SWISS WATER DECAFFEINATED COFFEE INC.
CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2019

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, 2019 and 2018, 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, 2019 and 2018;
- 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.

PricewaterhouseCoopers LLP
PricewaterhouseCoopers Place, 250 Howe Street, Suite 1400, Vancouver, British Columbia, Canada V6C 3S7
T: +1 604 806 7000, F: +1 604 806 7806

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 19, 2020

SWISS WATER DECAFFEINATED COFFEE INC.

Consolidated Statements of Financial Position as at

(Tabular amounts are in thousands of Canadian dollars)

	Note	December 31, 2019	December 31, 2018
Assets			
Current assets			
Cash and cash equivalents		$ 6,739	$ 8,336
Accounts receivable	6	14,588	14,313
Inventories	7	17,872	13,851
Prepaid expenses and other receivables		679	1,272
Income tax receivable	11	14	-
Derivative assets and hedged firm commitments	8, 26	1,428	1,497
Total current assets		41,320	39,269
Non-current assets			
Receivables	6	230	235
Property, plant and equipment	9	94,125	46,035
Intangible assets	10	904	1,167
Deferred tax assets	11	302	175
Total non-current assets		95,561	47,612
Total assets		$ 136,881	$ 86,881
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable		$ 11,103	$ 6,558
Accrued liabilities		6,573	3,397
Income tax payable	11	-	783
Dividend payable	19, 28	566	566
Other liabilities	12	1,004	473
Lease liabilities	14	1,525	-
Derivative liabilities and hedged firm commitments	8, 26	1,165	2,064
Total current liabilities		21,936	13,841
Non-current liabilities			
Other liabilities	12	253	105
Credit facility	13	3,182	-
Construction loan	15	20,000	9,400
Convertible debenture	16	12,560	12,082
Lease liabilities	14	23,385	-
Asset retirement obligation	17	1,343	802
Deferred tax liabilities	11	3,179	1,243
Derivative liabilities	8, 16, 26	2,543	3,652
Total non-current liabilities		66,445	27,284
Total liabilities		88,381	41,125
Shareholders' equity			
Share capital	18	$ 43,591	$ 43,591
Retained earnings		5,202	4,523
Accumulated other comprehensive loss		(646)	(2,512)
Share-based compensation reserve		353	154
Total equity		48,500	45,756
Total liabilities and shareholders' equity		$ 136,881	$ 86,881

Commitments (Note 27)

Subsequent events (Note 28)

Approved on behalf of the Board

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

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

SWISS WATER DECAFFEINATED COFFEE INC.

Consolidated Statements of Income for the Years Ended

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

	Note	December 31, 2019	December 31, 2018
Revenue	20, 25	$ 97,230	$ 89,939
Cost of sales		(80,736)	(75,018)
Gross profit		16,494	14,921
Operating expenses			
Administration expenses		(6,949)	(5,371)
Sales and marketing expenses		(4,148)	(3,790)
Occupancy expenses		(235)	(129)
Total operating expenses		(11,332)	(9,290)
Operating income		5,162	5,631
Non-operating or other			
Gain (loss) on risk management activities		1,436	(5)
(Loss) gain on fair value on embedded option	16	(770)	1,799
Finance income		511	530
Finance expense		(1,911)	(1,457)
Loss on foreign exchange		(425)	(278)
Total non-operating or other		(1,159)	589
Income before tax		4,003	6,220
Income tax expense	11	(1,059)	(1,689)
Net income		$ 2,944	$ 4,531
Basic earnings per share	23	$ 0.32	$ 0.50
Diluted earnings per share	23	$ 0.32	$ 0.35

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

SWISS WATER DECAFFEINATED COFFEE INC.

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

(Tabular amounts are in thousands of Canadian dollars)

Consolidated Statements of Comprehensive Income
For the Years Ended

	December 31, 2019	December 31, 2018
Net income	$ 2,944	$ 4,531
Other comprehensive income, net of tax		
Items that may be subsequently reclassified to income:		
Unrealized gain (loss)		
Derivatives designated as cash flow hedges - currency risk hedges on US$ future revenue	2,154	(4,675)
Items reclassified to income:		
Realized loss (gain)		
Derivatives designated as cash flow hedges		
- currency risk hedges on US$ future revenue, recognized in revenue	410	(790)
Other comprehensive income (loss) related to hedging activities	2,564	(5,465)
Tax (expense) recovery on other comprehensive income relating to hedging activities	(694)	1,460
Cumulative translation adjustment	(4)	8
Other comprehensive income (loss), net of tax	1,866	(3,997)
Net income and other comprehensive income	$ 4,810	$ 534

Consolidated Statements of Changes in Equity

	Note	Share capital		Share-based compensation reserve	Accumulated other comprehensive income	Retained earnings	Total equity
		Shares	Amount				
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 income (loss)		-	-	-	(3,997)	4,531	534
Balance at December 31, 2018		**9,061,210**	**$ 43,591**	**$ 154**	**$ (2,512)**	**$ 4,523**	**$ 45,756**
Balance at December 31, 2018		**9,061,210**	**43,591**	**154**	**(2,512)**	**4,523**	**45,756**
Share-based compensation		-	-	199	-	-	199
Dividends	19	-	-	-	-	(2,265)	(2,265)
Net income and other comprehensive income		-	-	-	1,866	2,944	4,810
Balance at December 31, 2019		**9,061,210**	**$ 43,591**	**$ 353**	**$ (646)**	**$ 5,202**	**$ 48,500**

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

SWISS WATER DECAFFEINATED COFFEE INC.

Consolidated Statements of Cash Flows For the Years Ended

(Tabular amounts are in thousands of Canadian dollars)

	Note	December 31, 2019	December 31, 2018
Operating activities			
Net income		$ 2,944	$ 4,531
Items not affecting cash:			
Depreciation and amortization		3,697	1,689
Share-based compensation expense		885	242
Unrealized (gain) loss on risk management activities		(830)	188
Unrealized loss (gain) on fair value adjustment of embedded option		771	(1,799)
Payment of restricted share units settled in cash		-	(199)
Finance income		(511)	(530)
Finance expense		1,911	1,457
Income tax expense		1,059	1,689
Other		(51)	29
		9,875	7,297
Change in non-cash working capital relating to operating activities	24	658	(723)
Net cash generated from operations		**10,533**	**6,574**
Interest received		511	610
Interest paid	24	(2,858)	(1,033)
Income taxes paid		(738)	(477)
Net cash generated from operating activities		**7,448**	**5,674**
Investing activities			
Proceeds from short-term investments		-	7,067
Additions to plant and equipment		(18,714)	(21,029)
Net cash used in investing activities	24	**(18,714)**	**(13,962)**
Financing activities			
Dividends paid		(2,265)	(2,262)
Payment of lease liabilities		(1,825)	-
Proceeds from credit facility	13	3,500	-
Financing costs	13	(341)	-
Proceeds from construction loan		10,600	9,400
Net cash generated from financing activities		**9,669**	**7,138**
Decreasein cash and cash equivalents		(1,597)	(1,150)
Cash and cash equivalents, beginning of the year		8,336	9,486
Cash and cash equivalents, end of the year		$ 6,739	$ 8,336

– 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"), is an entity incorporated under the Canada Business Corporations Act ("CBCA"). The common shares of the Company are listed on the Toronto Stock Exchange under the symbol 'SWP'. The Company's head office is located at 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 Delta, British Columbia, Canada; Swiss Water Decaffeinated Coffee USA, Inc. ("SWUS"), an entity registered in Washington State, USA, and; Swiss Water Decaffeinated Coffee Europe SARL ("SWEU"), an entity registered in Bordeaux, France.

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

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, 2019 were approved for issuance by the Company's Directors on March 18, 2020. 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, 2019.

The adoption of *IFRS* 16*: Leases:* had a material impact on the Company's consolidated financial statements and the impact is described in note 3.14 Leases as the lessee.

The adoption of these revised standards by the Company did not have a material impact on its 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*.

3.5 Changes in accounting standards not yet effective

A number of new and amended standards are effective for annual periods beginning on or after January 1, 2020. The Company has not yet adopted any of these new and amended standards or interpretations. Of those standards that are not yet effective, the Company does not expect the adoption of these standards and amendments to have a material impact on the Company's financial statements in the period of initial application.

- *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 relations ships 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 are effective or periods beginning after January 1, 2020.

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. The functional currencies of the USA and the European subsidiaries are the United States dollar and the Euro, respectively.

Foreign currency transactions

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

Foreign operations

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

3.8 Cash and cash equivalents

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

3.9 Inventories

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

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

3.10 Property, plant and equipment

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

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

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

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

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

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

During the prior 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

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

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

Classification

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

<u>Debt instruments</u>

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

a) Amortized cost: Assets that are held for the collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognized directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as a separate line item in the statement of profit or loss.

b) FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through other comprehensive income (FVOCI). Movements in the carrying amount are taken through other comprehensive income ("OCI"), except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as a separate line item in the statement of profit or loss.

c) FVPL: Assets that do not meet the criteria for amortized cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognized in profit or loss and presented net within other gains/(losses) in the period in which it arises.

Impairment

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

Derivatives and Hedging Activities

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

a) hedges of the fair value of recognized assets or liabilities or a firm commitment (fair value hedges)

b) hedges of a particular risk associated with the cash flows of recognized assets and liabilities and highly probable forecast transactions (cash flow hedges), or

c) hedges of a net investment in a foreign operation (net investment hedges).

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

Cash flow hedges that qualify for hedge accounting

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in the cash flow hedge reserve within equity. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss. When option contracts are used to hedge forecast transactions, the group designates only the intrinsic value of the options as the hedging instrument.

Gains or losses relating to the effective portion of the change in the intrinsic value of the options are recognized in the cash flow hedge reserve within equity. The changes in the time value of the options that relate to the hedged item ('aligned time value') are recognized within 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 Intercontinental Exchange. The Company monitors, on a macro basis, the amount of purchase commitments and amount of inventory on hand for which the ultimate sale price is variable and has not yet been fixed based on the NY'C' and compares this to the amount of coffee covered by future net short positions to determine whether the net short position requires adjustment.

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

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 remeasured 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 the cost of sales on the consolidated statement of income.

<u>Currency risk hedges on US$ future revenue ("revenue hedges"):</u>

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

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 Leases liabilities and right of use assets

<u>Adoption of IFRS 16 Leases</u>

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

IAS 17, Leases, *IFRIC 4: Determining whether an Arrangement contains a Lease*, *SIC-15: Operating Leases – Incentives* and *SIC-27: Evaluating the Substance of Transactions Involving the Legal Form of a Lease.*

As a lessee, the Company can choose to apply IFRS 16 using either a full retrospective or a modified retrospective approach. Effective January 1, 2019, the Company applied IFRS 16 using the modified retrospective approach, the simplified transition approach, without restating comparative amounts for the year 2018, prior to the first adoption. The right-of-use assets and liabilities for property and equipment leases are measured on transition as if the new rules had always been applied. The expedients used were: not separating non-lease components, excluding short-term leases, and not re-assessing contracts at inception, but rather just applying IFRS 16 to operating leases as at December 31, 2018. At the time of adoption, as at January 1, 2019, the Company recognized $19.1 million in new right-of-use assets and lease liabilities for its office, warehouse and equipment leases.

<u>Management judgement and estimates over leases</u>

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

<u>Lease policy applicable from January 1, 2019</u>

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

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

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

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

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

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

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

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

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

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

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

<u>Lease policy applicable before January 1, 2019</u>

The comparative information for leases is prepared based on the accounting policies that the Company had applied under IAS 17 and IFRIC 4. The office, warehouse and equipment leases were classified as operating leases and were not recognized in the Company's statement of financial position. Prior to the adoption IFRS 16, the Company recognized operating lease expense, in the statement of income, on a straight-line basis over the term of the lease.

3.15 Current and deferred income taxes

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

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

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

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

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

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

3.16 Provisions

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

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

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

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

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

3.17 Revenue recognition

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

Decaffeinated coffee sales

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

Decaffeination services

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

Distribution

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

Former revenue recognition standard

Under the 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 services are recognized in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations on the statement of financial position.

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

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

3.19 Share-based compensation

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

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

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

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

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

3.20 Earning per share ("EPS")

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

4. MANAGEMENT JUDGMENTS AND ESTIMATION UNCERTAINTY

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

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

4.1 Useful lives of depreciable assets

Management reviews the useful lives of depreciable assets at each reporting date. As at December 31, 2019 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 and right of use assets

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

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.

(Tabular amounts are in thousands of Canadian dollars)

6. ACCOUNTS RECEIVABLE

Accounts receivable are amounts due from customers for goods sold or services performed in the ordinary course of business. Information about the Company's exposure to foreign currency risk, interest rate risk and credit risk can be found in Note 26. The Company's accounts receivable has been reviewed for indicators of impairment. Accounts receivable as at December 31, 2019 and December 31, 2018 are recorded net of expected credit losses of $ nil. Non-current receivables include a $0.1 million (2018: $0.1 million) balance due from a related party, refer to Note 22.

	December 31, 2019	December 31, 2018
Accounts receivable	$ 14,588	$ 14,313
Non-current receivables	$ 230	$ 235

7. INVENTORIES

During the year ended December 31, 2019, the cost of inventories recognized in cost of sales was $75.4 million (2018: $68.0 million). The hedge accounting component represents the derivative adjustment related to designated hedges for inventory on hand as at each period. The inventory provision was $0.05 million during the year (2018: $0.03 million).

	December 31, 2019	December 31, 2018
Raw materials	$ 9,081	$ 6,718
Finished goods	6,819	7,252
Carbon	568	360
Packaging	113	109
Hedge accounting component	1,291	(588)
	$ 17,872	$ 13,851

8. DERIVATIVE FINANCIAL INSTRUMENTS – assets (liabilities)

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

	December 31, 2019	December 31, 2018
Coffee futures contracts, net	$ 576	$ 495
US Dollar forward contracts, current	41	(193)
US Dollar forward contracts, long-term	(37)	(300)
Derivative financial liability, convertible debenture	(1,680)	(910)
	$ (1,100)	$ (908)

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

	December 31, 2019	December 31, 2018
US Dollar forward contracts, current	$ (107)	$ (876)
US Dollar forward contracts, long-term	(825)	(2,442)
	$ (932)	$ (3,318)

(Tabular amounts are in thousands of Canadian dollars)

9. PROPERTY, PLANT AND EQUIPMENT

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

	December 31, 2019	December 31, 2018
Property, plant and equipment	$ 70,125	$ 46,035
Right-of-use assets	24,000	-
	$ 94,125	$ 46,035

9.1 Property, plant and equipment

During the year ended December 31, 2019 the Company included in construction in progress $0.8 million (2018: $nil) of depreciation expense for right of use of assets, $0.8 million (2018: $nil) of financing costs related to lease liabilities, $0.7 million (2018: $0.02 million) of interest expense on the construction loan and $0.5 million (2018: $nil) of asset retirement obligations.

For the year ended December 31, 2019, depreciation expense of $1.4 million (2018: $1.3 million) has been charged to cost of sales and $0.1 million (2018: $0.1 million) was included in administrative expenses. There was no impairment loss recognized for the years ended December 31, 2019 and 2018.

	Machinery and equipment	Building	Leasehold improvement	Computer equipment	Furniture and fixtures	Construction in progress	Total
Cost							
January 1, 2019	$ 34,025	$ -	$ 5,127	$ 1,285	$ 196	$ 34,329	$ 74,962
Additions	8	90	72	1	36	25,383	25,590
Disposals	(30)	-	(63)	(468)	(20)	-	(581)
Transfers	437	1,511	24	35	-	(2,007)	-
December 31, 2019	$ 34,440	$ 1,601	$ 5,160	$ 853	$ 212	$ 57,705	$ 99,971
Accumulated depreciation							
January 1, 2019	$ (23,981)	$ -	$ (3,791)	$ (999)	$ (156)	$ -	$ (28,927)
Depreciation	(1,031)	(14)	(314)	(108)	(14)	-	(1,481)
Disposals	12	-	62	468	20	-	562
December 31, 2019	$ (25,000)	$ (14)	$ (4,043)	$ (639)	$ (150)	$ -	$ (29,846)
December 31, 2019	$ 9,440	$ 1,587	$ 1,117	$ 214	$ 62	$ 57,705	$ 70,125

	Machinery and equipment	Building	Leasehold improvement	Computer equipment	Furniture and fixtures	Construction in progress	Total
Cost							
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)	-
December 31, 2018	$ 34,025	$ -	$ 5,127	$ 1,285	$ 196	$ 34,329	$ 74,962
Accumulated depreciation							
January 1, 2018	$ (23,061)	$ -	$ (3,501)	$ (862)	$ (145)	$ -	$ (27,569)
Depreciation	(981)	-	(298)	(139)	(11)	-	(1,429)
Disposals	61	-	8	2	-	-	71
December 31, 2018	$ (23,981)	$ -	$ (3,791)	$ (999)	$ (156)	$ -	$ (28,927)
December 31, 2018	$ 10,044	$ -	$ 1,336	$ 286	$ 40	$ 34,329	$ 46,035

(Tabular amounts are in thousands of Canadian dollars)

9.2 Right-of-use assets

The Company has adopted IFRS 16 retrospectively from January 1, 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognized in the opening balance, on the statement of financial position, on January 1, 2019. The right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the statement of financial position as at December 31, 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of the initial application.

For the year ended December 31, 2019, depreciation expense of $1.8 million (2018: $nil) was charged to cost of sales and $0.2 million (2018: $nil) was included in administrative expenses. There was no impairment loss recognized for the year ended December 31, 2019 (2018: $nil).

		Equipment		Property		Total
Cost						
Balance at January 1, 2019	$	110	$	19,023	$	19,133
Additions		-		7,788		7,788
Disposals		-		(997)		(997)
Balance at December 31, 2019	$	110	$	25,814	$	25,924
Accumulated depreciation						
Balance at January 1, 2019	$	-	$	-	$	-
Depreciation		(26)		(2,734)		(2,760)
Disposals		-		836		836
Balance at December 31, 2019	$	(26)	$	(1,898)	$	(1,924)
Balance at December 31, 2019	$	84	$	23,916	$	24,000

10. INTANGIBLE ASSETS

For the year ended December 31, 2019, amortization expense of $0.2 million (2018: $0.2 million) relating to proprietary process technology (“PPT”) has been charged to cost of sales and $0.02 million (2018: $0.02 million) relating to brand was included in administrative expenses. There was no impairment loss recognized for the years ended December 31, 2019 and 2018.

		PPT		Brand		Total
Cost						
Balance January 1, 2019	$	3,246	$	1,000	$	4,246
Balance December 31, 2019	$	3,246	$	1,000	$	4,246
Amortization						
Balance January 1, 2019	$	(2,161)	$	(918)	$	(3,079)
Amortization		(247)		(16)		(263)
Balance December 31, 2019	$	(2,408)	$	(934)	$	(3,342)
Balance at December 31, 2019	$	838	$	66	$	904

(Tabular amounts are in thousands of Canadian dollars)

		PPT		Brand		Total
Cost						
Balance January 1, 2018	$	3,246	$	1,000	$	4,246
Balance December 31, 2018		3,246		1,000		4,246
Amortization						
Balance January 1, 2018	$	(1,920)	$	(899)	$	(2,819)
Amortization		(241)		(19)		(260)
Balance December 31, 2018	$	(2,161)	$	(918)	$	(3,079)
Balance at December 31, 2018	$	1,085	$	82	$	1,167

11. INCOME TAXES

11.1 Income tax expense

For the year ended December 31, 2019, tax recovery on other comprehensive income related to hedging activities was $0.7 million (2018: $1.5 million expense).

		December 31, 2019		December 31, 2018
Current income tax (recovery) expense	$	(60)	$	1,103
Deferred tax expense		1,119		586
Total income tax expense	$	1,059	$	1,689

11.2 Reconciliation

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

		December 31, 2019		December 31, 2018
Statutory rate		27%		27%
Income before tax	$	4,003	$	6,220
Income tax calculated at applicable tax rates	$	1,081	$	1,679
Non-deductible expenses		(12)		18
Foreign tax rate differential		(10)		(8)
Income tax expense	$	1,059	$	1,689

11.3 Current income tax receivable and payable

As at December 31, 2019 income tax receivable was $0.01 million (2018: payable $0.8 million).

11.4 Deferred income tax assets (liabilities)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority.

The movement in deferred income tax assets and liabilities during the year was as follows:

(Tabular amounts are in thousands of Canadian dollars)

	Goodwill and intangibles	Property plant and equipment	Financing issuance costs and other	ARO	Lease Liability	Share based compen-sation	Derivative liability and convertible debenture	Other compre-hensive income	Tax Losses	Total
Balance at January 1, 2018	$ 692	$ (2,723)	$ 225	$ 217	-	$ 172	$ (171)	$ (532)	$ 178	**$ (1,942)**
To income tax expense	(9)	(54)	(88)	-	-	(16)	(408)	1,461	(12)	**874**
Balance at December 31, 2018	**$ 683**	**$ (2,777)**	**$ 137**	**$ 217**	**-**	**$ 156**	**$ (579)**	**$ 929**	**$ 166**	**$ (1,068)**
Balance at January 1, 2019	$ 683	$ (2,777)	$ 137	$ 217	-	$ 156	$ (579)	$ 929	$ 166	**$ (1,068)**
To income tax expense	(1)	(8,752)	(96)	117	6,674	183	(50)	(692)	808	**(1,809)**
Balance at December 31, 2019	**$ 682**	**$ (11,529)**	**$ 41**	**$ 334**	**$ 6,674**	**$ 339**	**$ (629)**	**$ 237**	**$ 974**	**$ (2,877)**

During the year ended December 31, 2019, the Company collected $0.02 million (2018: $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 $2.2 million non-capital tax losses carry forwards as the end of December 31, 2019, while Seaforth has non-capital tax loss carry forwards of $0.7 million, which will begin to expire in 2033.

12. OTHER LIABILITIES

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

	December 31, 2019	December 31, 2018
Other liabilities, current	$ 1,004	$ 473
Other liabilities, non-current	253	105
	$ 1,257	$ 578

13. CREDIT FACILITY

Credit Facility

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 (defined herein) 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. As at December 31, 2019, the Company's borrowing availability was calculated as follows:

	December 31, 2019
Gross borrowing base availability	$ 17,554
Advances, fees and interest	(3,506)
Outstanding letters of credit	(300)
	$ 13,748

(Tabular amounts are in thousands of Canadian dollars)

The Credit Facility is classified in the consolidated statement of financial position as a part of non-current liabilities as the Company is not required to repay any balance outstanding until the maturity date of October 18, 2022, as long as the outstanding balance is not in excess of the Borrowing Base. The maturity date can be extended, subject to lenders' approval. As at December 31, 2019, the Credit Facility was comprised of:

		December 31, 2019
Credit facility, current	$	3,506
Less unamortized transaction costs		(324)
	$	3,182

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 finance costs for the year ended December 31, 2019 and the effective interest rate based on the average balance drawn were as follows:

		December 31, 2019
Weighted average daily balance	$	1,795
Finance costs	$	6
Number of days outsanding		22
Effective interest rate	%	5.46

The Company incurred $0.3 million in financing transaction costs in connection with the Credit Facility which were recorded as deferred financing transaction costs in the non-current period of loans and borrowings. These transactions costs are amortized until the Credit Facility's maturity date.

		December 31, 2019		**December 31, 2018**
Balance, open	$	-	$	n/a
Advances		3,500		n/a
Fees and interest		6		n/a
Financing transaction costs		(341)		n/a
Amortized financing transaction costs		17		n/a
Balance, end	$	3,182	$	-

The Company has pledged substantially all of its assets, except for assets pledged to BDC under the Term Loan (see Note 15), as a collateral for the Credit Facility, including a first priority security interest over all inventory, accounts receivable, excess margin and gains on the commodity account, gains in the foreign exchange line of credit and other assets of the Company. As at and during the fiscal period ended December 31, 2019, the Company was in compliance with all covenants.

This Credit Facility replaced two former credit facilities, a $14.5 million revolving operating line of credit and a $1.5 million swing operating line of credit, where Canadian denominated borrowings were subject to an interest at the bank's prime lending rate plus 0.75% per annum while the US$ denominated revolving operation line of credit was subject to LIBOR plus 2.35% per annum. The Company was in compliance with the former credit facilities during the years 2018 and 2019.

(Tabular amounts are in thousands of Canadian dollars)

Foreign exchange and commodity futures contract facility

As part of the Credit Facility, 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.

14. LEASE LIABILITIES

14.1 Lease liabilities

Lease liabilities are as follows:

	December 31, 2019	December 31, 2018
Lease liability, current	$ 1,525	$ -
Lease liability, non - current	23,385	-
	$ 24,910	$ -

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 sales office in France which expires in October 2027.
- On January 15, 2019, Seaforth entered into an agreement to lease a warehouse facility. The lease commenced on April 1, 2019 and expires in June 2027. The Company has two options to renew the lease for an additional term of five years each.
- Swiss Water leases a facility that houses its decaffeination plant and offices. The lease expires in May 2023. Beyond expiry in 2023, the landlord has to approve any subsequent renewal of the lease.
- Seaforth leases a truck. The lease expires in April 2023.
- Swiss Water Decaffeinated Coffee Company USA, Inc. leases two sales offices in Seattle, Washington, one of which expires in March 2020, while the second one expires in October 2022.
- Seaforth's two warehouse leases expired in June and September 2019.

14.2 Adjustments recognized on the adoption of IFRS 16

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

(Tabular amounts are in thousands of Canadian dollars)

A reconciliation between the amount of the lease liability recognized as at the date of initial application and operating lease commitments disclosed as at December 31, 2018 is as follows:

		Total
Operating lease commitments as at December 31, 2018	$	8,451
Effect of discounts using incremental borrowing rates (4.55%-4.95%)		(10,010)
Extension and termination options reasonably certain to be exercised		20,692
Balance at initial application on January 1, 2019	$	19,133

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

During the year, finance expense in the amount of $0.8 million (2018: nil) related to a lease was added to construction in progress. Also, during the year a gain of 0.03 million was recognized upon the termination of a lease (2018: nil).

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

		Total
Balance January 1, 2019	$	19,133
Additions		7,788
Terminations		(186)
Finance expense		1,181
Lease cash payments		(3,006)
Balance at December 31, 2019	$	24,910

14.4 Minimum lease payments

As at December 31, 2019, the minimum payments under leases liabilities are as follows:

		December 31, 2019
No later than 1 year	$	2,698
Later than 1 year and no later than 5 years		8,873
Later than 5 years		3,176
	$	14,747

15. CONSTRUCTION LOAN

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. Principal repayments commence on July 1, 2021 and are repaid in equal monthly installments until the Term Loan maturity date of June 1, 2033.

(Tabular amounts are in thousands of Canadian dollars)

As of December 31, 2019, the loan amount outstanding was as follows:

	December 31, 2019	December 31, 2018
Accrued interest in accrued liabilities	$ 84	$ 15
Construction loan in non-current liabilities	20,000	9,400
	$ 20,084	$ 9,415

The Term Loan bears interest at 4.95% per annum over twelve years. Interest is based on the outstanding loan balance and is paid monthly.

	December 31, 2019	December 31, 2018
Balance, open	$ 9,415	$ -
Additions	10,600	9,400
Interest charged	733	15
Interest paid	(664)	-
Balance, end	$ 20,084	$ 9,415

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 provided a guarantee for the Term Loan.

Landlord construction loan

During the year ended December 31, 2018 the Company fully repaid a $6.1 million construction loan and $0.1 million in related interest that was due to the landlord. The construction loan pertained to accrued construction costs for a new building that houses the new production plant in Delta BC. Interest on that construction loan was 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. The 6.85% interest rate is subject to reaching specific covenant thresholds, in excess of these, the interest rate increases to 7.85% per annum.

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.

(Tabular amounts are in thousands of Canadian dollars)

	December 31, 2019	December 31, 2018
Balance, open	$ 12,082	$ 11,658
Interest charged	1,506	1,452
Interest paid	(1,028)	(1,028)
Balance, end	$ 12,560	$ 12,082

The Company uses the residual value method to allocate the fair value of the convertible debenture between the liability component and the derivative liability. Under this method, as at December 31, 2019, the derivative liabilities include the fair value of the derivative liability related to the convertible debenture in the amount of $1.7 million (2018: $0.9 million). During the year ended December 31, 2019, this revaluation resulted in losses of $0.8 million being recorded in the statement of income (2018: gain of $1.8 million).

	December 31, 2019	December 31, 2018
Balance, open	$ 910	$ 2,709
Change in fair valuation of derivative embedded option	770	(1,799)
Balance, end	$ 1,680	$ 910

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:

	December 31, 2019	December 31, 2018
Share price	$ 6.92	$ 4.97
Exercise price	$ 8.25	$ 8.25
Option life	3.78 years	4.78 years
Volatility	31%	37%
Risk-free interest rate	1.68%	1.88%
Dividend yield	3.61%	5.03%

17. ASSET RETIREMENT OBLIGATION ("ARO")

The Company estimates the total undiscounted amount of any cash flows required to settle its ARO is approximately $1.6 million. Of that amount $0.9 million, is estimated to be incurred on or about the expiry of a lease renewal term in 2023 and $0.7 million is estimated to be incurred on or about the year 2038. As at December 31, 2019, the Company has a long-term liability ARO of $1.3 million (2018: $0.8 million), reflecting the present value of the ARO using credit adjusted risk-free rates between 1.25% and 1.76%.

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, 2019, there were 9,061,210 common shares issued and outstanding.

(Tabular amounts are in thousands of Canadian dollars)

18.1 Restricted share units

The Company has a restricted share unit plan ("RSU Plan") which allows it to grant RSUs to officers, employees and consultants of Swiss Water or its subsidiaries. The RSU Plan is administered by the Board of Directors, which sets the terms of incentive awards under the RSU Plan. On June 19, 2019, Swiss Water shareholders approved an increase in the number of common shares available for issuance under the 2011 Restricted Share Unit Plan as amended in June 2019. The increase is from a maximum of 333,760 common shares to a maximum of 815,509 common shares. 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 that uses the higher of the then-current share price and $3.20.

The movement in RSUs for the years ended December 31, 2019 and December 31, 2018 was as follows:

	Number of RSUs	Volume based weighted average share price	Average remaining vesting period (years)	Performance based
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**	
Balance at January 1, 2019	**122,734**	**$ 5.01**	**1.83**	
RSUs granted	98,000	$ 5.06	2.15	No
RSUs issued for dividends	8,142	$ 6.05	1.30	No
RSUs forfeited	(4,040)	$ 6.32	-	No
Balance at December 31, 2019	**224,836**	**$ 7.07**	**1.40**	

18.2 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.

(Tabular amounts are in thousands of Canadian dollars)

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

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

The movement in DSUs for the years ended December 31, 2019, and December 31, 2018, was as follows:

	Number of DSUs		Weighted average share price	Performance based
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**	
Balance at January 1, 2019	95,239	$	4.97	
DSUs issued	31,028	$	5.85	No
Balance at December 31, 2019	**126,267**	**$**	**6.92**	

19. DIVIDENDS

For the year ended December 31, 2019, the Company declared quarterly eligible dividends to shareholders totaling $2.3 million or $0.25 per share (2018: $2.3 million or $0.25 per share) of which, the fourth quarterly dividend in the amount of $0.6 million was payable at December 31, 2019 (2018: $0.6 million).

20. REVENUE

20.1 Disaggregation of revenue

Revenue disaggregated by geographical markets is disclosed in Note 25. The Company also disaggregates revenue by major products and services: decaffeinated coffee sales, decaffeination services, and distribution with the following results for the years ended December 31, 2019 and 2018:

		December 31, 2019		December 31, 2018
Decaffeinated coffee sales	$	82,929	$	78,974
Decaffeination services		6,896		5,117
Distribution		7,405		5,848
	$	97,230	$	89,939

20.2 Contract balances

As at December 31, 2019 the accounts receivable balance of $14.6 million (2018: $14.3 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.

(Tabular amounts are in thousands of Canadian dollars)

21. EMPLOYEE BENEFITS EXPENSES

Expenses recognized for employee benefits are detailed below:

	December 31, 2019	December 31, 2018
Short-term benefits	$ 9,757	$ 8,525
Long-term benefits	868	254
Post-employment benefits	813	701
	$ 11,438	$ 9,483

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

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

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 1) are discussed below. All intercompany transactions, balances, income and expenses are eliminated on consolidation.

22.1 Compensation of Key Management Personnel

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

	December 31, 2019	December 31, 2018
Short-term benefits	$ 2,330	$ 1,725
Long-term benefits	742	207
Post-employment benefits	118	71
	$ 3,190	$ 2,003

22.2 Trading transactions

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

	December 31, 2019	December 31, 2018
Sales	$ 957	$ 393
Purchases of raw materials	$ 3,843	$ 5,957

As at December 31, 2019, the Company had the following balances receivable from and payable to a company that is related to a director:

	December 31, 2019	December 31, 2018
Accounts receivable	$ 11	$ 5
Accounts payable	$ 518	$ 310

(Tabular amounts are in thousands of Canadian dollars)

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

22.3 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.

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

	December 31, 2019	December 31, 2018
Basic earnings per share		
Net income attributable to shareholders	$ 2,944	$ 4,531
Weighted average number of shares	9,061,210	9,058,149
Basic earnings per share	**$ 0.32**	**$ 0.50**

	December 31, 2019	December 31, 2018
Diluted earnings per share		
Net income attributable to shareholders	$ 2,944	$ 4,531
Interest on convertible debenture	-	1,063
Gain on fair value adjustment of embedded option	-	(1,799)
Net income after effect of diluted securities	$ 2,944	$ 3,795
Weighted average number of shares - basic	9,061,210	9,058,149
Effect of diluted securities: convertible debenture	-	1,818,182
Weighted average number of shares - diluted	9,061,210	10,876,331
Diluted earnings per share	**$ 0.32**	**$ 0.35**

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, 2019	December 31, 2018
Weighted average number of RSUs granted	224,502	95,437
Convertible debenture	1,818,182	-

24. 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.

(Tabular amounts are in thousands of Canadian dollars)

Changes in non-cash working capital are as follows:

	December 31, 2019	December 31, 2018
Accounts receivable	$ (261)	$ (2,160)
Inventories	(2,141)	1,433
Other assets and liabilities	683	6
Prepaid expenses and other receivables	593	(322)
Accounts payable and accrued liabilities	2,981	1,535
Derivative assets and liabilities and hedged firm commitments at fair value through profit and loss	(1,197)	(1,215)
	$ 658	$ (723)

Interest paid includes $0.7 million of interest on the construction loan and $0.8 million of interest on lease liabilities which were capitalized throughout the year during the construction phase of the new facility (2018: $nil and $nil).

For the year ended December 31, 2019, a $7.7 million (2018: $3.7 million) in additions to construction in progress was accrued in accounts payable and accrued liabilities. Also, during the year the Company capitalized $0.8 million of depreciation related to right-of-use assets and $0.5 million of asset retirement obligation (2018: $nil and $nil). These are investing transactions which did not require the use of the Company's cash or cash equivalents.

During the year ended December 31, 2018 the Company fully repaid a $6.1 million construction loan and related $0.1 million in interest that was due to the landlord. This construction loan was incurred during the construction of a building that houses the new production plant.

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

Proceeds from the credit facility were $3.5million and the Company paid $0.3 million in financing costs to obtain the credit facility (2018: $nil and nil, respectively).

25. SEGMENT REPORTING

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

25.1 Revenue

	December 31, 2019	December 31, 2018
Canada	$ 33,282	$ 32,217
United States	46,104	45,558
International and other	17,844	12,164
	$ 97,230	$ 89,939

(Tabular amounts are in thousands of Canadian dollars)

25.2 Non-current assets (excluding deferred tax assets)

	December 31, 2019	December 31, 2018
Canada	$ 94,786	$ 47,334
United States	263	103
Europe	210	-
	$ 95,259	$ 47,437

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 Intercontinental Exchange in order to offset its inventory position and fix the input cost of green coffee. As at December 31, 2019, the Company had futures contracts to 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. The furthest contract matures in September 2020 (2018: 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 following tables provide a summary of commodity hedges designated as hedging instruments:

Carrying amount of hedging instruments	**December 31, 2019**	**December 31, 2018**
Fair value hedge	Commodity price risk Coffee futures	Commodity price risk Coffee futures
Nominal amount of hedging instruments (in US$'000)	$ 3,665	$ 10
Line item in the statement of financial position where hedging instrument is located		
Derivative Assets	$ 576	$ 495
Derivative 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, 2019		December 31, 2018
Fair value hedge		Purchase commitments and coffee inventory		Purchase commitments and coffee inventory
Nominal amount of hedged item (in '000 lbs)		3,031		245
Line items in the statement of financial position where hedged item is located		Inventories & hedged firm commitments		Inventories & hedged firm commitments
Assets	$	1,617	$	614
Liabilities		730		791
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.

As at December 31, 2019, the Company had forward currency contracts to buy US$3.8 million and sell US$53.0 million (2018: buy US$6.6 million and sell US$65.0 million) from January 2020 through to September 2023 at various Canadian exchange rates ranging from $1.2147 to $1.3482.

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, 2019, the Company designated as hedging instruments US$3.8 million in forward contracts to buy US dollars, which relate to coffee purchases (2018: US$6.6 million).

Carrying amount of hedging instruments		December 31, 2019		December 31, 2018
Fair value hedge		Foreign currency purchase forwards		Foreign currency purchase forwards
Nominal amount of hedging instruments (in US$'000)	$	3,797	$	6,593
Line item in the statement of financial position where hedging instrument is located				
Derivative Assets	$	-	$	385
Derivative Liabilities		140		-
Changes in fair value used for calculating hedge ineffectiveness		-		-

(Tabular amounts are in thousands of Canadian dollars)

Accumulated amount of fair value hedge adjustment on hedged item included in the carrying amount of the hedged items	**December 31, 2019**	**December 31, 2018**
Fair value hedge	Firm purchase commitments & inventories	Firm purchase commitments & inventories
Nominal amount of hedged item (in US$'000)	$ 3,797	$ 6,593
Line item in the statement of financial position where hedged item is located	Inventories & hedged firm commitments	Inventories & hedged firm commitments
Assets	157	-
Liabilities	-	404
Changes in fair value used for calculating hedge ineffectiveness	-	-

Currency risk on hedge on US$ future revenue:

As at December 31, 2019, the Company designated as hedging instruments US$35.9 million in forward contracts to sell US dollars, which relate to highly probable forecasted sales revenue, (2018: US$47.1 million).

Carrying amount of hedging instruments	**December 31, 2019**	**December 31, 2018**
Cashflow hedge	Currency risk Foreign currency forwards	Currency risk Foreign currency forwards
Nominal amount of hedging instruments (in US$'000)	$ 35,870	$ 47,111
Line items in the statement of financial position where hedging instrument is located		
Derivative Assets	39	4
Derivative Liabilities	971	3,322
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, 2019**	**December 31, 2018**
Cashflow hedge	Currency risk Foreign currency forwards	Currency risk Foreign currency forwards
Nominal amount of hedged item (in US$'000)	35,870	47,111
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	(932)	(3,496)

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 facility; 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.

(Tabular amounts are in thousands of Canadian dollars)

26.4 Credit risk

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

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

The Company follows a program of credit evaluations of customers and limits the amount of credit extended when deemed necessary. For the year ended December 31, 2019, revenues from three major customers of $32.2 million (2018: $32.0 million) represented 33% (2018: 36%) of total revenues for the year. Three major customers represented 53% of total accounts receivable as at December 31, 2019 (2018: 43%).

The Company had 13% of its accounts receivable past due but not impaired as at December 31, 2019 (2018: 19%). Of the past due accounts receivable, 92% are 1-30 days past due (2018: 91%), while 8% are over 31 days past due (2018: 9%).

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 December 31, 2019	Contractual Cash Flows 2020	2021 to 2022	2023 to 2024	Thereafter
Accounts payable	$ 11,103	$ 11,103	$ -	$ -	$ -
Credit facility	3,500	-	3,500	-	-
Other liabilities	1,257	1,004	253	-	-
Lease liabilities	24,910	2,698	5,591	3,282	3,176
Construction loan	20,000	-	2,500	3,333	14,167
Convertible debenture	12,560	-	-	15,000	-
Total	$ 73,330	$ 14,805	$ 11,844	$ 21,615	$ 17,343

26.6 Fair value of financial instruments

Financial instruments that are measured at fair value are categorized as follows. During the year ended December 31, 2019, there were no transfers between level 1 and 2 instruments.

(Tabular amounts are in thousands of Canadian dollars)

	December 31, 2019	Level 1	Level 2	Level 3
Financial assets				
Cash and cash equivalents	$ 6,739	$ 6,739	$ -	$ -
Derivative assets	945	576	369	-
	$ 7,684	$ 7,315	$ 369	$ -
Financial liabilities				
Derivative liabilities	$ 2,978	$ -	$ 2,978	$ -
Credit facility	3,182	-	3,182	-
Construction loan	20,000	-	20,000	-
Other liabilities	1,257	-	1,257	-
	$ 27,417	$ -	$ 27,417	$ -
	December 31, 2018	**Level 1**	**Level 2**	**Level 3**
Financial assets				
Cash and cash equivalents	$ 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	$ -

27. COMMITMENTS

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

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

The Company has, in the normal course of business, entered into various contracts. As at December 31, 2019, these contracts related to the purchase of green coffee in the amount of $31.5 million (2018: $37.6 million), and natural gas purchase commitments in the amount of $0.5 million (2018: $0.1 million), and capital purchases commitments of $2.8million (2018: $2.4 million). A $34.0 million of these contracts will become payable within twelve months from December 31, 2019.

28. SUBSEQUENT EVENTS

On January 15, 2020, the Company paid an eligible dividend in the amount of $0.6 million ($0.0625 per share) to shareholders of record on December 31, 2019.

On February 24, 2020, a total of 17,570 of the outstanding RSUs vested and were converted to common shares, pursuant to the 2011 Restricted Share Unit Plan as amended on June 18, 2019.

In March 2020, the World Health Organization declared a global pandemic known as COVID-19*. The expected impacts on global commerce are expected to be far reaching. This will impact demand for our products and services in the near term and will impact our supply chains. It may also impact expected credit losses on our amounts due from customers and whether the entity continues to meet the criteria for hedge accounting. For example, if a hedged forecast transaction is no longer highly probable to occur, hedge accounting is discontinued.

**Under IAS 10, Events after the reporting period, events such as this are considered to be non-adjusting subsequent events. The impacts to the Company are not determinable at the date of these financial statements, however they could be material and include impairments of receivables, inventory and liquidity.*