SWISS WATER DECAFFEINATED COFFEE INC.

(formerly TEN PEAKS COFFEE COMPANY INC.)

CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2018

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, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

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

- the consolidated statements of financial position as at December 31, 2018 and 2017;
- 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 a summary of significant accounting policies.

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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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.

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

(Signed) "PricewaterhouseCoopers LLP"

Chartered Professional Accountants

Vancouver, British Columbia
March 12, 2019

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

Consolidated Statements of Financial Position as at

(Tabular amounts are in thousands of Canadian dollars)

	Note	December 31, 2018	December 31, 2017
Assets			
Current assets			
Cash and cash equivalents	25	$ 8,336	$ 9,486
Accounts receivable	6	14,313	12,127
Inventories	7	13,851	14,671
Short-term investments	8	-	7,067
Prepaid expenses and other receivables		1,272	1,031
Derivative assets and hedged firm commitments	9, 26	1,497	1,244
Total current assets		39,269	45,626
Non-current assets			
Receivables	6	235	230
Plant and equipment	10	46,035	23,341
Intangible assets	11	1,167	1,427
Deferred tax assets	12	175	1,484
Derivative assets	9, 26	-	740
Total non-current assets		47,612	27,222
Total assets		$ 86,881	$ 72,848
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable		$ 6,558	$ 2,639
Accrued liabilities		3,397	1,844
Income tax payable	12	783	105
Other liabilities	14	473	591
Dividend payable	19, 28	566	565
Derivative liabilities and hedged firm commitments	9, 26	2,064	229
Total current liabilities		13,841	5,973
Non-current liabilities			
Other liabilities	14	105	45
Construction loan	15	9,400	844
Convertible debenture	16	12,082	11,658
Asset retirement obligation	17	802	802
Deferred tax liabilities	12	1,243	3,426
Derivative liabilities	9, 16, 26	3,652	2,722
Total non-current liabilities		27,284	19,497
Total liabilities		41,125	25,470
Shareholders' equity			
Share capital	18	$ 43,591	$ 43,496
Retained earnings		4,523	2,257
Accumulated other comprehensive income		(2,512)	1,485
Share-based compensation reserve		154	140
Total equity		45,756	47,378
Total liabilities and shareholders' equity		$ 86,881	$ 72,848

Commitments (Note 27)

Subsequent events (Note 28)

Approved on behalf of the Board

(signed) ***"David Rowntree"***, Director (signed) ***"Frank Dennis"***, Director

Consolidated Statements of Income for the Years Ended
(Tabular amounts are in thousands of Canadian dollars, except for per share amounts)

	Note	December 31, 2018	December 31, 2017
Revenue	20	$ 89,939	$ 83,755
Cost of sales		(75,018)	(71,165)
Gross profit		14,921	12,590
Operating expenses			
Administration expenses		(5,371)	(5,077)
Sales and marketing expenses		(3,790)	(2,586)
Occupancy expenses		(129)	(115)
Total operating expenses		(9,290)	(7,778)
Operating income		5,631	4,812
Non-operating or other			
(Loss) gain on risk management activities		(5)	1,190
Fair value gain on embedded option	16	1,799	604
Finance income		530	580
Finance expense		(1,457)	(1,414)
Loss on foreign exchange		(278)	(6)
Total non-operating or other		589	954
Income before tax		6,220	5,766
Income tax expense	12	(1,689)	(1,606)
Net income		$ 4,531	$ 4,160
Basic earnings per share	23	$ 0.50	$ 0.46
Diluted earnings per share	23	$ 0.35	$ 0.42

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, 2018	December 31, 2017
Net income	$ 4,531	$ 4,160
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	(4,675)	2,333
Items reclassified to income:		
Realized gains		
Derivatives designated as cash flow hedges		
- currency risk hedges on US$ future revenue, recognized in revenue	(790)	(931)
Other comprehensive (loss) income related to hedging activities	(5,465)	1,402
Tax recovery (expense) on other comprehensive income relating to hedging activities	1,460	(384)
Cumulative translation adjustment	8	48
Other comprehensive (loss) income, net of tax	(3,997)	1,066
Net income and other comprehensive income	$ 534	$ 5,226

Consolidated 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		-	-	77	-	-	77
Dividends	19	-	-	-	-	(2,260)	(2,260)
Net income and other comprehensive income		-	-	-	1,066	4,160	5,226
Balance at December 31, 2017		**9,038,862**	**$ 43,496**	**$ 140**	**$ 1,485**	**$ 2,257**	**$ 47,378**
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		-	-	109	-	-	109
Dividends	19	-	-	-	-	(2,265)	(2,265)
Net income and other comprehensive (loss)		-	-	-	(3,997)	4,531	534
Balance at December 31, 2018		**9,061,210**	**$ 43,591**	**$ 154**	**$ (2,512)**	**$ 4,523**	**$ 45,756**

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

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

For the Years Ended	Note	December 31, 2018	December 31, 2017
Operating activities			
Net income		$ 4,531	$ 4,160
Items not affecting cash:			
Depreciation and amortization		1,689	2,172
Share-based compensation expense		242	211
Unrealized loss (gain) on risk management activities		188	(1,463)
Unrealized gain on fair value adjustment of embedded option		(1,799)	(604)
Payment of restricted share units settled in cash		(199)	(60)
Finance income		(530)	(580)
Finance expense		1,457	1,414
Income taxes expense		1,689	1,606
Other		29	-
		7,297	6,856
Change in non-cash working capital relating to operating activities	25	(723)	(3,661)
Net cash generated from operations		**6,574**	**3,195**
Interest received		610	500
Interest paid		(1,033)	(1,033)
Income taxes paid		(477)	(915)
Net cash generated from operating activities		**5,674**	**1,747**
Investing activities			
Proceeds from short-term investments		7,067	5,633
Additions to plant and equipment		(21,029)	(8,131)
Net cash used in investing activities		**(13,962)**	**(2,498)**
Financing activities			
Dividends paid		(2,262)	(2,260)
Proceeds from construction loan		9,400	-
Net cash generated from (used in) financing activities		**7,138**	**(2,260)**
Decrease in cash and cash equivalents		(1,150)	(3,011)
Cash and cash equivalents, beginning of the year		9,486	12,497
Cash and cash equivalents, end of the year		$ 8,336	$ 9,486

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

1. NATURE OF BUSINESS

Swiss Water Decaffeinated Coffee Inc., ("Swiss Water" or the "Company"), formerly Ten Peaks Coffee Company Inc., 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 head office is located at 3131 Lake City Way, Burnaby, British Columbia, V5A 3A3, Canada.

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 the 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 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 Burnaby, British Columbia, Canada; and Swiss Water Decaffeinated Coffee USA, Inc. ("SWUS"), an entity registered in Washington State, USA.

Seaforth provides a complete range of green coffee handling and storage services, while SWUS acts as a marketing and sales company and it does not have significant assets.

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. 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, 2018 were approved for issuance by the Company's Directors on March 11, 2019. There were no significant non-adjusting events that occurred between the reporting date and the date of authorization except as disclosed in Note 28.

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, 2018. The adoption of these revised standards by the Company did not have a material impact on its consolidated financial statements.

- Annual Improvements to IFRSs 2012-2016 Cycle.
- *IFRS 2: Share based payment:* contains amendments to classification and measurement of share-based payment transactions.
- *IFRS 9 Financial Instruments*: The Company has early adopted IFRS 9 as of January 1, 2016.
- *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. Also, the Company has included additional disclosure as required by IFRS 15.
- *IFRIC 22: Foreign Currency Transactions and Advance Consideration*.
- *IAS 40: Investment Property:* contains amendments to transfers of investment property.

3.5 Changes in accounting standards not yet effective

A number of new standards are effective for annual periods beginning on or after January 1, 2019. The Company has not yet adopted any of these new and amended standards or interpretations. Of those standards that are not yet effective, IFRS 16 *Leases* is expected to have a material impact on the Company's financial statements in the period of initial application.

- *IFRS 16: Leases:* The Company is required to adopt IFRS 16 from January 1, 2019. The Company has assessed the estimated impact that initial application of IFRS 16 will have on its consolidated financial statements as described below. The actual impacts of adopting the standard on January 1, 2019 may change because the Company has not finalized the testing and assessment of controls over its system, and because the new accounting policy is subject to change until the Company presents its first financial statements that include the date of initial application.

  IFRS 16 introduces a single, on-balance sheet accounting model for lessees that is similar to the current finance lease accounting, with limited exceptions for short-term leases or leases of low value assets. Lessees recognizes a right-of-use asset representing its rights to use the underlying asset and a lease liability representing its obligation to make lease payments.

  The Company expects to recognize approximately $19.0 million in new right-of use assets, and approximately $19.0 million in lease liabilities for its operating leases of office and warehouse facilities. The Company intends to provide additional disclosure for these leases as required under IFRS 16. The nature of expenses related to those leases will now change because the

Company will recognize a depreciation charge for right-of-use assets and interest expense on lease liabilities. Prior to the adoption IFRS 16, the Company recognized operating lease expense on a straight-line basis over the term of the lease. In addition, on the statement of cash flows, the Company will include 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.

A lessee can choose to apply IFRS 16 using either a full retrospective or a modified retrospective approach. The Company plans to apply IFRS 16 as at January 1, 2019 and intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets for property leases will be measured on transition as if the new rules had always been applied. All other right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).

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.*

The following amended standards and interpretations are not expected to have a significant impact on the Company's consolidated financial statements:

- Annual Improvements to IFRS Standards 2015–2017 Cycle: *IFRS 3 Business Combinations; IFRS 9: Financial Instruments:* prepayment features with negative compensation; *IFRS 11: Joint arrangement*; *IAS 12: Income taxes:* amendments related to recognition of current and deferred tax related to dividends; *IAS 19: Employee Benefits:* amendments to plan amendment, curtailment or settlement; *IAS 23: Borrowing costs:* amendments related to recognition of borrowing costs eligible for capitalization; *IFRIC 23: Uncertainty over Income Tax Treatments*: clarifies the application of recognition and measurement required per *IAS 12: Income taxes*, where there is uncertainty over income taxes; *IFRS 10: Consolidated Financial Statements* and *IAS 28: Investments in Associates and joint Ventures*.

3.6 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision makers. 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. As such, management reports operating activities for geographical information only.

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. Functional currency of the US subsidiary is the United States dollar.

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 includes 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 in the balance sheet.

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 Plant and equipment

The Company leases facilities which house its production facility, offices and warehouse facilities. Plant and equipment is 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. Cost may also include transfers from 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.

(Tabular amounts are in thousands of Canadian dollars)

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 plant and equipment in the course of construction are classified as construction-in-progress. Such items are transferred to the appropriate category of plant and equipment when it is completed and ready for intended use. 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 plant and equipment are as follows:

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

During the year ended December 31, 2018, the Company reviewed the useful lives of its production lines which includes several production machines that had different remaining useful lives. Management determined that the useful lives of certain production machines were longer than originally estimated, and as a result extended the estimated useful lives of these production machines by up to 18 years. At the time of change in the estimate, these assets had a net book value of approximately $6.0 million. The financial impact of the change in estimate was a reduction in depreciation expense of $0.7 million for the year ended December 31, 2018.

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 amount. These are included in profit or loss.

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

Plant and equipment and intangible assets with finite lives and 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. There were no indicators of impairment during the year.

3.13 Financial instruments

The Company has early adopted IFRS 9 as issued in July 2014 with a date of initial application of January 1, 2016. IFRS 9 introduces new requirements for the classification and measurement of financial assets. IFRS 9 requires all recognized financial assets to be measured at amortized cost or fair value in subsequent accounting periods following initial recognition. IFRS 9 also amends the requirements around 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

From January 1, 2016, the Company classifies its 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. 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, the construction loan 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, “fair value gains/losses on embedded option” are gains or losses on 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 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 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 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 initial recognition of the receivables.

Derivatives and Hedging Activities

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently re-measured 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. 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 intrinsic value of the options are recognised 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 recognised within OCI 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 derivatives as hedges for the risk of changes in fair value of the purchase commitment due to changes in benchmark coffee commodity prices and foreign exchange as fair value hedges, as described under Commodity Price Risk Hedges.

The Company also designates derivatives as hedges of foreign exchange risk associated with the cash flows of highly probable forecast transactions as cash flow hedges, as described under Currency Risk Hedges.

Commodity price risk hedges on 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 IntercontinentalExchange. 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 price risk hedges are re-measured 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.

Currency risk hedges on US$ purchases ("customer-specific hedges"):

The Company enters into forward contracts to buy US dollars (US$) for significant purchase commitments, such as green coffee inventory which, once decaffeinated, is sold at a fixed Canadian dollar (C$) 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 inventory to be sold at the fixed C$ amount.

At each period end, currency risk hedges on US$ purchases are re-measured to their fair value. 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 cost of sales on the consolidated statement of income.

Currency risk hedges on US$ future revenue ("revenue hedges"):

The Company enters into forward contracts to sell US$ at future dates to hedge the foreign exchange cash flow variability of expected US$ 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 re-measured 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.

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 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 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.

3.15 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.

3.16 Leases as the lessee

Leases where the lessor retains a significant portion of the risks and rewards of ownership are classified as operating leases. Payments on operating lease agreements are recognized as an expense on a straight-line basis over the lease term.

3.17 Revenue recognition

Effective January 1, 2018, Swiss Water adopted *IFRS 15* retrospectively. There was no impact on retained earnings as of January 1, 2018. The new standard is based on the principle that revenue is recognized when control of a good or service transfers to a customer – so the notion of control replaced the former notion of risks and rewards. The standard 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 sale of Swiss Water's decaffeinated coffee and from services provided to decaffeinate customer's 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 customer's geographic region as described in segmented reporting accounting policy. Also, 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.

Former revenue recognition standard

Under former standard, IAS 18, applicable before January 1, 2018, revenue was measured at the fair value of the consideration received or receivable. Revenue was reduced for estimated customer returns, rebates and other similar allowances. Revenue was recognized when all the following conditions were satisfied: (i) persuasive evidence of an arrangement exists; (ii) the goods are shipped; (iii) title has passed to the customer; (iv) the price has been substantively determined; and (v) collection is reasonably assured.

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 service 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 in the balance sheet.

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 become 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 re-measures 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 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. At December 31, 2018 management determined that the useful lives represent the expected utility of the assets to the Company.

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, and the expected costs that would be paid to a third party to remove 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 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. Details of these can be found in Note 16.

4.5 Leases

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 assessment of the likelihood of exercising options, and estimation of the fair value of the lease property at lease inception.

(Tabular amounts are in thousands of Canadian dollars)

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 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.

6. ACCOUNTS RECEIVABLE

	December 31, 2018	December 31, 2017
Accounts receivable	$ 14,313	$ 12,127
Non-current receivables	$ 235	$ 230

Accounts receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. Due to the short-term nature of current accounts receivable, their carrying amount is considered the same as their fair value. Information about the Company's exposure to foreign currency risk, interest rate risk and credit risk can be found in Note 26. The Company's accounts receivable has been reviewed for indicators of impairment. No accounts were found to be impaired and therefore no allowance for credit losses was provided as at December 31, 2018 and December 31, 2017. Non-current receivables includes a $0.1 million balance due from a related party, refer to Note 22.

7. INVENTORIES

	December 31, 2018	December 31, 2017
Raw materials	$ 6,718	$ 8,147
Finished goods	7,252	6,072
Carbon	360	397
Packaging	109	32
Hedge accounting component	(588)	23
	$ 13,851	$ 14,671

During the year ended December 31, 2018, the cost of inventories recognized in cost of sales was $68.0 million (2017: $68.0 million). The inventory provision was $0.03 million during the year (2017: $0.08 million).

(Tabular amounts are in thousands of Canadian dollars)

8. SHORT-TERM INVESTMENTS

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

9. DERIVATIVE FINANCIAL INSTRUMENTS – asset (liability)

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

	December 31, 2018	December 31, 2017
Coffee futures contracts, net	$ 495	$ 247
US Dollar forward contracts, current	(193)	(3)
US Dollar forward contracts, long term	(300)	(13)
Derivative financial liability, convertible debenture	(910)	(2,709)
	$ (908)	$ (2,478)

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

	December 31, 2018	December 31, 2017
US Dollar forward contracts, current	$ (876)	$ 1,292
US Dollar forward contracts, long term	(2,442)	(13)
	$ (3,318)	$ 1,279

10. PLANT AND EQUIPMENT

	Machinery and equipment	Leasehold improvement	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	108	22	38	7	23,948	24,123
Disposals	(61)	(8)	(2)	-	-	(71)
Transfers	234	-	45	-	(279)	-
Balance at December 31, 2018	$ 34,025	$ 5,127	$ 1,285	$ 196	$ 34,329	$ 74,962
Accumulated depreciation						
Balance at January 1, 2018	$ (23,061)	$ (3,501)	$ (862)	$ (145)	$ -	$ (27,569)
Depreciation	(981)	(298)	(139)	(11)	-	(1,429)
Disposals	61	8	2	-	-	71
Balance at December 31, 2018	$ (23,981)	(3,791)	(999)	(156)	-	(28,927)
Balance at December 31, 2018	$ 10,044	1,336	286	40	34,329	46,035
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

(Tabular amounts are in thousands of Canadian dollars)

For the year ended December 31, 2018, depreciation expense of $1.3 million (2017: $1.8 million) has been charged to cost of sales and $0.1 million (2017: $0.1 million) was included in administrative expenses. There was no impairment loss recognized for the years ended December 31, 2018 and 2017.

11. INTANGIBLE ASSETS

	PPT	Brand	Total
Cost			
Balance at January 1, 2018	$ 3,246	$ 1,000	$ 4,246
Balance at December 31, 2018	$ 3,246	$ 1,000	$ 4,246
Amortization			
Balance at January 1, 2018	$ (1,920)	$ (899)	$ (2,819)
Amortization	(241)	(19)	(260)
Balance at December 31, 2018	$ (2,161)	$ (918)	$ (3,079)
Balance at December 31, 2018	$ 1,085	$ 82	$ 1,167
Cost			
Balance at January 1, 2017	$ 3,246	$ 1,000	$ 4,246
Balance at December 31, 2017	3,246	1,000	4,246
Amortization			
Balance at January 1, 2017	$ (1,680)	$ (879)	$ (2,559)
Amortization	(240)	(20)	(260)
Balance at December 31, 2017	$ (1,920)	$ (899)	$ (2,819)
Balance at December 31, 2017	$ 1,326	$ 101	$ 1,427

For the year ended December 31, 2018, amortization expense of $0.2 million (2017: $0.2 million) relating to proprietary process technology ("PPT") has been charged to cost of sales and $0.02 million (2017: $0.02 million) relating to Brand was included in administrative expenses. There was no impairment loss recognized for the years ended December 31, 2018 and 2017.

12. INCOME TAXES

Income tax expense

	December 31, 2018	December 31, 2017
Current income tax expense	$ 1,103	$ 890
Deferred tax expense	586	716
Total income tax expense	$ 1,689	$ 1,606

For the year ended December 31, 2018, tax recovery on other comprehensive income related to hedging activities was $1.5 million (2017: $0.4 million expense).

Reconciliation

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

(Tabular amounts are in thousands of Canadian dollars)

	December 31, 2018	December 31, 2017
Statutory rate	27%	26%
Income before tax	$ 6,220	$ 5,766
Income tax calculated at applicable tax rates	$ 1,679	$ 1,503
Non-deductible expenses	18	109
Foreign tax rate differential	(8)	(6)
Income tax expense	$ 1,689	$ 1,606

Current income tax payable

As at December 31, 2018 income tax payable was $0.8 million (2017: $0.1 million).

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	Share and debt issue costs and other	Property plant and equipment	ARO	Share based compensation	Derivative liability and convertible debenture	Other comprehensive income	Tax Losses	Total
Balance at January 1, 2017	$ 679	$ 433	$ (2,626)	$ 207	$ 376	$ (123)	$ (147)	$ 362	**$ (839)**
To income tax expense	13	(208)	(97)	10	(204)	(48)	(385)	(184)	**(1,103)**
Balance at December 31, 2017	**$ 692**	**$ 225**	**$ (2,723)**	**$ 217**	**$ 172**	**$ (171)**	**$ (532)**	**$ 178**	**$ (1,942)**
Balance at January 1, 2018	$ 692	$ 225	$ (2,723)	$ 217	$ 172	$ (171)	$ (532)	$ 178	**$ (1,942)**
To income tax expense	(9)	(88)	(54)	-	(16)	(408)	1,461	(12)	**$ 874**
Balance at December 31, 2018	**$ 683**	**$ 137**	**$ (2,777)**	**$ 217**	**$ 156**	**$ (579)**	**$ 929**	**$ 166**	**$ (1,068)**

During the year ended December 31, 2018, the Company collected $0.4 million related to Canadian Scientific Research and Experimental Development, a Canadian Government tax incentive program and it is included in the Administrative expenses.

Swiss Water has no non-capital tax losses carry forwards as the end of December 31, 2018, while Seaforth has non-capital tax loss carry forwards of $0.6 million that begin to expire in 2033.

13. CREDIT FACILITIES

The Company had no outstanding credit facility debt as at December 31, 2018 or December 31, 2017. As at December 31, 2018, the company had the following credit facilities:

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$ 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 December 31, 2018, the Company was in compliance with its debt covenants and had not made use of any of its credit facilities.

14. OTHER LIABILITIES

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

	December 31, 2018	December 31, 2017
Other liabilities, current	$ 473	$ 591
Other liabilities, non-current	105	45
	$ 578	$ 636

15. CONSTRUCTION LOAN

Landlord 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 a production plant. The landlord agreed to finance a portion of the construction costs, by means of a construction loan with repayments commencing on the earlier of substantial completion of construction and January 1, 2019.

As at December 31, 2017 the Company accrued $0.8 million for the construction loan. During the year ended December 31, 2018 the Company accrued additional construction costs and then repaid the construction loan and interest in the amount of $6.1 million and $0.1 million respectively. The interest was capitalized as it is in the construction phase.

Business Development Bank (BDC) Loan

During the year ended December 31, 2018, the Company entered into a term loan facility with the Business Development Bank of Canada ("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 facility being built in Delta, British Columbia. The Term Loan bears interest at 4.95% per annum over twelve years with monthly principal repayment commencing on September 1, 2020. The Term Loan matures on August 1, 2032. Interest only will be paid on the outstanding balance on a monthly basis prior to September 1, 2020. The Term loan is 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 Term Loan. Seaforth has provided a guarantee for the Term Loan. As of December 31, 2018, the loan amount outstanding was $9.4 million with interest accrued of $0.02 million. The interest has been capitalized during the construction phase.

16. CONVERTIBLE DEBENTURE

On October 11, 2016, the Company issued an unsecured subordinated convertible debenture for gross proceeds of $15.0 million. 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.

(Tabular amounts are in thousands of Canadian dollars)

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 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.

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.

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.

	December 31, 2018	December 31, 2017
Balance, open	$ 11,658	$ 11,283
Interest charged	1,452	1,403
Interest paid	(1,028)	(1,028)
Balance, end	$ 12,082	$ 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 December 31, 2018, the derivative liabilities include the fair value of the derivative liability related to a convertible debenture in the amount of $0.9 million (2017: $2.7 million). During the year ended December 31, 2018, this revaluation resulted in a gain being recorded in the statement of income in the amount $1.8 million (2017: gain of $0.6 million).

	December 31, 2018	December 31, 2017
Balance, open	$ 2,709	$ 3,313
Change in fair valuation of derivative embedded option	(1,799)	(604)
Balance, end	$ 910	$ 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:

	December 31, 2018	December 31, 2017
Share price	$ 4.97	$ 6.70
Exercise price	$ 8.25	$ 8.25
Option life	4.78 years	5.79 years
Volatility	37%	40%
Risk-free interest rate	1.88%	1.90%
Dividend yield	5.03%	3.73%

(Tabular amounts are in thousands of Canadian dollars)

17. ASSET RETIREMENT OBLIGATION ("ARO")

The Company estimates the total undiscounted amount of any cash flows required to settle its ARO is approximately $0.9 million, which will be incurred on or about the expiry of the third lease renewal term in 2023. As at December 31, 2018, the Company has a long-term liability ARO of $0.8 million (2017: $0.8 million), reflecting the present value of the ARO using a credit adjusted risk free rate of 1.90%.

18. 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.

As of December 31, 2018, there were 9,061,210 (2017: 9,038,862), common shares issued and outstanding.

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. The maximum number of common shares available for issue under the RSU Plan is 333,760, being 5% of the issued and outstanding common shares of the Company when it was approved by shareholders in the year 2011. These 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. Each award is increased by the value of dividends paid to shareholders during the vesting period, using a formula which uses the higher of the then-current share price or $3.20.

The movement in RSUs for the years ended December 31, 2018 and 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	No
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	2.15	No
RSUs issued for dividends	4,891	$ 6.08	1.75	No
RSUs cash-settled	(28,304)	$ 7.04	-	
RSUs exercised	(22,348)	$ 7.04	-	
RSUs forfeited	(23,288)	$ 6.25	-	No
Balance at December 31, 2018	**122,734**	**$ 5.01**	**1.83**	

(Tabular amounts are in thousands of Canadian dollars)

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 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 rate whenever dividends are paid to shareholders.

The movement in DSUs for the years ended December 31, 2018 and 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	24,665	$	6.23	No
Balance at December 31, 2018	**95,239**	**$**	**4.97**	

19. DIVIDENDS

For the year ended December 31, 2018, the Company declared quarterly eligible dividends to shareholders totaling $2.3 million or $0.25 per share (2017: $2.3 million or $0.25 per share) of which, $0.6 million was payable at December 31, 2018 (2017: $0.6 million).

20. REVENUE

Disaggregation of revenue

Revenue disaggregated by geographical markets is disclosed in Note 24. The Company also disaggregates revenue by major products and services: decaffeinated coffee sales, decaffeination services, and distribution with the following results for the year ended December 31, 2018:

(Tabular amounts are in thousands of Canadian dollars)

	December 31, 2018	December 31, 2017
Decaffeinated coffee sales	$ 78,974	$ 73,962
Decaffeination services	5,117	4,995
Distribution	5,848	4,798
	$ 89,939	$ 83,755

Contract balances

As at December 31, 2018 accounts receivable balance of $14.3 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.

21. EMPLOYEE BENEFITS EXPENSES

Expenses recognized for employee benefits are detailed below:

	December 31, 2018	December 31, 2017
Short-term benefits	$ 8,528	$ 6,965
Long-term benefits	254	220
Post-employment benefits	701	680
	$ 9,483	$ 7,865

Short-term benefits are comprised 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.

22. 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 the Nature of Business note) are discussed below. All intercompany transactions, balances, income and expenses are eliminated on consolidation.

Compensation of Key Management Personnel

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

	December 31, 2018	December 31, 2017
Short-term benefits	$ 1,725	$ 1,395
Long-term benefits	207	173
Post-employment benefits	71	58
	$ 2,003	$ 1,626

(Tabular amounts are in thousands of Canadian dollars)

Promissory note

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.

Trading transactions

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

	December 31, 2018	December 31, 2017
Sales	$ 393	$ 303
Purchases of raw materials	$ 5,957	$ 6,934

As at the balance sheet date, the Company had the following balances receivable from and payable to a company that is related to director:

	December 31, 2018	December 31, 2017
Accounts receivable	$ 5	$ 15
Accounts payable	$ 310	$ -

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 both parties.

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

	December 31, 2018	December 31, 2017
Basic EPS		
Net income attributable to shareholders	$ 4,531	$ 4,160
Weighted average number of shares	9,058,149	9,038,862
Basic EPS	**$ 0.50**	**$ 0.46**

	December 31, 2018	December 31, 2017
Diluted EPS		
Net income attributable to shareholders	$ 4,531	$ 4,160
Interest on convertible debenture	1,063	1,035
Gain on fair value adjustment of embedded option	(1,799)	(604)
Net income after effect of diluted securities	$ 3,795	$ 4,591
Weighted average number of shares - basic	9,058,149	9,038,862
Effect of diluted securities: convertible debenture	1,818,182	1,818,182
Weighted average number of shares - diluted	10,876,331	10,857,044
Diluted EPS	**$ 0.35**	**$ 0.42**

(Tabular amounts are in thousands of Canadian dollars)

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:

	December 31, 2018	December 31, 2017
Weighted average number of RSUs granted	95,437	46,556

24. SEGMENT REPORTING

The Company's sales are primarily generated by the decaffeination of green coffee segment and in three geographic areas: Canada, United States and other international markets. The Company's revenue from external customers and its non-current assets (not including deferred tax assets), by location, are detailed below.

Revenues

	December 31, 2018	December 31, 2017
Canada	$ 32,217	$ 35,103
United States	45,558	38,808
International and other	12,164	9,844
	$ 89,939	$ 83,755

Non-Current Assets

	December 31, 2018	December 31, 2017
Canada	$ 47,334	$ 25,663
United States	103	75
	$ 47,437	$ 25,738

25. SUPPLEMENTAL CASH FLOW INFORMATION

Cash and cash equivalents comprise cash on hand together with short-term investments. These investments consist of highly rated and liquid money market instruments with original maturities of three months or less.

	December 31, 2018	December 31, 2017
Cash	$ 8,336	$ 1,801
Cash equivalents	-	7,685
	$ 8,336	$ 9,486

(Tabular amounts are in thousands of Canadian dollars)

Changes in non-cash working capital.

		December 31, 2018		December 31, 2017
Accounts receivable	$	(2,160)	$	(420)
Inventories		1,433		(3,097)
Other assets and liabilities		6		(238)
Prepaid expenses and other receivables		(322)		(653)
Accounts payable and accrued liabilities		1,535		927
Derivative assets and liabilities at fair value through profit or loss		(1,215)		(180)
	$	(723)	$	(3,661)

During the year ended December 31, 2017, the Company funded $0.8 million in construction costs with a construction loan which did not require the use of the Company's cash or cash equivalents. During the year ended December 31, 2018, the Company incurred additional such construction costs and repaid the loan in full in the amount of $6.1 million. As at December 31, 2018, $3.7 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.

26. 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.

26.1 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 IntercontinentalExchange in order to offset its inventory position and fix the input cost of green coffee. As at December 31, 2018, the Company had futures contracts to buy 4.5 million lbs of green coffee with a notional value of US$4.7 million, and contracts to sell 4.7 million lbs of green coffee with a notional value of US$4.7 million. The furthest contract matures in 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).

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

(Tabular amounts are in thousands of Canadian dollars)

Carrying amount of hedging instruments	**December 31, 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)	$ 10	$ 2,804
Line item in the statement of financial position where hedging instrument is located	Derivative Assets	Derivative Assets
Assets	$ 495	$ 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	**December 31, 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)	245	2,285
Line items in the statement of financial position where hedged item is located	Inventories & hedged firm commitments	Inventories & hedged firm commitments
Assets	$ 614	$ 28
Liabilities	791	128
Changes in fair value used for calculating hedge ineffectiveness	-	-

26.2 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 December 31, 2018, the Company had forward currency contracts to buy US$6.6 million and sell US$65.0 million (2017: buy US$7.2 million and sell US$46.2 million) from January 2019 through to April 2023 at various Canadian exchange rates ranging from $1.2147 to $1.3820.

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

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

As at December 31, 2018, the Company designated as hedging instruments US$6.6 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	December 31, 2018	December 31, 2017
Fair value hedge	Foreign currency purchase forwards	Foreign currency purchase forwards
Nominal amount of hedging instruments (in US$'000)	$ 6,593	$ 6,962
Line item in the statement of financial position where hedging instrument is located	Derivative Assets	Derivative liabilities
Assets	$ 385	$ -
Liabilities	-	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	December 31, 2018	December 31, 2017
Fair value hedge	Firm purchase commitments & inventories	Firm purchase commitments & inventories
Nominal amount of hedged item (in US$'000)	$ 6,593	$ 6,962
Line item in the statement of financial position where hedged item is located	Inventories & hedged firm commitments	Inventories & hedged firm commitments
Assets	-	380
Liabilities	404	-
Changes in fair value used for calculating hedge ineffectiveness	-	-

Currency risk on hedge on US$ future revenue

As at December 31, 2018, the Company designated as hedging instruments US$47.1 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	December 31, 2018	December 31, 2017
Cashflow hedge	Currency risk Foreign currency forwards	Currency risk Foreign currency forwards
Nominal amount of hedging instruments (in US$'000)	$ 47,111	$ 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	4	1,292
Liabilities	3,322	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	December 31, 2018	December 31, 2017
Cashflow hedge	Currency risk Foreign currency forwards	Currency risk Foreign currency forwards
Nominal amount of hedged item (in US$'000)	47,111	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	(3,496)	1,969

(Tabular amounts are in thousands of Canadian dollars)

26.3 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 believes that interest rate risk is low as all cash equivalents and short-term investments are made in fixed rate instruments. The Company does have some interest rate risk related to its credit facilities; however, the obligations are small enough that any exposure is not material at this time. There is no interest rate risk on the convertible debenture and construction loan as the interest rates are fixed.

26.4 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 year ended December 31, 2018, revenues from three major customers of $32.0 million (2017: $29.0 million) represented 36% (2017: 35%) of total revenues for the year. These same three customers represented 43% of total accounts receivable as at December 31, 2018 (2017: 47%).

The Company had 19% of its accounts receivable past due but not impaired as at December 31, 2018 (December 31, 2017: 16%). Of the past due accounts receivable, 91% are 1-30 days past due (December 31, 2017: 83%), while 9% 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.

26.5 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. The Company has maintained compliance with its banking covenants and remains able to satisfy its liabilities as they become due. Non-derivative financial liabilities are as follows:

	Carrying Amount	Contractual Cash Flows			
	December 31, 2018	2019	2020 to 2021	2022 to 2023	Thereafter
Accounts payable	$ 6,558	$ 6,558	$ -	$ -	$ -
Other liabilities	578	473	105	-	-
Construction loan	9,400	-	1,044	1,567	6,789
Convertible debenture	12,082	-	-	-	15,000
Total	$ 28,618	$ 7,031	$ 1,149	$ 1,567	$ 21,789

26.6 Fair value of financial instruments

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

(Tabular amounts are in thousands of Canadian dollars)

	December 31, 2018	Level 1	Level 2	Level 3
Financial assets				
Cash, cash equivalents and short-term investments	$ 8,336	$ 8,336	$ -	$ -
Derivative assets	883	495	388	-
	$ 9,219	$ 8,831	$ 388	$ -
Financial liabilities				
Derivative liabilities	$ 5,109	$ -	$ 5,109	$ -
Other liabilities	578	-	578	-
	$ 5,687	$ -	$ 5,687	$ -
	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	$ -

27. COMMITMENTS

27.1 Operating lease commitments

Swiss Water leases a facility which houses its decaffeination plant and offices. The lease expires in May 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 in March 2020.

A summary of future minimum payments under these operating leases as at December 31, 2018 is as follows:

Minimum lease payments due:	
No later than 1 year	$ 1,524
Later than 1 year and no later than 5 years	1,429
	$ 2,953

27.2 Other operating lease commitment

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 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. A summary of future minimum payments under this lease as at December 31, 2018 is as follows:

(Tabular amounts are in thousands of Canadian dollars)

Minimum lease payments due:		
No later than 1 year	$	1,178
Later than 1 year and no later than 5 years		4,320
	$	5,498

27.3 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 December 31, 2018, these contracts related to the purchase of green coffee in the amount of $37.6 million (2017: $33.0 million), and natural gas purchase commitments in the amount of $0.1 million (2017: $0.2 million). $37.7 million (2017: $32.9 million) of these contracts will become payable within twelve months from December 31, 2018. Also, as at December 31, 2018 the Company's capital commitments for the new facility's plant and equipment were $2.4 million (2017: $16.0 million).

28. SUBSEQUENT EVENTS

On January 15, 2019, the Company paid an eligible dividend in the amount of $0.6 million ($0.0625 per share) to shareholders of record on December 31, 2018.

On January 22, 2019, the Company incorporated a subsidiary in France, Swiss Water Decaffeinated Coffee Europe SARL.

On February 21, 2019, the Company granted 98,000 RSUs pursuant to the Restricted Share Unit Plan.

On March 11, 2019, the Company declared an eligible dividend of $0.0625 per share, to be paid on April 15, 2019 to shareholders of record on March 29, 2019.

Subsequent to year end, Seaforth entered into an agreement to lease a warehouse facility in British Columbia. The term of the lease is eight years and three months starting April 1, 2019. Minimum payments over the term of the lease with renewal options are $9.7 million.