of 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.

18. SUPPLEMENTAL CASH FLOW INFORMATION

	3 months ended September 30, 2018	3 months ended September 30, 2017	9 months ended September 30, 2018	9 months ended September 30, 2017
Accounts receivable	$ 1,146	$ 67	$ (1,047)	$ (123)
Inventories	2,354	287	1,961	(2,038)
Other assets and liabilities	67	(25)	28	316
Prepaid expenses and other receivables	(81)	187	25	33
Accounts payable and accrued liabilities	(1,970)	742	(1,585)	2,308
Derivative assets at fair value through profit or loss	(429)	(1,285)	(432)	(2,415)
Derivative liabilities at fair value through profit or loss	(12)	682	(815)	(439)
	$ 1,075	$ 655	$ (1,865)	$ (2,358)

During the nine month period ended September 30, 2018, $3.6 million addition to construction in progress was funded with a construction loan (September 2017: $nil). These are financing and investing transactions which did not require the use of the Company's cash or cash equivalents. As at September

(Tabular amounts are in thousands of Canadian dollars)

30, 2018, $2.3 million addition to construction in progress was accrued in accounts payable and accrued liabilities. These are operating and investing transactions which did not require the use of the Company's cash or cash equivalents.

19. BASIC AND DILUTED EARNINGS PER SHARE

	3 months ended September 30, 2018	3 months ended September 30, 2017	9 months ended September 30, 2018	9 months ended September 30, 2017
Basic EPS:				
Net income attributable to shareholders	$ 1,828	$ 1,385	$ 3,612	$ 4,541
Weighted average number of shares	9,061,210	9,038,862	9,057,117	9,038,862
Basic EPS	**$ 0.20**	**$ 0.15**	**$ 0.40**	**$ 0.50**

	3 months ended September 30, 2018	3 months ended September 30, 2017	9 months ended September 30, 2018	9 months ended September 30, 2017
Diluted EPS:				
Net income attributable to shareholders	$ 1,828	$ 1,385	$ 3,612	$ 4,541
Interest on convertible debenture	268	-	792	770
Loss (gain) on fair value adjustment of embedded option	(102)	-	(986)	(909)
Net income after effect of diluted securities	$ 1,994	$ 1,385	$ 3,418	$ 4,402
Weighted average number of shares - basic	9,061,210	9,038,862	9,057,117	9,038,862
Effect of diluted securities: convertible debenture	1,818,182	-	1,818,182	1,818,182
Weighted average number of shares - diluted	10,879,392	9,038,862	10,875,299	10,857,044
Diluted EPS	**$ 0.18**	**$ 0.15**	**$ 0.31**	**$ 0.41**

The following potential common shares are anti-dilutive and are therefore excluded from the weighted average number of common shares outstanding for the purposes of calculating the diluted earnings per share for the period:

	3 months ended September 30, 2018	3 months ended September 30, 2017	9 months ended September 30, 2018	9 months ended September 30, 2017
Weighted average number of RSUs granted	1,208	857	94,059	43,426
Convertible debenture	-	1,818,182	-	-

20. RELATED PARTY TRANSACTIONS

The Company's related parties include its subsidiaries, key management personnel and companies related to directors.

Details of transactions between the Company and related parties (other than its subsidiaries) are discussed below. All intercompany transactions, balances, income, and expenses are eliminated on consolidation.

Key management personnel

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

	3 months ended September 30, 2018	3 months ended September 30, 2017	9 months ended September 30, 2018	9 months ended September 30, 2017
Short-term benefits	$ 389	$ 454	$ 1,119	$ 1,037
Long-term benefits	81	50	235	78
Post-employment benefits	12	19	55	55
	$ 482	$ 523	$ 1,409	$ 1,170

(Tabular amounts are in thousands of Canadian dollars)

Trading transactions

During the three and nine months periods ended September 30, 2018 and 2017, the Company entered into the following transactions with a company that is related to a director of the Company:

	3 months ended September 30, 2018	3 months ended September 30, 2017	9 months ended September 30, 2018	9 months ended September 30, 2017
Sales	$ 116	$ 44	$ 302	$ 270
Purchases of raw materials	$ 377	$ 1,081	$ 4,115	$ 5,031

	September 30, 2018	December 31, 2017
Accounts receivable	$ 24	$ 15
Accounts payable	$ -	$ -

These 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.

Promissory note receivable

On March 16, 2017, a subsidiary of the Company and a member of key management (the borrower) entered into a promissory note in the amount of US$0.1 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 shall bear simple interest at a rate of 10% per annum. The promissory note is accrued in accounts receivable.

21. FINANCIAL RISK MANAGEMENT

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

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

21.1 Commodity price risk

Commodity price risk is the risk that the fair value of inventory or future cash flows will fluctuate as a result of changes in commodity prices. The Company utilizes futures contracts to manage its commodity price exposure. The Company buys and sells futures contracts for coffee on the IntercontinentalExchange in order to offset its inventory position and fix the input cost of green coffee. As at September 30, 2018, the Company had futures contracts to buy 4.8 million lbs of green coffee with a notional value of US$5.1 million, and contracts to sell 4.4 million lbs of green coffee with a notional value of US$4.4 million. The furthest contract matures in December 2019 (December 31, 2017: buy 2.2 million lbs of green coffee with a notional value of US$2.7 million, and contracts to sell 4.5 million lbs of green coffee with a notional value of US$5.5 million).

(Tabular amounts are in thousands of Canadian dollars)

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

Carrying amount of hedging instruments	**September 30, 2018**	**December 31, 2017**
Fair value hedge	Commodity price risk Coffee futures	Commodity price risk Coffee futures
Nominal amount of hedging instruments (in US$'000)	$ (732)	$ 2,804
Line item in the statement of financial position where hedging instrument is located	Derivative Assets	Derivative Assets
Assets	$ 318	$ 247
Liabilities	-	-
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	**September 30, 2018**	**December 31, 2017**
Fair value hedge	Purchase commitments and coffee inventory	Purchase commitments and coffee inventory
Nominal amount of hedged item (in '000 lbs)	(430)	2,285
Line items in the statement of financial position where hedged item is located	Inventories & hedged firm commitments	Inventories & hedged firm commitments
Assets	$ 637	$ 28
Liabilities	599	128
Changes in fair value used for calculating hedge ineffectiveness	-	-

21.2 Foreign currency risk

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

At September 30, 2018, the Company had forward currency contracts to buy US$8.9 million and sell US$52.4 million (December 31, 2017: buy US$7.2 million and sell US$46.2 million) from October 2018 through to March 2023 at various Canadian exchange rates ranging from $1.2147 to $1.3837.

The following tables provide a summary of amounts related to foreign currency forward contracts designated as hedging instruments.

<u>Currency risk hedges on US$ purchases</u>

As at September 30, 2018, the Company designated as hedging instruments U$8.9 million in forward contracts to buy US dollars, which relate to coffee purchases (2017: US$7.0 million).

(Tabular amounts are in thousands of Canadian dollars)

Carrying amount of hedging instruments	September 30, 2018	December 31, 2017
Fair value hedge	Foreign currency purchase forwards	Foreign currency purchase forwards
Nominal amount of hedging instruments (in US$'000)	$ 8,858	$ 6,962
Line item in the statement of financial position where hedging instrument is located	Derivative assets and liabilities	Derivative liabilities
Assets	$ 51	$ -
Liabilities	122	229
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	September 30, 2018	December 31, 2017
Fair value hedge	Firm purchase commitments & inventories	Firm purchase commitments & inventories
Nominal amount of hedged item (in US$'000)	$ 8,858	$ 6,962
Line item in the statement of financial position where hedged item is located	Inventories & hedged firm commitments	Inventories & hedged firm commitments
Assets	90	380
Liabilities	34	-
Changes in fair value used for calculating hedge ineffectiveness	-	-

Currency risk on hedge of US$ forecasted revenue

As at September 30, 2018, the Company designated as hedging instruments US$36.7 million in forward contracts to sell US dollars, which relate to highly probable forecasted sales revenue, (2017: US$34.0 million).

Carrying amount of hedging instruments	September 30, 2018	December 31, 2017
Cashflow hedge	Currency risk Foreign currency forwards	Currency risk Foreign currency forwards
Nominal amount of hedging instruments (in US$'000)	$ 36,693	$ 34,015
Line items in the statement of financial position where hedging instrument is located	Derivative assets and Derivative liabilities	Derivative assets and Derivative liabilities
Assets	367	1,292
Liabilities	426	13
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	September 30, 2018	December 31, 2017
Cashflow hedge	Currency risk Foreign currency forwards	Currency risk Foreign currency forwards
Nominal amount of hedged item (in US$'000)	36,693	34,015
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	(11)	1,969

(Tabular amounts are in thousands of Canadian dollars)

21.3 Credit risk

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

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

The Company follows a program of credit evaluations of customers and limits the amount of credit extended when deemed necessary. For the nine months period ended September 30, 2018, revenues from three major customers of $23.3 million (2017: $17.4 million) represented 35% (2017: 37%) of total revenues for the period. These customers represented 43% of total accounts receivable as at September 30, 2018 (December 31, 2017: 47%).

The Company had 17% of its accounts receivable past due but not impaired as at September 30, 2018 (December 31, 2017: 16%). Of the past due accounts receivable, 77% are 1-30 days past due (December 31, 2017: 83%), and 17% are 31-60 days past due (December 31, 2017: 17%).

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

21.4 Liquidity risk

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. Non-derivative financial liabilities are as follows:

	Carrying Amount	Contractual Cash Flows			
	September 30, 2018	2018	2019 to 2020	2021 to 2022	Thereafter
Accounts payable	$ 2,569	$ 2,569	$ -	$ -	$ -
Other liabilities	624	528	96	-	-
Construction loan	4,442	74	592	592	3,184
Convertible debenture	11,970	-	-	-	15,000
Total	$ 19,605	$ 3,171	$ 688	$ 592	$ 18,184

21.5 Fair value of financial instruments

Financial instruments that are measured at fair value are categorized as follows:

	September 30, 2018	Level 1	Level 2	Level 3
Financial assets				
Cash, cash equivalents and short-term investments	$ 7,388	$ 7,388	$ -	$ -
Derivative assets	825	318	507	-
	$ 8,213	$ 7,706	$ 507	$ -
Financial liabilities				
Derivative liabilities	$ 2,399	$ -	$ 2,399	$ -
Other liabilities	624	-	624	-
	$ 3,023	$ -	$ 3,023	$ -

(Tabular amounts are in thousands of Canadian dollars)

	December 31, 2017	Level 1	Level 2	Level 3
Financial assets				
Cash, cash equivalents and short-term investments	$ 16,553	$ 16,553	$ -	$ -
Derivative assets	1,984	275	1,709	-
	$ 18,537	$ 16,828	$ 1,709	$ -
Financial liabilities				
Derivative liabilities	$ 2,951	$ -	$ 2,951	$ -
Other liabilities	636	-	636	
	$ 3,587	$ -	$ 3,587	$ -

During the nine months period ended September 30, 2018, there were no transfers between level 1 and level 2 financial instruments.

22. COMMITMENTS

22.1 Operating lease commitments

Swiss Water leases a facility which houses its decaffeination plant and offices. The Company has exercised a renewal option such that the lease will expire in 2023. Beyond 2023, the landlord has to approve any subsequent renewal of the lease.

Seaforth leases warehouses in two locations for its primary operations. These leases expire in June 2019 and November 2019.

Swiss Water Decaffeinated Coffee Company USA, Inc. holds a lease for its Seattle, Washington, sales office, which expires on March 31, 2020.

On August 26, 2016, Swiss Water signed a lease agreement for a build-to-suit production facility. 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 will commence the earlier of the date of opening of the Company business in any part of the premises and the date of expiry of the fixturing period. 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.

A summary of future minimum payments for operating leases as at September 30, 2018 is as follows:

Minimum lease payments due:	
No later than 1 year	$ 2,984
Later than 1 year and no later than 5 years	6,256
	$ 9,240

22.2 Other commitments

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

The Company has, in the normal course of business, entered into various contracts. As at September 30, 2018, these contracts related to the purchase of green coffee in the amount of $31.1 million

(2017: $33.0 million), and natural gas purchase commitments in the amount of $0.2 million (2017: $0.2 million). Of these contracts, $30.6 million will become payable within 12 months from September 30, 2018. Also, as at September 30, 2018 capital purchase commitments are $9.7 million.

23. SUBSEQUENT EVENTS

On October 15, 2018, the Company paid an eligible dividend in the amount of $0.6 million ($0.0625 per share) to shareholders of record on September 28, 2018.

These consolidated financial statements for the period ended September 30, 2018 were approved for issuance on November 7, 2018.