MANAGEMENT DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") of Swiss Water Decaffeinated Coffee Inc. ("Swiss Water" or the "Company"), dated as of August 6, 2020, provides a review of the financial results for the three and six months ended June 30, 2020 relative to the comparable period of 2019. The three month period represents the second quarter ("Q2") of our 2020 fiscal year. This MD&A should be read in conjunction with Swiss Water's condensed consolidated interim financial statements for the three and six months ended June 30, 2020, the audited consolidated financial statements for the year ended December 31, 2019 and the Annual Information Form, which are available on www.sedar.com.

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

FORWARD-LOOKING STATEMENTS

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

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

EXECUTIVE SUMMARY

For the three and six months ended June 30, 2020, Swiss Water's gross profit, operating income, net income and EBITDA all increased from the comparable year ago period. The Company's revenue increased in Q2 and remained consistent year-to-date. The Company recorded strong volumes in the quarter considering the onset of the COVID-19 pandemic with volume only off 2% versus Q2 2019. Volume year to date declined by 9%. In the first quarter 2020, Swiss Water volumes were negatively affected by an increase in commodity futures prices for coffee in late 2019 and through the first quarter. The New York 'C' ("NY'C'") Arabica Futures Contract moved to a peak of 45% above the 2019 average during December 2019. Volumes remained strong through Q4 2019 but began to weaken markedly in the first quarter of 2020, as has been the case with previous NY'C' spikes. The average NY'C' for January to November 2019 was approximately US$0.98. The NY'C' peaked in December at US$1.45. In Q1 2020 many customers slowed purchases while awaiting for the NY'C' to soften because they had good physical coverage and could work their inventories down. Entering the second quarter the NY'C' retreated back to US$1.20 and, by the end of the quarter, was tracking at US$1.00/lb.

Despite the NY'C' futures price receding in the first quarter, the emergence of the COVID-19 pandemic in March 2020 has negatively affected demand for Swiss Water's decaffeination services. However, when looking at the first half of 2020, volumes have been much more resilient than we initially anticipated. The primary impact experienced has been a change in customer mix. At the beginning of the pandemic, the Company experienced strong volume demands from those customers that supply the retail grocery trade. Consumer hoarding and pantry loading created a short term demand peak. Over the course of the second quarter grocery demand slowed, although still finished stronger than forecast. As expected, weakness in the specialty market persisted, as purchases from shuttered Out-of-Home specialty coffee shops recover slowly, with food service establishments remaining closed for much of the second quarter.

Swiss Water is currently well positioned with green coffee inventory and will be able to support short term demand increases as trading conditions normalize. Swiss Water remains in close contact with its customers, however, it is clear that many of the Company's food service partners remain cautious regarding when widespread re-opening of their outlets will occur.

In $000s except per share amounts (unaudited)	3 months ended June 30		6 months ended June 30	
	2020	2019	2020	2019
Sales	$ 26,380	$ 24,392	$ 48,197	$ 48,562
Gross profit	5,154	4,106	9,360	7,651
Operating income	2,370	1,356	4,405	2,332
Net income	1,716	1,353	3,163	1,344
EBITDA[1]	3,194	3,097	5,834	5,409
EBITDA excluding IFRS 16-Leases[2]	2,536	2,278	4,518	3,850
Net income per share – basic[3]	$ 0.19	$ 0.15	$ 0.35	$ 0.15
Net income per share – diluted[3]	$ 0.19	$ 0.14	$ 0.21	$ 0.15

[1] EBITDA is defined in the 'Non-IFRS Measures' section of this MD&A and is a "Non-GAAP Financial Measure" as defined by CSA Staff Notice 52-306.
[2] EBITDA excluding the impact of IFRS 16 - Leases is defined as EBITDA, less lease payments made during the year.
[3] Per-share calculations are based on the weighted average number of shares outstanding during the periods.

Operational highlights

- Total shipped volumes in the second quarter and the first half of the year declined by 2% and 9%, respectively compared to the same periods in 2019. For the last 12 quarters prior to the pandemic in Q1 2020, we consistently continued to win new business as coffee industry participants migrated away from chemical decaffeination processes. Although we have been impacted by the pandemic, it has been less than we originally anticipated and in Q2, we had good recoveries in volumes which increased 24% over Q1 2020.
- Our largest geographical market by volume in Q2 of 2020 continued to be the United States, followed by Canada, Europe and other international markets. By dollar value, for the six months period ended June 30, 2020, 52% of our sales were to customers in the United States, 27% were to Canada, and the remaining 21% were to other countries. Our international business continues to expand and we anticipate revenues from our European and Asia Pacific markets will increase in both dollar and percentage terms.
- The Company's operations have been deemed essential services, and as such, we have maintained our best efforts to supply decaffeinated coffee to food manufacturers and retailers who are supporting consumers around the world. During these unprecedented times, Swiss Water has remained committed to continuing our decaffeination process and operations, while prioritizing safety for our customers, vendors and employees. To protect our stakeholders we have implemented best health practices and social distancing in our factory, warehouses and offices as recommended by appropriate health authorities.
- The commissioning of the initial production line at the Company's new facility in Delta, BC was complete in mid-July after some temporary delays in getting equipment and technical personnel across the US/Canada border during the early stages of the pandemic. The Company is currently creating green coffee extract, the initial step of production prior to bringing customer product into the facility for processing, estimated to be in August or September.

Financial highlights

- Quarterly revenue increased by 8% over Q2 2019 to $26.4 million, and six-month revenue remained relatively flat, decreasing by 1% to $48.2 million. Revenues have remained strong, despite the decline in volumes, because of the positive impact of customer mix, increasing coffee differentials, and a higher average US dollar ("US$") exchange rate.
- Gross profit for Q2 of this year was $5.2 million, an increase of $1.0 million over Q2 2019. For the first half of 2020, gross profit increased by $1.7 million to $9.4 million. Our Q2 2020 gross profit has benefited from a higher proportion of Regular volumes in our sales mix, strong differential margin gains, improved supply chain efficiencies including consolidating our Seaforth warehouses, and lower natural gas costs. These enhancements were diluted by higher labour costs and a decrease in shipped volumes during the first half of 2020.
- Operating expenses for the second quarter of 2020 remained relatively flat at $2.8 million compared to Q2 2019. For the first half of 2020, operating expenses decreased by 7% to $5.0 million compared to the same period in 2019. Operating expenses have fallen during the first half of 2020 due to the impact of lower than expected travel and recruitment fees. However, the biggest driver of the reduction was a recovery of stock based compensation costs. The recovery was reported in Q1 2020 and was generated by a reduction in the Company's share price. We continue to pursue margin improvements across our

operations and are also focused on seeking variable and fixed cost reduction opportunities without sacrificing the quality of our product.

- Operating income increased by 75% to $2.4 million in the second quarter and by 89% to $4.4 million for the first half of 2020, compared to the same periods last year.
- Second quarter net income was $1.7 million compared to $1.4 million in Q2 2019. Year-to-date net income was $3.2 million, compared to $1.3 million in the same period of 2019. This year's improved gross profit combined with decreases in both operating and non-operating expenses have driven the increase in net income. The non-operating expense gains were driven by a significant gain on the revaluation of an embedded derivative given a lower share price and offset by a slight loss on risk management activities.
- EBITDA increased by $0.1 million, or 3%, to $3.2 million in the second quarter and by $0.4 million, or 7%, to $5.8 million for the first half of 2020, compared to the same periods in 2019. EBITDA, excluding the impact of IFRS 16, increased by $0.3 million, or 11%, to $2.5 million in Q2 of 2020 and by $0.7 million, or 17%, to $4.5 million for the first half of 2020, compared to the same periods in 2019. This improvement was generated by revenue growth, short term green coffee differential margin improvements, lower natural gas costs, strong control of operating expenses and an increased financial contribution from Seaforth, our supply chain subsidiary.

OUTLOOK

The Company is limiting guidance for the 2020 fiscal year due to the uncertainty of the effect of the COVID-19 pandemic. Towards the beginning of the pandemic, the Company was experiencing strong short term volume pull from customers that service the retail grocery trade. Retail grocery supplies the At Home coffee market. Due to personal quarantining and concurrent pantry loading during the COVID-19 pandemic the grocery channel is experiencing a strong resurgence. We expect the At Home coffee market to level off following a heavy consumer pantry load immediately after the COVID-19 outbreak. The Out Of Home coffee market is a much more susceptible channel to serious disruptions from the world wide food service shut down during the pandemic. Despite the turbulence created by COVID-19, some coffee outlets have stayed open to service take-away customers, and others have good drive-through services available. In May and June, many countries lifted their lockdowns; however, some regions have started to experience a second wave of COVID-19 (increased number of confirmed cases) and some countries and states in the USA, which is our largest geographical segment, have re-initiated lockdown. Given the uncertainty on the timing of when a vaccine will be developed, the Company cannot reliably predict the ultimate impact of the COVID-19 pandemic on the Out of Home coffee market. There is a risk that Swiss Water will report an overall volume decline in 2020, however, we are cautiously optimistic that, after a stronger than expected Q2, our volumes have shown good resiliency and may recover faster than we originally anticipated following the sharp drop in Q1 2020.

Operationally, Swiss Water has continued to run both Burnaby production lines on a 24/7 basis in addition to finishing the commissioning of the Delta line. Both Swiss Water and Seaforth have stayed open and fully resourced to supply customers since the beginning of the pandemic. The Company has taken precautions within each of its operating sites to ensure appropriate personal protective equipment has been available to employees and contractors, and that ongoing deep cleans by internal and third party suppliers have been performed with increased frequency. The Company initiated a brief shutdown of one of our operating lines to mitigate the possible risk of a province-wide work stoppage occurring during the early stages of the pandemic. However, during this period, the Company took the opportunity to complete scheduled maintenance on this line, and it is now once again up and running.

The Delta line has entered its initial phases of coffee decaffeination with the testing and commissioning of all systems substantially complete. We anticipate ramping up production in Delta over the coming months and will initiate the depreciation of these assets during the third quarter.

In Q2 2020, the landlord of our Burnaby manufacturing site provided a formal notice to the Company that our lease would not be extended beyond June 2023. Accordingly, we have initiated planning for the construction of an additional production facility, including a second production line, at our Delta location. An additional production line is required to ensure the capacity to process expected volume upon the conclusion of our Burnaby lease and to provide additional capacity for intermediate term growth. Based on current engineering, the targeted endpoint capacity of two lines at our Delta location would be at least 40% greater than the current existing capacity of the two lines at our Burnaby site.

The preliminary cost estimate from our third-party engineering firm for the design and construction of a new production facility in Delta is approximately $45.0 million plus commissioning costs, which are expected to be approximately $2.0 million. These estimates are preliminary and like all major design and construction projects are highly dependent on local and global economic factors impacting construction, including without limitation changes in labour, commodity and materials pricing, trade policies, and supply chain issues. In addition, the continuing impact of the worldwide COVID-19 pandemic is unknown and could impact the timing and costs of the proposed project. The Company is in the process of formulating financing plans for the project.

BUSINESS OVERVIEW

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

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

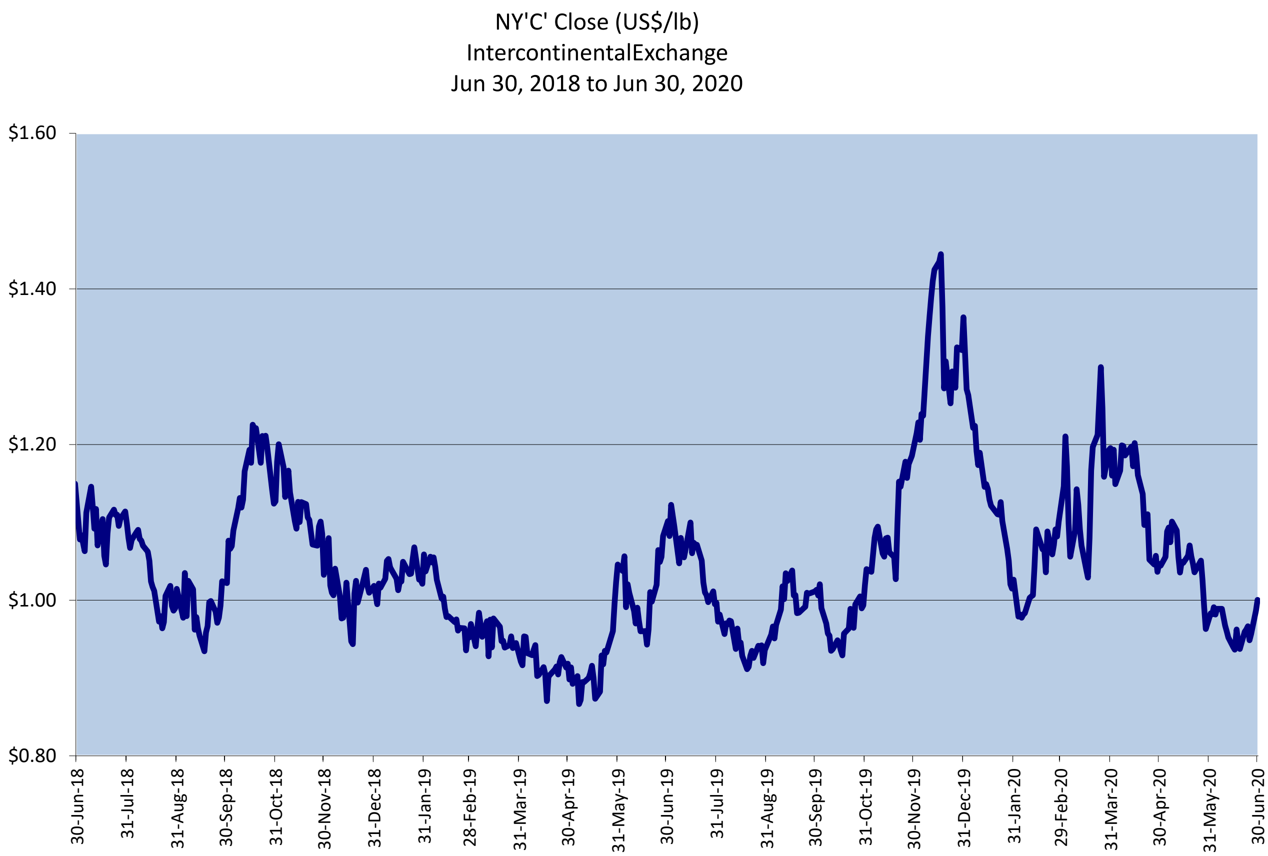
Swiss Water's shares trade on the Toronto Stock Exchange under the symbol 'SWP'. As at the date of this report, 9,078,780 shares were issued and outstanding.

Swiss Water Decaffeinated Coffee Company's Business

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

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

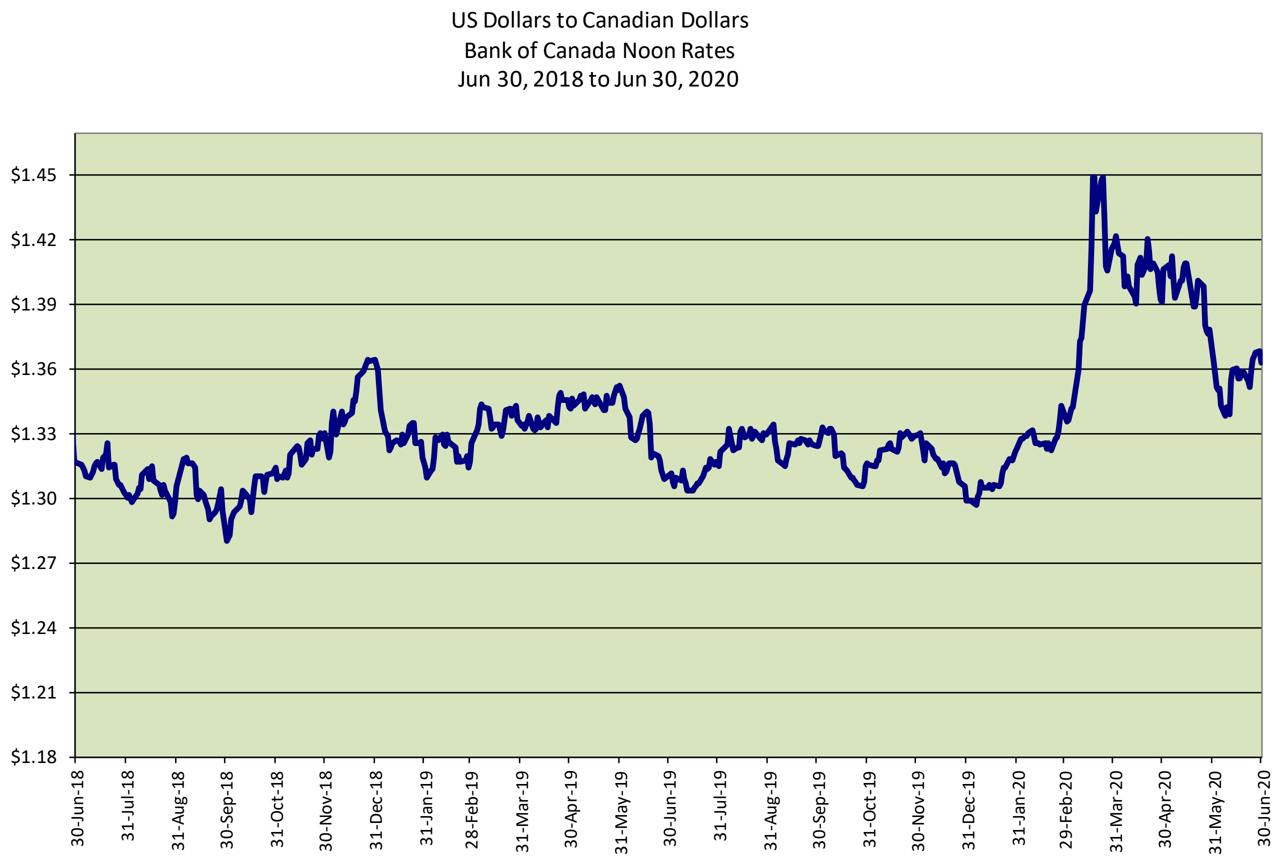
Our cost of sales is comprised primarily of the cost of green coffee purchased for our regular business, plant labour and other processing costs directly associated with our production facility. This incorporates an allocation of fixed overhead costs, which includes depreciation of our production equipment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



In Q2 2020, the NY'C' averaged US$1.0503/lbs compared to an average of US$0.95/lbs in Q2 2019. The rise and fall of the NY'C' affects our volume of shipments, our revenues and our cost of sales. In an upward trending market, our customers tend to consume their inventories rather than build them. When the NY'C' declines over a sustained period, our customers tend to add to their inventories and vice versa.

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

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



In Q2 2020, the US$ averaged C$1.3853, an increase of 4% over the same period in 2019. When the US$ depreciates (appreciates), it decreases (increases) our gross profit on green coffee revenues.

OPERATING RESULTS

Revenue

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

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

In $000s (unaudited)	3 months ended June 30 2020	 2019	6 months ended June 30 2020	 2019
Process revenue	$ 6,990	$ 6,887	$ 12,740	$ 13,347
Green revenue	17,516	15,60	31,921	31,478
Distribution revenue	1,874	1,896	3,536	3,737
Total revenue	$ 26,380	$ 24,39	$ 48,197	$ 48,562

For the quarter ended June 30, 2020, sales totalled $26.4 million, an increase of $2.0 million, or 8%, compared to the same quarter in 2019 driven by the impact of an increase in the New York Arabica Futures market. Sales for the first six months of 2020 totalled $48.2 million, a decrease of $0.4 million, or 1%, over the same period last year.

Our sales in the second quarter and first half of 2020 by revenue category are as follows:

- Process revenue remained flat at $7.0 million even though our processing volumes declined by 2%. Year-to-date process revenue declined by $0.6 million or 5% to $12.7 million which is represented by a decrease in year-to-date volumes of 9%.
- Green revenue increased by $1.9 million, or 12% in Q2 2020 to $17.5 million in Q2 2020 and by $0.4 million of 1% to $31.9 million in the first half of 2020. The increase was driven by a sustained increase in coffee quality differentials in relationship to our existing inventory generating a positive short term gain.
- Distribution revenue remained flat at $1.9 million in Q2 2020 and was slightly lower by $0.2 million, or 5% in the first six months of 2020. Decreased distribution revenue has been driven by lower shipment volumes and some disruption in the supply chain driven by COVID-19.

Sales volumes by geographical segments have been negatively impacted by the appreciation of coffee futures prices through Q1 2020, and later by the uncertainty generated by the COVID-19 pandemic in Q2 2020. Sales volumes in the second quarter of 2020 by geographical segment are as follows:

- Sales volume in North America decreased by 2% in Q2 2020 and by 10% in the first half of the year.
- Sales volume in Europe decreased by 18% in Q2 2020 and by 22% in the first half of the year.
- Sales volume in the Asia Pacific increased by 8% in Q2 2020 and by 7% in the first half of the year.

Cost of Sales

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

Our second quarter cost of sales increased by $0.9 million, or 5%, to $21.2 million compared to the same period in 2019, driven by an increase in the cost of green coffee. Cost of sales decreased by $2.1 million, or 5% to $38.8 million in the first half of 2020. The decrease in the first six months of 2020 is reflective of the decrease in business activities during this period. The decrease was also caused by lower variable production costs driven by the decline in sales volumes and lower natural gas prices. These were partially offset by an increase in annual labour cost inflation.

Gross Profit

Gross profit increased by $1.0 million or 26% to $5.2 million for the second quarter of 2020 and by $1.7 million or 22% for the first half of the year as a result of lower costs and higher revenues. These positive results were positively impacted by revenue growth, short term differential margin gains, improved supply chain efficiencies including consolidating our Seaforth warehouses, and lower natural gas costs.

Administration Expenses

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

Administration expenses for the quarter increased slightly to $2.0 million or 3% and for the first six months of the year, decreased to $3.0 million or 19%. The decrease is largely due to cost recovery of share based compensation, which is based on estimates using the Black Scholes model, with inputs from the Company's share price, and risk free interest rates. During this year's quarter, the Company's share price and the risk free interest rate dropped. It resulted in an estimated stock based compensation cost recovery whereas, in the prior year's quarter, we recorded an expense. Administration expenses were also lower due to reduced travel costs and less recruiting activities.

Sales and Marketing Expenses

Sales and marketing expenses include compensation and other personnel-related expenses for sales and marketing staff, consumer and trade advertising and promotion costs, as well as related travel expenses.

Sales and marketing expenses remained flat at $0.8 million for the quarter and increased by $0.3 million or 17% to $1.9 million compared to the same period in 2019. The increase was driven by phasing changes in advertising and marketing campaign activities.

Occupancy Expenses

Occupancy expenses include the cost of renting offices for sales, marketing and administrative use. Occupancy costs for the first quarter were largely unchanged from the prior year.

Finance Expenses and Income

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

Net finance expenses for the second quarter of 2020 decreased by 17% to $0.5 million compared to the same period in 2019. Net finance expenses remained flat at $1.0 million for the first half of 2020. The interest expenses on a convertible debenture, credit facility and on finance leases, due to the adoption of IFRS 16 in 2019, accounted for the majority of the change.

Interest on the convertible debenture is expensed at an effective interest rate of 12.15% (a rate determined by management in accordance with IFRS), while the contractual interest paid on this loan is at a rate of 6.85%, causing the amortization of the bond discount to change over time.

The adoption of IFRS 16 Leases in 2019 resulted in interest expenses of $0.1 million in the Q2 2020 compared to $0.3 million in the same period of last year. During the six months ended June 30, 2020, interest expenses related to IFRS 16 Leases was $0.3 million compared to $0.6 million in the same period in 2019.

During the construction phase of our Delta facility, interest expense related to the construction loan and related lease liability is capitalized in property plant and equipment.

Gains and Losses on Risk Management Activities

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

For the three months ended June 30, 2020 we recorded a slight gain of $0.03 million compared to gains of $0.7 million for the same period in 2019, For the six months ended June 30, 2020 we recorded a loss of $0.2 million compared to gains of $1.2 million for the same period in 2019, these gains and losses correspond with fluctuations in the foreign exchange rates and the coffee prices on NY'C'.

Fair Value Adjustment on Embedded Option

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

The revaluation on this embedded option resulted in a loss of $0.1 million and a gain of $1.4 million in the second quarter and first half of 2020, respectively, compared to a gain of $0.2 million and a loss of $0.6 million, respectively, in the same periods of last year.

Gains and Losses on Foreign Exchange

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

During the second quarter of 2020, we recorded a gain on foreign exchange of $0.4 million, compared to a gain of $0.1 million in the same period last year. In the first half of the year, we recorded a loss on foreign exchange of $0.3 million, compared to a loss of $0.2 million in the same period last year.

Income before Taxes and Net Income

In the second quarter and first half of 2020, we recorded income before taxes of $2.2 million and $4.3 million, respectively, compared to $1.7 million and $1.8 million in the comparable periods in 2019. Current and deferred income tax expenses decreased our net income by $0.5 million for the quarter, compared to a net income tax expense of $0.4 million in Q2 2019. For the six months ended June 30, 2020 and 2019, income taxes reduced our net income by $1.1 million and $0.4 million respectively. Deferred income taxes arise mainly from temporary differences between the depreciation and amortization expenses deducted for accounting purposes, and the capital cost allowances deducted for tax purposes, as well as changes in corporate income tax rates as adjusted for substantively enacted higher future tax rates. The latter are offset by the tax benefit of loss carryforwards recognized. Overall, we recorded a net income of $1.7 million in Q2 2020 and $3.2 million for the first half of 2020, compared to a net income of $1.4 million and $1.3 million respectively in the same periods last year.

Other Comprehensive Income

Gains or losses on our designated revenue hedges that will mature in a future period are recorded in other comprehensive income, net of income tax expense. Other comprehensive income, net of tax, for the three months and six months ended June 30, 2020 was a gain of $5.0 million and a loss of $1.4 million, compared to a gain of $0.5 million and $1.7 million in the same periods of 2019. The increases and decreases are related to fluctuations in the value of the Canadian dollar versus the US dollar.

Basic and Diluted Earnings per Share

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

For the three months ended June 30, 2020, potential common shares issuable under the RSU Plan and common shares issuable for the convertible debenture are anti-dilutive and excluded from the dilution calculation. For the same period in 2019, potential common shares issuable under the RSU Plan are anti-dilutive and therefore excluded from the calculation.

For the six month period ended June 30, 2020, all potential common shares issuable were dilutive, hence included in the dilution calculation. For the same period in 2019, all potential common shares issuable were anti-dilutive, therefore excluded from the calculation.

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

In 000s except for shares and per share data (unaudited)	3 months ended June 30 2020	2019	6 months ended June 30 2020	2019
Basic earnings per share				
Net income attributable to shareholders	$ 1,716	$ 1,353	$ 3,163	$ 1,344
Weighted average number of shares	9,078,780	9,061,210	9,073,567	9,061,210
Basic earnings per share	$ 0.19	$ 0.15	$ 0.35	$ 0.15
Diluted earnings per share				
Net income attributable to shareholders	1,716	1,353	3,163	1,344
Effect of diluted securities: RSUs	-	-	(19)	-
Interest on convertible debenture	-	273	564	-
Gain on fair value adjustment of the embedded	-	(157)	(1,350)	-
Net income after effect of diluted securities	$ 1,716	$ 1,469	$ 2,358	$ 1,344

In 000s except for shares and per share data (unaudited)	3 months ended June 30 2020	2019	6 months ended June 30 2020	2019
Weighted average number of shares – basic	9,078,780	9,061,210	9,073,567	9,061,210
Effect of diluted securities: RSUs	-	-	198,672	-
Effect of diluted securities: convertible	-	1,818,182	1,818,182	-
Weighted average number of shares - diluted	9,078,780	10,879,392	11,090,42	9,061,210
Diluted earnings per share	$ 0.19	$ 0.14	$ 0.21	$ 0.15

EBITDA and EBITDA which excludes the impact of IFRS 16 - Leases

EBITDA is often used by publicly traded companies as a measure of cash from operations, as it excludes financing costs, taxation and non-cash items. The reporting of EBITDA is intended to assist readers in the performance of their own financial analysis. However, since this measure does not have a standardized meaning prescribed by IFRS, it is unlikely to be comparable to similar measures presented by other entities.

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

EBITDA for Q2 2020 was $3.2 million, up by 3% compared to Q2 2019. EBITDA excluding the effect of IFRS 16 for the three months ended June 30, 2020 was $2.5 million, up by 11% compared to Q2 2019. EBITDA for the the first half of 2020 was $5.8 million, up by 8% compared to the same period in 2019. EBITDA excluding the effect of IFRS 16 for the six months ended June 30, 2020 was $4.5 million, up by 17% compared to the same period in 2019. Operationally, the change in EBITDA was driven by revenue growth, successful efforts across the Company to enhance cost recovery, an increased financial contribution from Seaforth and lower costs for natural gas. These gains were offset by lower sales volumes and an annual increase in labour costs.

The reconciliation of net income to EBITDA is as follows:

In $000s (unaudited)	3 months ended June 30 2020	2019	6 months ended June 30 2020	2019
Income for the period	$ 1,716	$ 1,353	$ 3,163	$ 1,344
Income taxes	528	372	1,114	426
Income before tax	$ 2,244	$ 1,725	$ 4,277	$ 1,770
Finance income	(127)	(115)	(201)	(269)
Finance expenses	607	698	1,175	1,298
Depreciation & amortization	850	1,115	1,699	1,979
Unrealized (gain) loss on foreign exchange forward contracts	(221)	(204)	393	(538)
Fair value (gain) loss on the embedded option	124	(156)	(1,350)	572
(Gain) loss on foreign exchange	(442)	(114)	258	176
Share-based compensation (recovery) expense	159	148	(417)	421
EBITDA	$ 3,194	$ 3,097	$ 5,834	$ 5,409
Impact of IFRS 16, which was adopted in the year 2019	(658)	(819)	(1,316)	(1,559)
EBITDA excluding the impact of IFRS 16	$ 2,536	$ 2,278	$ 4,518	$ 3,850

To help readers better understand our financial results, the following table shows the reconciliation of operating income to EBITDA:

In $000s (unaudited)	3 months ended June 30 2020	3 months ended June 30 2019	6 months ended June 30 2020	6 months ended June 30 2019
Operating income for the period	$ 2,370	$ 1,356	$ 4,405	$ 2,332
Depreciation & amortization	850	1,115	1,699	1,979
Share-based compensation	159	148	(417)	421
Gain (loss) on risk management activities	36	682	(246)	1,215
Unrealized (gain) loss on foreign exchange forward contracts	(221)	(204)	393	(538)
EBITDA	$ 3,194	$ 3,097	$ 5,834	$ 5,409
Impact of IFRS 16, which was adopted in the year 2019	(658)	$ (819)	$ (1,316)	$ (1,559)
EBITDA excluding the impact of IFRS 16	$ 2,536	$ 2,278	$ 4,518	$ 3,850

QUARTERLY INFORMATION / SEASONALITY

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

In $000s except for per share amounts (unaudited)	8 Quarter Average	Q2 2020	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018
Sales	23,937	26,380	21,817	25,023	23,645	24,392	24,170	22,979	23,087
Gross profit	4,247	5,154	4,206	4,106	4,737	4,106	3,544	3,686	4,439
Operating income	1,639	2,370	2,035	539	2,291	1,356	976	1,618	1,927
EBITDA[1]	2,619	3,194	2,640	1,454	3,485	3,097	2,312	2,050	2,717
EBITDA excluding IFRS 16[2]	2,079	2,536	1,981	797	2,696	2,278	1,573	2,050	2,717
Net income (loss)	1,107	1,716	1,448	716	884	1,353	(9)	919	1,828
Per Share[3]									
Net income - basic	0.12	0.19	0.16	0.08	0.10	0.15	-	0.10	0.20
Net income- diluted	0.09	0.19	0.02	0.08	0.10	0.14	-	0.03	0.18

[1] EBITDA is defined in the section on 'Non-IFRS Financial Measures' along with details of its calculation.
[2] EBITDA excluding the impact of IFRS 16 - Leases is defined as EBITDA, less lease payments made during the year.
[3] Per-share calculations are based on the weighted average number of shares outstanding during the period.

There is an element of seasonality in our business, in that the second half of the year tends to have higher volumes and revenues.

RELATED PARTY TRANSACTIONS

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

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

In $000s (unaudited)	3 months ended June 30 2020	3 months ended June 30 2019	6 months ended June 30 2020	6 months ended June 30 2019
Sales	$ 121	$ 161	$ 190	$ 267
Purchases of raw materials	$ 955	$ 955	$ 2,215	$ 1,675

All transactions were in the normal course of operations and were measured at the fair value of the consideration received or receivable, which was established and agreed to by the related parties. As at June

30, 2020, our accounts receivable balance with this company was $0.01 million (December 31, 2019: $0.01 million) while our accounts payable balance with this company was $0.2 million (December 31, 2019: $0.5 million).

On March 16, 2017, a subsidiary of Swiss Water 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.

LIQUIDITY AND CAPITAL RESOURCES

Operating activities

For the three and six months ended June 30, 2020, we generated $3.9 million and $2.6 million respectively in net cash from operating activities, compared to generating $2.4 million and $2.1 million, respectively, in the same period last year.

Inventory

Our inventory increased in value by 7% and in volume by 15% between December 31, 2019 and June 30, 2020. The increase reflects additions to raw materials inventory and finished goods.

Under hedge accounting, gains/losses on derivative instruments for coffee to be sold in future periods are recorded in inventory. The hedge accounting component of inventory, as at June 30, 2020 was a loss of $0.7 million compared to a gain $1.3 million at the end of 2019.

Accounts Receivable

Our accounts receivable decreased by $1.5 million, or 10%, between December 31, 2019 and June 30, 2020 compared to an increase of $1.4 million, or 10%, between December 31, 2018 and June 30, 2019. 85% of Swiss Water accounts receivable are current as at June 30, 2020.

Investing Activities

Cash outflows in investing activities for Q2 2020 were $6.5 million, compared to cash outflows of $5.9 million in Q2 2019. Cash outflows in investing activities for the first half of 2020 were $10.7 million compared to cash outflows of $8.7 million in the same period of 2019. In both years, the majority of our cash outflows were for capital expenditures related to our plant expansion in Delta, BC.

Financing Activities

No dividends were paid for the six months ended June 30, 2020. In the comparable period of 2019, Swiss Water paid $1.1 million in dividends to the shareholders. During the second quarter and first half of 2020, we received proceeds from our credit facility, in the amount of $4.8 million and $10.1 million, while in the second quarter and first half of 2019 we obtained $4.6 million and $7.3 million, respectively from our construction loan. In the second quarter of 2020, we repaid funds of $3.3 million to our credit facility. The funds drawn during the first half of 2020 were mainly used to settle costs relating to our new plant in Delta, and support working capital management following the emergence of the COVID-19 pandemic.

Credit Facilities and Liquidity

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

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

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

Our facilities are collateralized by general security agreements over all of the assets of Swiss Water and a floating hypothecation agreement over cash balances. We have certain bank covenants that relate to the maintenance of specified financial ratios and we were in compliance with all covenants as at June 30, 2020.

Foreign exchange facility guarantee

On June 1, 2020, the Company entered into a foreign exchange facility guarantee to cover margin requirements in relation to foreign exchange facility. Subsequent to the quarter, on August 4, 2020, the Company's Credit Facility Lender amended the credit agreement to recognize the foreign exchange facility guarantee provided by the third party. The facility guarantees a maximum aggregate liability of up to $6.0 million and it is valid until May 31, 2021. This guarantee provides additional borrowing capacity within the referenced credit facility.

Contractual Obligations

The following table outlines our contractual obligations and commitments as at June 30, 2020:

In $000s (unaudited)	Total	Less than 1 year	2-3 years	4-5 years	Over 5 years
Long-term debt[1]	$ 35,081	$ 81	$ 3,335	$ 18,333	$ 13,332
Lease liabilities[2]	13,672	2,807	5,598	2,570	2,697
Credit facility[3]	10,428	-	10,428	-	-
Purchase obligations[4]	33,341	33,049	292	-	-
Total contractual obligations	$ 92,522	$ 35,937	$ 19,653	$ 20,903	$ 16,029

[1] Long-term debt represents the principal amounts of the convertible debenture and construction loan.
[2] Minimum obligations for our finance leases.
[3] The credit facility matures in 2022.
[4] Purchase obligations represent outstanding capital, coffee and natural gas purchase commitments.

The Company leases the following offices, warehouses and equipment:

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.

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

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

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

Swiss Water Decaffeinated Coffee Company USA, Inc. leases a sales office in Seattle, Washington, which expires in October 2022. The former lease expired in March 2020.

Construction Loan

In Q4 2018, the Company completed a transaction with the Business Development Bank of Canada ("BDC") for a term loan facility ("Term Loan") of up to $20.0 million. The purpose of the Term Loan 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 12 years with principal repayment commencing on July 1, 2021.

The Term Loan matures on June 1, 2033. Only interest will be paid on the outstanding balance, monthly, prior to July 1, 2021. 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 June 30, 2020, the loan amount outstanding was $20.0 million with interest accrued of $0.1 million.

OFF-BALANCE SHEET ARRANGEMENTS

Swiss Water has no off-balance sheet arrangements.

RISKS AND UNCERTAINTIES

During March 2020, the World Health Organization declared a global pandemic known as COVID-19. The impacts on global commerce are expected to be far reaching. This may impact the demand for our products and services in the near term and possibly impact the efficiency of our supply chain. It may also impact expected credit losses on our amounts due from customers and whether the entity continues to meet the criteria for hedge accounting. For example, if a hedged forecast transaction is no longer highly probable to occur, hedge accounting is discontinued. Swiss Water may experience disruptions to its business operations if any of its employees, or those of its customers or suppliers, are quarantined and unable to work. It may impact demand for our products and services and the capability of our supply chains, our liquidity, expected credit losses on our amounts due from customers and whether the entity continues to meet the criteria for hedge accounting. There may be significant disruptions and delays in our ongoing business or in the start-up procedures at our new facility, in Delta, BC.

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

In addition, Swiss Water leases the building in Burnaby, BC, that houses two decaffeination lines. The lease on this facility expires in 2023 and the landlord has formally notified the Company that it will not grant the five-year renewal term (to 2028) outlined, at the landlord's discretion, in the lease. Relocating the existing production equipment would result in significant capital expenditures and payment of the asset retirement obligation (currently recorded as a long-term liability on our financial statements).

CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES

Critical accounting judgments and estimates used in preparing our unaudited condensed consolidated interim financial statements are described in the Swiss Water's annual MD&A and annual consolidated financial statements for the year ended December 31, 2019. The preparation of consolidated financial statements in accordance with IFRS requires us to make both estimates and assumptions that could materially affect the amounts recognized in the financial statement. By their nature, judgments and estimates may change in light of new facts and circumstances in the internal and external environment.

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

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

CHANGES IN ACCOUNTING STANDARDS

The following amendments to accounting standards became effective for annual periods beginning on or after January 1, 2020. The adoption of these revised standards by the Company did not have a material impact on its condensed consolidated interim financial statements.

- IFRS 9 / IAS 39 and IFRS 7 relate to interest benchmark reform and has amendments that provide temporary relief from applying specific hedge accounting requirement to hedging relationships directly affected by IBOR reform and that required certain disclosures; IAS 1 and IAS 8 redefined materiality; IFRS 3 was amended to revise the definition of a business; Conceptual Framework replaces the conceptual framework for financial reporting issued by IASB in September 2010.

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

- IAS 1 amendments address the classification of liabilities between current and non-current.

HEDGE ACCOUNTING

We account for hedges using IFRS 9, as we enter into three types of hedges:

1) Commodity price risk hedges on our coffee purchase commitments and inventory ("commodity hedges");
2) Foreign currency risk hedges on future US$ process revenues ("revenue hedges"); and
3) Customer-specific foreign currency risk hedges on US$ purchases of green coffee ("customer-specific hedges").

Each type of hedge is discussed below.

Commodity Hedges

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

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

Revenue Hedges

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

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

Customer-Specific Hedges

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

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

FINANCIAL INSTRUMENTS

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

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

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

Commodity Price Risk

Commodity price risk is the risk that the fair value of inventory or future cash flows will fluctuate as a result of changes in commodity prices. Swiss Water utilizes futures contracts to manage our commodity price exposure and also buys and sells futures contracts for coffee on the Intercontinental Exchange in order to offset our inventory position and fix the NY'C' futures derived component cost of green coffee which is approximately 80% of the cost of green coffee.

As at June 30 2020, the Company had futures contracts to buy 3.3 million lbs of green coffee with a notional value of US $3.2 million, and contracts to sell 7.3 million lbs of green coffee with a notional value of US$7.5 million. The furthest contract matures in May 2021. (December 31, 2019: buy 3.6 million lbs of green coffee with a notional value of US$4.7 million, and contracts to sell 6.6 million lbs of green coffee with a notional value of US$8.3 million).

Foreign Currency Risk

We realize a significant portion of our sales in US dollars and we purchase green coffee in US$ which is, in some cases, sold to customers in C$ dollars. We enter into forward exchange contracts to manage our exposure to currency rate fluctuations and to minimize the effect of exchange rate fluctuations on business decisions. These contracts relate to our future net cash flows in US$ from sales. In addition, we enter into forward contracts to purchase US$ for coffee that we resell in C$ dollars.

As at June 30, 2020, the Company had forward currency contracts to buy US$4.3 million and sell US$59.7 million (December 31, 2019: buy US$3.8 million and sell US$53.0 million) from July 2020 through to February 2025 at various Canadian exchange rates ranging from $1.2147 to $1.3974.

INTERNAL CONTROLS OVER FINANCIAL REPORTING & DISCLOSURE CONTROLS AND PROCEDURES

The Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") of Swiss Water are responsible for establishing and maintaining adequate internal control over financial reporting ("ICFR") to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Under the supervision and with the participation of management, we conducted an evaluation of the design and effectiveness of our ICFR as of June 30, 2020, based on the updated framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO 2013"). Based on this assessment, the CEO and CFO concluded that, as of June 30, 2020, Swiss Water's ICFR was effective.

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

The CEO and CFO evaluated or caused to be evaluated under supervision, the effectiveness of our disclosure controls and procedures and based on this evaluation, the CEO and CFO concluded that, as of June 30, 2020, Swiss Water's disclosure controls and procedures were effective. There were no changes in our ICFR that occurred during the period beginning on January 1, 2020 and ended on June 30, 2020 that have materially affected or are reasonably likely to materially affect, Swiss Water's ICFR.