MANAGEMENT DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") of Swiss Water Decaffeinated Coffee Inc. ("Swiss Water" or the "Company"), dated as of March 19, 2020, provides a review of the financial results for the three months and the year ended December 31, 2019 relative to the comparable period of 2018. The three-month period represents the fourth quarter ("Q4") of our 2019 fiscal year. This MD&A should be read in conjunction with Swiss Water's audited consolidated financial statements for the year ended December 31, 2019, and in conjunction with the Annual Information Form, which are available on www.sedar.com.

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

FORWARD-LOOKING STATEMENTS

This MD&A contains forward-looking statements, including statements regarding the future success of our business and market opportunities. Forward-looking statements typically contain words such as "believes", "expects", "anticipates", "continue", "could", "indicates", "plans", "will", "intends", "may", "projects", "schedule", "would" or similar expressions suggesting future outcomes or events, although not all forward-looking statements contain these identifying words. Examples of such statements include, but are not limited to, statements concerning: (i) expectations regarding Swiss Water's future success in various geographic markets; (ii) future financial results, including anticipated future sales and processing volumes; (iii) future dividends; (iv) the expected actions of the third parties described herein; (v) factors affecting the coffee market including supplies and commodity pricing; (vi) the expected cost to complete the production facility and production line currently under construction; and (vii) the business and financial outlook of Swiss Water. In addition, this MD&A contains financial outlook information that is intended to provide general guidance for readers based on our current estimates, which based on numerous assumptions and may prove to be incorrect. Therefore, such financial outlook information should not be relied upon by readers. These statements are neither promises nor guarantees but involve known and unknown risks and uncertainties that may cause our actual results, level of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed in or implied by these statements. These risks include, but are not limited to, risks related to processing volumes and sales growth, operating results, supply of coffee, supply of utilities, general industry conditions, commodity price risks, COVID-19, technology, competition, foreign exchange rates, construction timing, costs and financing of capital projects, general economic conditions and those factors described herein under the heading 'Risks & Uncertainties'.

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

EXECUTIVE SUMMARY

For the three months and year ended December 31, 2019, Swiss Water recorded significantly higher processing volumes and revenues. Volume growth remained strong in all trading regions and continued to accelerate rapidly in Europe and other international markets. We also continued to grow our market share versus our competitors, increased our gross profit, and invested in organizational change initiatives that will generate operational efficiencies going forward, all while remaining focused on producing high-quality premium decaffeinated coffee. To drive future growth, we are committed to expanding our presence in Europe and increasing awareness and adoption of the Swiss Water brand by targeting specific customer groups in North America. A summary of our financial results is shown in the table below:

In $000s except per share amounts (unaudited)	3 months ended December 31, 2019	3 months ended December 31, 2018	Year ended December 31, 2019	Year ended December 31, 2018
Sales	$ 25,023	$ 22,979	$ 97,230	$ 89,939
Gross Profit	4,106	3,686	16,494	14,921
Operating income	539	1,618	5,162	5,631
Net income	716	919	2,944	4,531
EBITDA[1]	1,454	2,050	10,350	7,745
EBITDA excluding the impact of IFRS 16-Leases[2]	797	2,050	7,344	7,745
Net income – basic[3]	$ 0.08	$ 0.10	$ 0.32	$ 0.50
Net income – diluted[3]	$ 0.08	$ 0.03	$ 0.32	$ 0.35

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

Operational highlights

- Total shipped volumes reported strong growth momentum throughout 2019. Shipped volumes in the fourth quarter and for the year grew by 18% and 16% respectively, when compared to the same periods in 2018. We continue to win new business as coffee industry participants migrate away from chemical decaffeination processes. In addition, since the beginning of 2019, we have seen an acceleration of underlying volume growth from existing customers. At the same time, our global reach has continued to expand. Swiss Water now exports to 60 different countries, and we ship volume to customers on every continent.
- Fourth quarter shipments to roasters remained flat but were up by 10% for the full year, when compared to the same periods in 2018. Shipments to importers were up by 61% in Q4 and 32% for the full year. The growth in roaster and importer volumes continues to reflect gains in market share due, in part, to a reduction in global chemical free decaffeination capacity following the shutdown of two legacy CO_2 plants operated by competitors in 2018.
- Shipped volumes to our specialty accounts increased by 7% in the fourth quarter and by 8% for the year, compared to the same periods in 2018. Increasing recognition of the Swiss Water brand, and specifically greater recognition in Europe, is helping drive increased business within this growing industry segment.
- Shipments to our commercial accounts increased by 25% in the fourth quarter and by 22% for the full year, compared to the same periods in 2018. Increasing consumer awareness and demand for

decaffeinated coffee, combined with the reduced availability of chemical free decaffeination capacity is helping drive this growth.

- Swiss Water's European subsidiary was formally incorporated in January 2019 helping drive a rapid acceleration in our performance in this region throughout the year. Our European shipped volumes grew by 170% in Q4, and by 97% for the year. This exceptional growth trajectory was largely due to our success in winning new customers and trading partners on the continent. At the same time, we are also experiencing strong underlying growth with our legacy customers in Europe.
- Our largest geographical market by volume in Q4 and for the year continued to be the United States, followed by Canada, Europe and other international markets. By dollar value, for the year ended December 31, 2019, 48% of our sales were to customers in the United States, 34% were to Canada, and the remaining 18% were to other countries. As we continue to expand our business in Europe, we anticipate revenues from our international markets to increase in both dollar and percentage terms.

Financial highlights

- Revenue increased by 9% to $25 million in the fourth quarter and improved by 8% to $97.2 million for the full 2019 year. The increased revenue in both periods was primarily due to the strong growth in our processing volumes. A higher average US dollar ("US$") exchange rate, as well as increases in green coffee sales volumes, offset by a lower coffee futures price ("NY'C'"), also contributed to the improvement.
- Gross profit for Q4 was $4.1 million, a $0.4 million increase over the fourth quarter of 2018. Our Q4 gross profit in 2019 was positively impacted by increased overall process volumes and a higher proportion of regular volumes in our sales mix. Improved supply chain efficiencies and our ongoing efforts to control operating costs also contributed. These enhancements were partially diluted by the impact of higher labour costs.

  Full year 2019 gross profit increased to $16.5 million from $14.9 million in 2018. The improvement in annual gross profit was achieved despite the need to absorb much higher than expected energy costs. This was due to a temporary spike in the price for natural gas resulting from a pipeline explosion in October 2018. This significantly reduced gas supply in British Columbia during Q1 2019.
- Operating expenses were up by 73% to $3.6 million in the fourth quarter and increased by 22% to $11.3 million for the year, when compared to the same periods in 2018. It's noteworthy that in Q4 2018 we received a one-off payment in relation to the Canadian Scientific Research and Experimental Development (SRED) programme. The absence of a similar benefit in Q4 2019 was a material driver of the year-over-year increase in operating expense. In addition, higher occupancy expenses were recorded in Q4 2019 as we commenced use of the office space in our new production facility in Delta, British Columbia. On an annualized basis inflationary pressure on operating expenses was driven by a number of one-time expenses. These included: costs associated with restructuring of our sales and marketing function; investments in capacity enhancement projects; increased research and development activity; higher professional fees; and moving costs due to the consolidation of warehousing activities by our Seaforth Supply Chain Solutions subsidiary.
- Operating income decreased by $1.1million, or 67%, to $0.5 million in the fourth quarter and decreased by $0.5 million, or 8%, to $5.1 million for the year, compared to the same periods last year.

- Fourth quarter net income was $0.7 million compared to $0.9 million in Q4 2018. Full year 2019 net income was $2.9 million, compared to $4.5 million in 2018. The improvement in annual gross profit we achieved in 2019 was offset by higher operating and non-operating expenses. The increase in non-operating expenses was driven by a loss on risk management activities and the revaluation of an embedded derivative, as well higher finance expenses following the adoption of IFRS 16 - Leases.
- EBITDA decreased by $0.6 million, or 29%, to $1.5 million in the fourth quarter and increased by $2.6 million, or 25%, to $10.4 million for the full year, when compared to the same periods in 2018. The increase in annual EBITDA was largely due to the adoption of new accounting standards related to leases: IFRS 16 – Leases. Compared to 2018, EBITDA, excluding the impact of IFRS 16, decreased by $1.3 million, or 61%, to $0.8 million in Q4, and decreased by $0.4 million, or 5%, to $7.3 million for the full year. Operationally, the change in EBITDA was driven by strong growth in processing volumes, ongoing efforts across the Company to enhance cost recovery and an increased financial contribution from Seaforth, our supply chain subsidiary. These gains were offset by a series of one-time expenses. These were specifically related to relocation costs, a temporary increase in natural gas costs, investment in sales team initiatives, research and development and a lower refund from a research and development incentive programme.
- During Q4 2019 the Company entered into an asset-based credit facility with a Canadian bank. The available balance of the credit facility is based on the lower of the Borrowing Base margins of eligible assets, and $30.0 million. This credit facility replaced two former credit facilities and can be drawn on to fund operational and capital initiatives.

OUTLOOK

Looking ahead, we are targeting to record a strong year-over-year increase in annual volume once again in 2020. During 2019, we achieved strong growth in volumes shipped to roasters, importers and commercial accounts. This positive trend is a reflection of our success in winning business with new roasters and increasing our business with existing customers who have grown their distribution locations or expanded their product offerings.

Furthermore, we continue to see an acceleration of customers converting from chemical decaffeination to our chemical free process. Recognition of the Swiss Water brand continues to develop within our expanding portfolio of customers and with coffee consumers in North America and overseas. Swiss Water now exports coffees to 60 countries and to all continents across the globe. We also expect the increased marketing and sales investments we have made, and continue to make will drive further gains in brand recognition and customer conversion going forward.

In the more immediate term, we are closely monitoring the impact of the COVID-19 pandemic on our operations. The situation is dynamic and changing day-to-day so its ultimate impact on Swiss Water is difficult to predict. To date, the impact has been restricted to inflationary pressure on outbound freight rates to Asia. This is being driven by a fall in shipping traffic across the Pacific Ocean and a resulting reduction in container availability for our exports to this region. Looking forward, we may experience disruptions to business operations if a significant number of our employees, or those of our customers or suppliers, are quarantined and unable to work. We will continue to closely monitor the situation and initiate risk management and mitigation procedures as needed.

Construction of our new Swiss Water® Process decaffeination facility, which is located in Delta, British Columbia, Canada, is nearly completed. Initially, this facility will house one new production line, although the site is large enough to accommodate further expansion as conversion to chemical free decaffeination accelerates.

During the fourth quarter of 2019, we commenced the use of the office and administration portion of the new facility and began commissioning of the new production line. This process is going well and we anticipate producing commercial-grade decaffeinated coffee during the second quarter of 2020.

Expansion of our new Delta site is likely to become necessary sooner than we had previously anticipated. In mid February of 2020, ownership of our legacy production site in Burnaby, BC changed hands. While our lease on this property, which expires in June 2023, provides for an additional five-year extension (to 2028), this is at the sole discretion of the landlord. Under the terms of the lease, the landlord has until June 2021 to inform us of their intentions – just two years before we have to vacate should an extension not be granted. In assessing the impact of this change of ownership, we have concluded that the potential risk it poses to our ability to continue operations at the Burnaby site beyond 2023 is unacceptable. Accordingly, in order to provide the capacity we will need to meet future demand for our coffees, we are moving forward with analysis to build a second production line in Delta before the lease in Burnaby expires.

To meet the more immediate growth in demand, we completed an efficiency enhancement project in Q2 of 2018 that successfully increased the capacity of our original facility in Burnaby, BC. Since then, we have continued to pursue further optimization opportunities at this plant. These changes, together with the capacity that was added at the same facility in 2016, are expected to be sufficient to meet anticipated growth in demand for our premium Swiss Water® Process coffees until the new production line is fully operational.

As part of an ongoing evaluation of our cost structure with the goal of increasing overall margins, we are continuing to review and optimize cost recovery opportunities for both Swiss Water and our Seaforth Supply Chain Solutions Inc. ("Seaforth") subsidiary. While Seaforth's operating costs rose substantially in the first half of 2018 due to a warehouse expansion, there has been a notable reduction in operating costs in the subsequent six quarters. During the third quarter of 2019, we successfully consolidated all of Seaforth's operations onto one expanded site. This should significantly improve operating efficiency going forward. Notably, Seaforth made a materially positive contribution to the improvement in our gross profit in 2019.

Decaffeinated coffee continues its strong, positive growth trend, in both North America and in Europe. We believe that this is driven by a combination of factors, including the premiumization of the coffee market and broader consumer access to high quality decaffeinated coffee. The 18-39 year old age group leads decaffeinated coffee consumption, a trend that has maintained over the past six years[1]. This demographic in particular wants to enjoy great-tasting coffee throughout the day without worrying about the potential side effects of excess caffeine.

Younger consumers are also more aware and concerned about artificial ingredients and chemicals in the processing of their food and beverages—and expect transparency from brands. As a result, we have experienced increased demand for our sustainable Swiss Water® Process, which is certified Organic and uses zero chemical solvents. Demand for sustainability is increasing with consumer packaged goods sales of products marketed as sustainable growing 5.6x faster than those that were not.[2] Furthermore, 43% of

[1] National Coffee Association 2019 Coffee Drinking Trends

[2] NYU Stern Center for Sustainable Business, Sustainable Share Index™: Research on IRI Purchasing Data (2013-2018), March 11, 2019

consumers say they are more likely to buy coffee that is Certified Organic, and 49% of consumers say they're more likely to buy coffee if it is grown in an environmentally sustainable way. [1]

The health and environmental hazards associated with methylene chloride (the primary chemical used by our competitors to decaffeinate coffee) continues to garner media attention[3] and growing public concern. It's worth noting that the U.S. Environmental Protection Agency has banned the substance in paint removers[4]. We believe this rise in awareness is helping to drive consumer demand for, and customer conversion to, our 100% chemical free coffees. Accordingly, we will continue to proactively invest in messaging activities to convey the many benefits of the Swiss Water® Process.

Over the near future, our primary focus will be to position Swiss Water to maintain our current growth momentum and enhance our operating margins. The new European sales office we opened in Q1 of 2019 is now enabling us to much better serve customers in the EU, the world's largest decaffeinated coffee market. This strategy is clearly bearing fruit as our European business grew by 97% through 2019 when compared to 2018. In parallel, we are enhancing our ability to target specific customer groups in the United States. Developing our European and US sales teams has increased our expenses somewhat over the last several quarters. However, we expect these initiatives will enable us to generate increased volume in the longer term and to help drive major account wins. As converting large customers to Swiss Water® Process coffees typically takes many months, we believe that continuing to strengthen our sales capability is a critical part of our preparation to ramp up orders and win new business as we complete the commissioning of our new production facility currently underway.

Going forward, we will continue to invest in our production infrastructure and human resources to prepare for the significant growth that we anticipate in the future.

BUSINESS OVERVIEW

What we do

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

Our Seaforth subsidiary provides a complete range of green coffee logistics services including devanning coffee received from origin; inspecting, weighing and sampling coffees; and storing, handling and preparing green coffee for outbound shipments. Seaforth provides all of Swiss Water's local green coffee handling and storage services. In addition, Seaforth handles and stores coffees for several other coffee importers and

[3] The Washington Post published an article titled "EPA bans consumer use of deadly paint stripper, in rare step" on March 15, 2019 citing deaths being caused by the chemical methylene chloride. In 2018, New Scientist published a report (https://www.newscientist.com/article/2138753-ozone-layer-recovery-will-be-delayed-by-chemical-leaks/) about how methylene chloride is slowing the regeneration of the ozone layer

[4] United States Environmental Protection Agency Regulation of Paint and Coating Removal for Consumer Use: Methylene Chloride (https://www.regulations.gov/document?D=EPA_FRDOC_0001-23648)

brokers, and is the main green coffee handling and storage company in Metro Vancouver. Seaforth is organically certified by Ecocert Canada.

Swiss Water name and TSX symbol

In the prior year, on September 28, 2018, Swiss Water changed its corporate name from Ten Peaks Coffee Company Inc. to Swiss Water Decaffeinated Coffee Inc. The name change was undertaken in order to better leverage the considerable brand equity in the "Swiss Water" name, as well as the related trademarks and intellectual property of the Swiss Water® Process. Swiss Water's shares trade on the Toronto Stock Exchange under the symbol 'SWP', formerly TPK. As at the date of this report 9,078,780 shares were issued and outstanding.

Swiss Water Decaffeinated Coffee Business

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

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

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

KEY PERFORMANCE DRIVERS

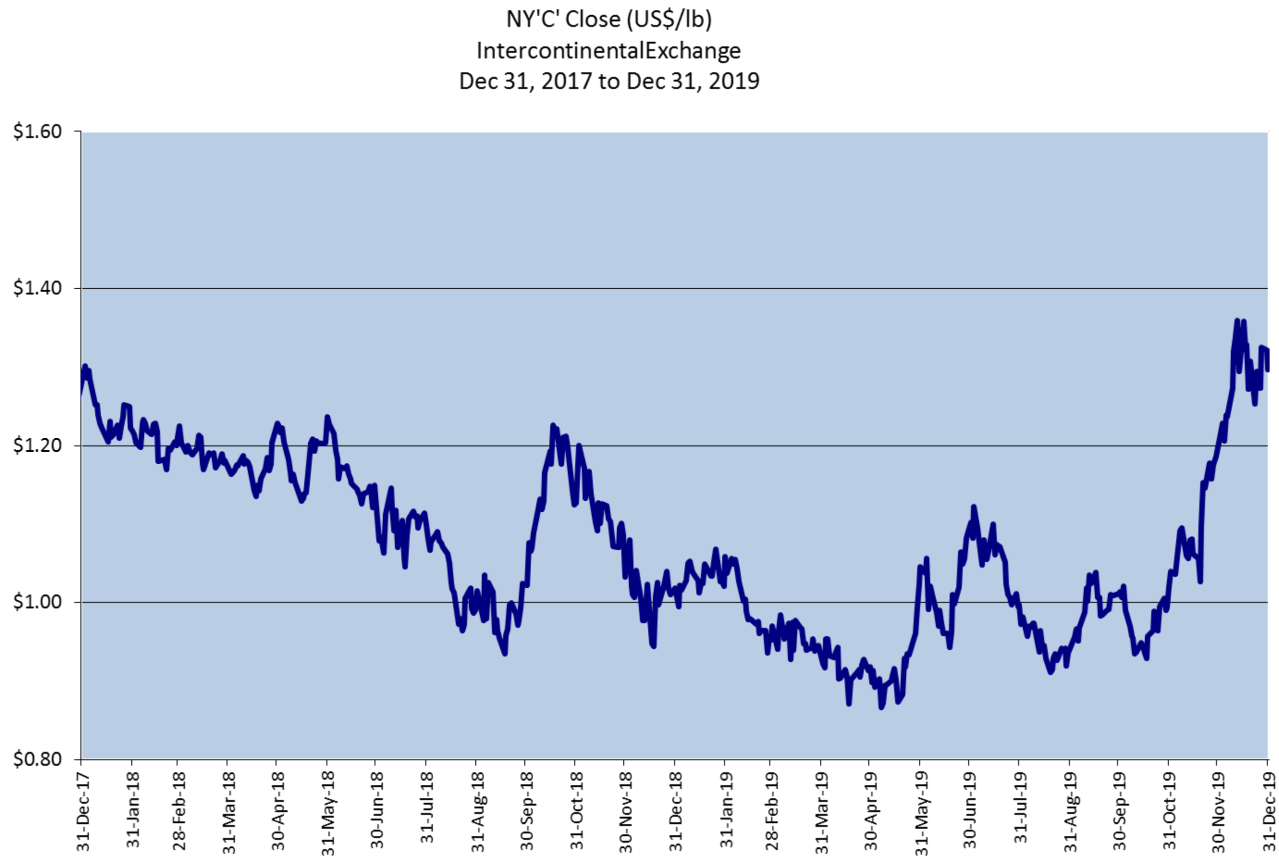
The following key performance drivers are critical to the successful implementation of our strategy and ability to improve profitability and cash from operations:

External Factors

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

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

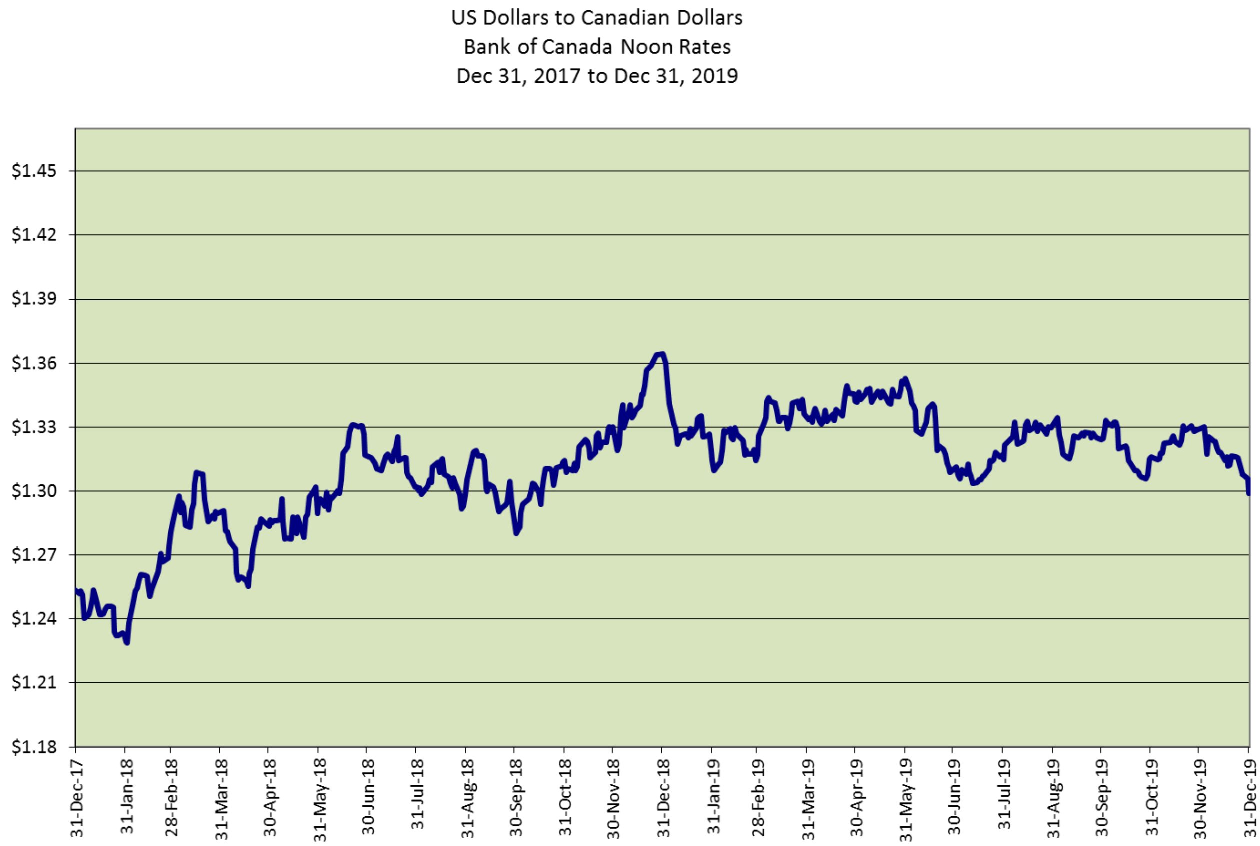
The chart below shows the movement in the NY'C' for the last eight quarters:



In Q4 2019, the NY'C' averaged US$1.12/lb compared to an average of US$1.09/lb in Q4 2018. For 2019, the NY'C averaged US$1.01/lb, compared to US$1.12/lb for 2018. The rise and fall of the NY'C' affects our volume of shipments, our revenues and our cost of sales. In an upward trending market, our customers tend to consume their inventories rather than build them. When the NY'C' declines over a sustained period (as it has for the past 12 months), our customers tend to add to their inventories.

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

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



In Q4 2019, the US$ averaged C$1.32, remaining flat over the same period in 2018. In 2019, the US$ averaged C$1.33, an increase of 2% over the same period last year. During 2019 the US$ ranged between C$1.30 and 1.36 (2018: between C$1.23 and C$1.36). When the US$ depreciates (appreciates), it decreases (increases) our gross profit on green coffee revenues.

Internal Factors

- *Sustainability and Environmental Responsibility* – The Swiss Water® Process is a 100% chemical free decaffeination process that enables us to consistently deliver high-quality coffee. Our approach to sustainability is to continually improve and innovate this process to be more efficient by actively managing resource usage in a safe and environmentally responsible manner. In addition to carefully managing our operations, we take steps to ensure sustainable coffee supply by purchasing sustainably certified coffees and organic coffees. We promote social sustainability by participating in programs within the coffee industry that advance the health of women and their families living in coffee-growing communities (Grounds for Health) and that foster research-based approaches to advancing coffee cultivation (World Coffee Research).

- *Processing Volumes* – Our decaffeination facility generates a certain level of fixed operating costs that are incurred regardless of the volume of coffee processed. Accordingly, our profitability and cash from operations will increase as processing volumes increase. Processing volume is a key performance indicator ("KPI") that we monitor continuously.

- *Process Consistency* – We manage our operations in order to reduce variability in production and drive continuous improvement. Production consistency results in improved product quality. We have developed a number of KPIs designed to monitor process consistency, and have set targets for continuous process improvement.
- *Product Quality* – Quality control is a key part of our operations. We operate under the Food Safety Systems Certification (FSSC) 22000, which manages our food safety, as well as HACCP (Hazard Analysis Critical Control Points) and quality assurance programs. All green coffees delivered to our processing facility are weighed and inspected and are subject to rigorous internal quality-control evaluations. Each lot of green coffee processed is monitored throughout the decaffeination process, and a certificate of analysis is prepared for each lot. A sample from each production lot is also roasted, brewed and cupped to ensure quality. In addition, our focus on reducing the size of production lots and increasing inventory turnover results in fresher coffee being provided to our customers. Production batch size and inventory turns are two other KPIs that we monitor regularly.
- *Order Fulfillment* – Our integrated supply chain management strategy includes maintaining inventories of finished goods at various coffee warehouses throughout North America, and of raw goods for improved inventory replenishment times. Our order fulfillment rates are monitored regularly. An improved order fulfillment rate has contributed to our volume growth and improved customer service levels.
- *Employee Safety* – We are focused on operating our business in a safe manner, and reducing the likelihood that employees will be injured at work. We track employee safety metrics by department, and our safety committee proactively seeks ways to reduce the risks inherent in our operating environment. While we cannot completely eliminate workplace incidents or accidents, we have significantly reduced the number of safety-related incidents over the past few years. We believe that ensuring employee safety leads to improved employee retention and morale, increased efficiency and lower operating costs.

CAPACITY TO DELIVER RESULTS

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

- *Proprietary Chemical Free Production Lines* – We have two decaffeination production lines. This enables us to align our production capacity with changes in demand throughout the year. We operate one line when demand is lower, and both lines when demand is higher, giving us better control over our variable costs. As discussed above, we completed an efficiency enhancement project in Q2 2018 to increase capacity at our current operating facility and in 2016, we expanded the capacity of one of our production lines, which enables us to meet near-term growth in demand for our products. Construction of the new facility in Delta will enable us to meet our long term growth ambition.
- *Consumer Branding as the Premium, 100% Chemical Free Method of Decaffeinating Green Coffee* – We have been successful in establishing our brand as a leading chemical free processor of green decaffeinated coffee. Consumers and participants in the coffee trade are increasingly aware of the value of the chemical free Swiss Water® Process due to its quality and taste. We believe that there is significant potential to continue to broaden consumer awareness of the benefits of the Swiss Water® Process.

- *Established Customer Base* – The Swiss Water® Process has an established customer base across North America and in many international markets. Our customers include some of North America's largest roasters, roaster-retailers and leading coffee brands.
- *Broad Distribution Channels* – Green coffee decaffeinated using the Swiss Water® Process is sold through the coffee market's key distribution channels: roaster retailers, commercial roasters and coffee importers. This diversity ensures that we access all key segments of the specialty coffee trade and consumer coffee markets.
- *Working Capital and Expansion Capital* – In 2015, 2016, 2018, and 2019 we raised equity and debt which is being used to fund the construction of our third production line (to be housed in the new production facility noted above). In 2020, we will continue to revisit our budgets and financing strategy to ensure that we have sufficient funds to execute on our business strategy. We expect to utilize internally generated and external funds to finance the capital costs associated with the new production facility and its future growth.
- *Management Expertise* – Swiss Water is highly regarded in the coffee industry for our senior management team's substantial experience, our close attention to consumer trends in the specialty coffee market, and our in-depth knowledge of green and roasted coffee. In particular, our intense focus on premium product quality and commitment to science-driven insight is well recognized. To maximize these strengths, we have invested significant resources in enhancing our team's industry-related skills and talents over the past few years. Going forward, we intend to leverage our exceptional experience with, and knowledge of, the specialty coffee industry to continue to build our business.

OPERATING RESULTS

Revenue

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

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

Our revenue by category for the indicated periods was:

(In $000s) (unaudited)	3 months ended December 31, 2019	3 months ended December 31, 2018	Year ended December 31, 2019	Year ended December 31, 2018
Process revenue	$ 6,895	$ 5,974	$ 26,852	$ 23,894
Green revenue	16,278	15,406	63,047	60,197
Distribution revenue	1,850	1,599	7,331	5,848
Total revenue	$ 25,023	$ 22,979	$ 97,230	$ 89,939

For the quarter ended December 31, 2019, sales totaled $25.0 million, an increase of $2.0 million, or 9%, compared to the same quarter in 2018. Sales for the year 2019 totaled $97.2 million, an increase of $7.3 million, or 8%, over the same period last year.

The increases in our sales in the fourth quarter and in 2019 by revenue category are as follows:

- Process revenue increased by $0.9 million, or 15% in Q4, and increased by $3.0 million, or 12% in 2019. Increases in both periods reflect growth in our processing volumes and a higher average US$ exchange rate.
- Green revenue increased by $0.9 million, or 6% in Q4, and increased by $2.9 million, or 5% in 2019. These increases were due to growth in green coffee sales volumes, offset by a lower coffee futures price, NY'C', in such periods.
- Distribution revenue rose by $0.3 million, or 16% in Q4, and increased by $1.5 million, or 25% in 2019. Enhanced distribution revenue has been driven by increased volumes of stored coffee, and revenue management initiatives.

The increases in our sales volume in the fourth quarter and in 2019 by geographical segment are as follows:

- Sales volume in North America increased by 4% in Q4, and by 6% in 2019,
- Sales volume in Europe increased by 116% in Q4, and by 97% in 2019,
- Sales volume in Asia Pacific increased by 54% in Q4, and by 54% in 2019.

The increases in sales volumes by geographical segment are consistent with our strategic efforts to leverage existing relationships with customers in North America while establishing a sales presence in France to enhance sales growth and penetration in the European market.

Cost of Sales

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

Our fourth quarter cost of sales increased by $1.6 million, or 8%, to $20.9 million this year compared to the same period in 2018. For 2019, our cost of sales was $80.7 million, up by $5.7 million, or 8%, over the same period last year. The increase is broadly the result of higher variable production costs associated with the growth in production volumes and annual labour cost inflation, partially offset by a decrease in green coffee costs, which is a significant portion of our cost of sales.

In 2019, we also absorbed higher natural gas costs as a result of a spike in the spot market for natural gas, due to a pipeline explosion in October 2018 and a polar vortex (extended period of abnormally cold weather) in March 2019 which significantly reduced the supply of gas. Natural gas prices normalized in the second to fourth quarter of 2019.

Gross Profit

Gross profit increased by 11% to $4.1 million for the fourth quarter of this year, as higher revenues more than offset the increases in our cost of sales. Gross profit for the year 2019 increased by 11% to $16.5 million, compared to the same period last year, despite the impact of higher energy costs in Q1 2019. Full year results have been positively impacted by increased processing volumes, revenue management initiatives, and leveraging enhanced cost recovery, without compromising the quality of our coffee.

Administration Expenses

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

Administration expenses for Q4 2019 totaled $1.8 million. This is an increase of $0.9 million, or 103%, compared to the same period last year. Administration expenses for the year 2019 increased by 29% to $6.9 million. Throughout the year the increase to administrative expenses largely reflects costs incurred to support strategic growth initiatives for 2019, salary inflation as a consequence of our annual cost of living adjustment, moving costs as we consolidated Seaforth's operation into one location in Delta, and increased research and development expenditures in Q2 2019. In addition, in Q4 2018 we benefited from a Canadian Scientific Research and Experimental Development incentive tax credit of $0.4 million, while for the same period in 2019 the amount was not significant.

Sales and Marketing Expenses

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

Sales and marketing expenses were up by $0.4 million, or 36%, to $1.5 million in Q4 2019, and by $0.4 million, or 9%, to $4.1 million for 2019, compared to the same periods in 2018. The increases in both periods were driven by initiatives in Europe and the United States. Specifically, higher investment in brand awareness activities, and in support of our strategic growth initiatives.

Occupancy Expenses

Occupancy expenses include the cost of renting offices for sales, marketing and administrative use. Occupancy costs for the fourth quarter and 2019 increased by $0.2 million in Q4 2019, and increased by $0.1

million for the full year. In 2019 we experienced higher costs for occupancy expenses, as in Q4 2019 we commenced use of the administrative office at our new production facility in Delta, British Columbia.

Finance Expenses and Income

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

The net finance expense was $0.2 million for the three months ended December 31, 2019, and $1.4 million for the year ended December 31, 2019, respectively, compared to net finance expense of $0.2 million and $0.9 million in the same periods last year. The lower interest income from short-term investments maturing in 2019 combined with the interest expenses on a convertible debenture and interest expense on finance leases, due to the adoption of IFRS 16 in 2019, accounted for the majority of the changes.

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

The adoption of IFRS 16 – Leases in 2019 resulted in interest expenses of $0.1 million and $0.4 million recognized during the three months and the year ended December 31, 2019, while there was no such cost in 2018.

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

Gains and Losses on Risk Management Activities

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

For the three months and the year ended December 31, 2019, we recorded a gain of $0.4 million and $1.4 million respectively, compared to a loss of $0.6 million and $0.01 million recorded for the same periods in 2018.

Fair Value Adjustment on Embedded Option

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

The revaluation on this embedded option resulted in losses of $0.01 million in the fourth quarter of 2019 and $0.8 million for the year-to-date, compared to gains of $0.8 million and $1.8 million, respectively, in the same periods of last year.

Gains and Losses on Foreign Exchange

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

During the fourth quarter, we recorded a loss on foreign exchange of $0.2 million, compared to $ 0.04 foreign exchange gain or in the same period last year. The full year amount for 2019 was a loss of $0.4 million compared to a loss of $0.3 million in the same period of 2018.

Income Before Taxes and Net Income

In the fourth quarter of 2019, we recorded income before taxes of $0.9 million, compared to $1.6 million in the same period in 2018. Current and deferred income tax reduced our net income by $0.2 million for the quarter, compared to $0.7 million in Q4 2018. Deferred income taxes arise mainly from temporary differences between the depreciation and amortization expenses deducted for accounting purposes, and the capital cost allowances deducted for tax purposes, as well as changes in corporate income tax rates as adjusted for substantively enacted higher future tax rates. The latter is offset by the tax benefit of loss carryforwards recognized. Overall, we recorded a net income of $0.7 million in Q4 2019, compared to $0.9 million in the same quarter last year.

For 2019, we recorded pre-tax income of $4.0 million, down from $6.2 million in 2018. This was reduced by income tax expenses of $1.1 million, compared to income tax expense of $1.7 million in the same period last year. Overall, we recorded net income of $2.9 million for the year-to-date, compared to $4.5 million a year ago.

Other Comprehensive Income

Gains or losses on our designated revenue hedges that will mature in future periods are recorded in other comprehensive income, net of income tax expense. Other comprehensive income, net of tax, for the fourth quarter of 2019 was a gain of $0.7 million, compared to a loss of $2.6 million in the same period of 2018. Other comprehensive income, net of tax, for 2019 was a gain of $1.9 million, compared to a loss of $4.0 million in the same period of 2018. In both periods, the increases and decreases are related to fluctuations in the value of the Canadian dollar versus the US dollar.

Basic and Diluted Earnings per Share

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

In the fourth quarter and the year 2019, both potential common shares issuable under the RSU Plan and common shares issuable for the convertible debenture are anti-dilutive and therefore excluded from the calculation of diluted earnings per share in such periods. In comparison, for the same periods of 2018, only potential common shares issuable under the RSU Plan are anti-dilutive and excluded from the calculation.

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

(In 000s except for per share data) (unaudited)	3 months ended December 31, 2019	2018	Year ended December 31, 2019	2018
Basic earnings per share				
Net income attributable to shareholders	$ 716	$ 919	$ 2,944	$ 4,531
Weighted average number of shares	9,061,210	9,061,210	9,061,210	9,058,149
Basic earnings per share	$ 0.08	$ 0.10	$ 0.32	$ 0.50
Diluted earnings per share				
Net income attributable to shareholders	716	919	2,944	4,531
Interest on convertible debenture	-	272	-	1,063
Gain on fair value adjustment of the embedded option	-	(813)	-	(1,799)
Net income after effect of diluted securities	$ 716	$ 378	$ 2,944	$ 3,795
Weighted average number of shares – basic	9,061,210	9,061,210	9,061,210	9,058,149
Effect of diluted securities: convertible debenture	-	1,818,182	-	1,818,182
Weighted average number of shares - diluted	9,061,210	10,879,392	9,061,210	10,876,331
Diluted earnings per share	$ 0.08	$ 0.03	$ 0.32	$ 0.35

QUARTERLY INFORMATION / SEASONALITY

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

In $000s except for per share amounts (unaudited)	8 Quarter Average	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018
Sales	23,396	25,023	23,645	24,392	24,170	22,979	23,087	22,658	21,215
Gross Profit	3,927	4,106	4,737	4,106	3,544	3,686	4,439	3,952	2,842
Operating income	1,349	539	2,291	1,356	976	1,618	1,927	1,528	555
EBITDA[1]	2,261	1,454	3,485	3,097	2,312	2,050	2,717	1,868	1,106
EBITDA excluding IFRS 16[2]	1,886	797	2,696	2,278	1,573	2,050	2,717	1,868	1,106
Net income (loss)	934	716	884	1,353	(9)	919	1,828	1,294	489
Per Share[3]									
Net income (loss) - basic	0.10	0.08	0.10	0.15	(0.00)	0.10	0.20	0.14	0.05
Net income (loss) - diluted	0.08	0.08	0.10	0.14	(0.00)	0.03	0.18	0.10	0.03

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

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

NON-IFRS MEASURES

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

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

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

EBITDA for the three months ended December 31, 2019 was $1.5 million, down by 29% compared to Q4 2018. For the year, EBITDA increased by 34% to $10.4 million, compared to the same period in 2018. In 2019, we adopted IFRS 16 – Leases, without restating comparative amounts for the year 2018, as permitted by the standard. For the year ended December 31, 2019, the adoption of IFRS 16 resulted in the recognition of $1.9 million in depreciation expense and $0.4 million in interest expense, which are costs that are not included in the calculation of EBITDA. In the prior year 2018, these leases were classified as operating leases, under IAS 17 – Leases, and their related minimum lease payments were recognized as a part of EBITDA.

For the three months ended December 31, 2019 EBITDA, which excludes the impact of IFRS 16, was $0.8 million, down by 61% compared to Q4 2018. For the year, EBITDA excluding the impact of IFRS 16 decreased by 5% to $7.3 million, compared to the same period in 2018. Operationally, the change in EBITDA was driven by strong growth in processing volumes, successful and continuous efforts across the Company to enhance cost recovery and an increased financial contribution from Seaforth. The positive impacts were offset by moving cost as leases concluded and we consolidated Seaforth's operations in Delta, a temporary increase to natural gas in the first two quarters of 2019, a strategic investment in sales team and initiatives, research and development for efficiencies and a lower 2019 refund from Canadian scientific research and experimental development incentive tax credit.

The reconciliation of net income to EBITDA is as follows:

(In $000s) (unaudited)	3 months ended December 31, 2019	 2018	Year ended December 31, 2019	 2018
Income for the period	$ 716	$ 919	$ 2,944	$ 4,531
Income taxes	193	718	1,059	1,689
Income before tax	$ 909	$ 1,637	$ 4,003	$ 6,220
Finance income	(134)	(143)	(511)	(530)
Finance expenses	(85)	373	1,911	1,457
Depreciation & amortization	804	426	3,697	1,689
Unrealized (gain) loss on foreign exchange forward contracts	(488)	626	(830)	188
Fair value loss (gain) on the embedded option	12	(813)	770	(1,799)
Loss on foreign exchange	190	(38)	425	278
Share-based compensation	246	(18)	885	242
EBITDA	$ 1,454	$ 2,050	$ 10,350	$ 7,745
Impact of IFRS 16, which was adopted in the year 2019	(657)	-	(3,006)	-
EBITDA excluding the impact of IFRS 16	$ 797	$ 2,050	$ 7,344	$ 7,745

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

(In $000s) (unaudited)	3 months ended December 31, 2019	 2018	Year ended December 31, 2019	 2018
Operating income for the period	$ 539	$ 1,618	$ 5,162	$ 5,631
Add back:				
Depreciation & amortization	804	426	3,697	1,689
Share-based compensation	246	(18)	885	242
Gain (loss) on risk management activities	353	(602)	1,436	(5)
Deduct:				
Unrealized (gain) loss on foreign exchange forward contracts	(488)	626	(830)	188
EBITDA	$ 1,454	$ 2,050	$ 10,350	$ 7,745
Impact of IFRS 16, which was adopted in the year 2019	(657)	-	(3,006)	-
EBITDA excluding the impact of IFRS 16	$ 797	$ 2,050	$ 7,344	$ 7,745

SELECTED ANNUAL INFORMATION

(In $000s except per share amounts) (unaudited)	December 31, 2019	December 31, 2018	December 31, 2017
Balance Sheet			
Total assets	136,881	86,881	72,848
Total non-current liabilities	66,445	27,284	19,497
Income Statement			
Revenue	97,230	89,939	83,755
Net income	2,944	4,531	4,160
EBITDA[1]	10,350	7,745	6,923
EBITDA excluding impact of IFRS 16[2]	7,344	7,745	6,923
Dividends paid	2,265	2,262	2,260
Per share, basic[3]			
Net income	0.32	0.50	0.46
EBITDA[1]	1.14	0.85	0.77
EBITDA excluding impact of IFRS 16[2]	0.81	0.85	0.77
Dividends paid	0.25	0.25	0.25
Per share, diluted[3]			
Net income	0.32	0.35	0.42
EBITDA[1]	1.14	0.71	0.64
EBITDA excluding impact of IFRS 16[2]	0.81	0.71	0.64

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

Our total assets and our total long-term liabilities increased in each of the last two years as we are investing in constructing a new production facility and due to the adoption of IFRS 16 – Leases. Our new state of the art production facility in Delta, BC, for which construction commenced in 2016, increased our total assets by $24.8 million in 2019 and by $23.9 million in 2018, respectively (see 'Outlook' section, above). IFRS 16 – Leases was adopted in the year 2019, which resulted in an increase of $24.0 million to total assets. Total long-term liabilities increased in both years consistently with the additions to our new plant and the new IFRS 16.

LIQUIDITY AND CAPITAL RESOURCES

Operating activities

For the three months and year ended December 31, 2019, we generated $0.7 million and $7.4 million, respectively, in net cash from operating activities, compared to $2.5 million and $5.7 million generated in the same periods in 2018. In 2019, we adopted IFRS 16 – Leases, and as required by the new standard, for the three and year ended December 31, 2019, we accounted for lease liability payments of $0.4 million and $1.8 million, respectively, as cash outflows under financing activities. These cash outflows were reported under operating activities in 2018.

Investing Activities

Cash outflows in investing activities for Q4 2019 were $4.1 million, compared to cash outflows of $10.4 million in Q4 2018. Cash outflows from investing activities for 2019 were $18.7 million, compared to cash outflows of $14.0 million in the same period last year. In both years the majority of cash outflows were for capital expenditures related to our plant expansion in Delta, BC. In 2018 proceeds from short-term investments were $7.0 million while there were no such investments made in 2019.

Financing Activities

During the year ended December 31, 2019, Swiss Water paid $2.3 million in dividends to shareholders. This is unchanged from 2018. Throughout the years 2019 and 2018 we received proceeds from our construction loan in the amount of $10.6 million and $9.4 million, respectively, which were used to pay for costs of our new production plant in Delta. Also, in the year 2019, we drew $3.5 million from our new credit facility to pay for operational and capital initiatives. In accordance with IFRS 16 – Leases, which was adopted in 2019, our financing cash outflows include amounts for lease payments, which, in the year 2019, were $1.8 million and $nil in 2018. In 2018, such principal portion of the lease payments were disclosed in cash flows from operating activities.

Inventory

Our inventory increased in value by 29% and in volume by 19% between December 31, 2018 and December 31, 2019. The increase reflects a higher NY'C' in the current year, as well as an increase in volume in raw materials albeit a decrease in finished goods inventory.

Under hedge accounting, gains and losses on derivative instruments for coffee to be sold in future periods are recorded in inventory. The hedge accounting component of inventory as at December 31, 2019 was a gain of $1.3 million compared to a loss of $0.6 million at the end of 2018.

Accounts Receivable

Our accounts receivable increased by $0.3 million, or 2%, between December 31, 2018 and December 31, 2019 compared to an increase of $2.2 million, or 18%, between December 31, 2017 and December 31, 2018. 87% of Swiss Water accounts receivable are current as at December 31, 2019. The majority of the past due amounts were collected shortly after the year end.

Credit Facilities and Liquidity

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

The Credit Facility has multiple interest rate options that are based on the Canadian Prime Rate, Base Rate, LIBO Rate, Bankers' Acceptance Rate plus an acceptance fee, in addition to an Applicable Margin for each of these rates. Fees apply to outstanding letters of credit and the unused portion of the credit. The Company has pledged substantially all of its assets, except for assets pledged to BDC under the Term Loan (see below, Construction Loan). This Credit Facility replaced two former credit facilities, the $14.5 million revolving operating line of credit and the $1.5 million swing operating line of credit.

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

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

We have certain bank covenants that relate to the maintenance of specified financial ratios and we were in compliance with all covenants in the years 2018 and 2019.

Construction Loan

In Q4 2018, the Company completed a transaction with the Business Development Bank of Canada ("BDC") for a term loan facility ("Term Loan") of up to $20.0 million. The purpose of the Term Loan is to assist in the financing of new equipment for the facility being built in Delta, British Columbia. The Term Loan bears interest at 4.95% per annum over 12 years with principal repayment commencing on July 1, 2021.

The Term Loan matures on June 1, 2033. Only interest will be paid on the outstanding balance on a monthly basis prior to July 1, 2021. The Term Loan is secured by a general security agreement and a first security interest on all existing equipment and machinery plus new equipment and machinery financed with the Term Loan. Seaforth has provided a guarantee for the Term Loan. As of December 31, 2019, the loan amount outstanding was $20.0 million with interest accrued of $0.08 million.

Contractual Obligations

The following table sets forth our contractual obligations and commitments as at December 31, 2019:

(In $000s) (unaudited)	Total	Less than 1 year	2-3 years	4-5 years	Over 5 years
Long-term debt[1]	$ 35,000	$ -	$ 2,501	$ 18,333	$ 14,166
Financing leases[2]	14,747	2,698	5,591	3,282	3,176
Credit facility[3]	3,506	-	3,506	-	-
Purchase obligations[4]	34,762	34,345	417	-	-
Total contractual obligations	$ 88,015	$ 37,043	$ 12,015	$ 21,615	$ 17,342

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

Swiss Water leases a facility that houses its decaffeination plant and offices. The current lease term expires in 2023. Beyond expiry in 2023, the landlord has to approve any subsequent renewal of the lease.

In Q1 2019, Seaforth entered into an agreement to lease an additional warehouse facility, which commenced in April 2019 and expires in June 2027. Seaforth's two warehouse leases expired in June and September 2019. Following these changes, Seaforth's operations were consolidated into one warehouse location by the end of Q4 2019. Seaforth also leases equipment, for which 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 was entered into in Q4 2019 and it expires in October 2022.

Swiss Water Decaffeinated Coffee Europe SARL leases a sales office in France, which expires in October 2027.

In 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 Swiss Water's option in five-year increments up to a total of 30 years. The lease commenced in July 2018. Under the lease, Swiss Water has multiple options to buy-out the lease starting at the end of the second five-year term. The buy-out value will be equal to the fair market value of the property as determined by an appraisal process, subject to specified maximum and minimum values. The lease also includes a construction management agreement for the construction of a highly specialized building to house the production plant.

OFF-BALANCE SHEET ARRANGEMENTS

Swiss Water has no off-balance sheet arrangements.

RELATED PARTY TRANSACTIONS

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

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

(In $000s) (unaudited)		Year ended December 31, 2019		2018
Income for the period	$	957	$	393
Purchases of raw materials	$	3,843	$	5,957

All transactions were in the normal course of operations and were measured at the fair value of the consideration received or receivable, which was established and agreed to by the related parties. As at December 31, 2019, our accounts receivable balance with this company was $0.01 million (December 31, 2018: $0.01 million) while our accounts payable balance with this company was $0.5 million (December 31, 2018: $0.3 million).

On March 16, 2017, a subsidiary of Swiss Water and a member of Key Management (the borrower) entered into a promissory note in the amount of US$0.1 million. For as long as the borrower remains an employee, the obligation to repay the principal is forgiven against current and future awards under the RSU Plan, by forfeiture of awards. The loan is interest-free other than in the event of default, in which case the promissory note shall bear simple interest at a rate of 10% per annum.

RISKS AND UNCERTAINTIES

Swiss Water's dividend policy is at the discretion of the Board of Directors and its ability to pay dividends dependent upon the earnings and cash flow generated from Swiss Water's operations, as well as our current and planned future investments in capital equipment. Cash from operations may fluctuate with the performance of the business, which can be susceptible to a number of risks. These risks may include, but are not limited to, foreign exchange fluctuations, labour relations, coffee prices (notwithstanding hedging programs, as exact hedging correlation is not attainable), the availability of coffee, competition from existing chemical and other natural or chemical free coffee decaffeinators, competition from new entrants with alternate processing methods or agricultural technologies, environmental and regulatory risks, terms of credit agreements, commodity futures losses, ability to maintain organic certification, adequacy of insurance, risks related to information technology, dependence on key personnel, product liability, uncollectable debts, and general economic downturns. The future effect of these risks and uncertainties cannot be quantified or predicted.

In addition, Swiss Water leases the building in Burnaby, BC, that houses two decaffeination lines. The lease on this facility expires in 2023 and provides for an additional five-year renewal term (to 2028), subject to the approval of the landlord. The ownership of this facility changed in mid February of 2020. Following this change, the probability of a lease renewal being granted was re-assessed. Swiss Water has concluded that the renewal risk has increased, and believes the likelihood of a lease renewal beyond 2023 is now much more uncertain. Relocating the existing production equipment would result in significant capital expenditures and the payment of the asset retirement obligation (currently recorded as a long-term liability on our financial statements).

Swiss Water's operations may be negatively impacted in the event of a local or global outbreak of disease, such as the recent novel coronavirus, COVID-19 outbreak. Swiss Water may experience disruptions to its business operations if a significant number of its employees, or those of its customers or suppliers, are quarantined and unable to work. There may be significant disruptions and delays in our ongoing business or in the start-up procedures at our new facility, in Delta, BC.

A pandemic may impact demand for our products and services and the capability of our supply chains. It may also impact expected credit losses on our amounts due from customers and whether the entity continues to meet the criteria for hedge accounting. For example, if a hedged forecast transaction is no longer highly probable to occur, hedge accounting would be discontinued.

ENVIRONMENTAL RISKS

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

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

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

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

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

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

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

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

CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES

Measurement of Uncertainty

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

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

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

Asset Retirement Obligation

The undiscounted future value of the asset retirement obligation (“ARO”) with respect to our leased decaffeination facilities is estimated at $1.6 million. This estimate assumes that we relocate from the current locations upon expiry of the lease renewal term in 2023 for Line 1 and Line 2, and the expiry of lease, before renewal in 2038 for Line 3. Further, the estimate reflects the expected costs of vacating the leased facility in 2023 and 2038, having regard for the contract language in the lease, the expected useful lives of our plant and equipment, and the expected costs that would be paid to a third party to remove equipment.

Income Taxes

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

Deferred tax assets also reflect estimates of the recoverability of non-capital loss carryforwards. We have recognized the benefit of loss carryforwards to the extent that it is probable that taxable income will be available in the future against which our non-capital loss carryforwards can be utilized. As at December 31, 2019, Swiss Water and its subsidiaries had combined non-capital tax loss carryforwards totaling $2.2 million, which can be used to reduce income taxes payable in future years.

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

Convertible Debenture with Embedded Derivatives

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. Subject to reaching specific thresholds in the covenant, the interest rate increases to 7.85% per annum to be paid quarterly in arrears. 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. This option was not elected.

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.

Under IFRS, we are required to estimate the interest rate on a similar instrument of comparable credit status and providing for substantially the same cash flows, on the same terms, but without the equity conversion option, in order to estimate the fair value of the liability portion of the convertible debenture upon initial recognition. We have estimated the effective interest rate to be 12.15%, such that the fair value of the liability component of the convertible debenture was initially measured at $11.2 million. During 2019, the Company estimated and recorded $1.5 million in interest expense (2018: $1.5 million) and paid $1.0 million (2018: $1.0 million).

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

Inputs into the Black-Scholes Option Pricing Model to determine the fair value of the conversion option:

	Year ended December 31, 2019	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%

Leases

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

CHANGES IN ACCOUNTING STANDARDS

The following standard became effective for annual periods beginning on or after January 1, 2019.

- *IFRS 16: Leases:* replaces IAS 17, IFRIC 4, SIC-15, and SIC-27. 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. Lessees also recognize a depreciation charge for right-of-use assets and interest expense on lease liabilities. A lessee can choose to apply IFRS 16 using either a full retrospective or a modified retrospective approach.

We have 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. 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. Additional disclosures have been included in Swiss Water's audited consolidated financial statements for the year ended December 31, 2019.

We have adopted the following amended standards, and we assessed that there was no material impact on our condensed consolidated interim 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.

A number of new 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, we do not anticipate a material impact on the Company's financial statements in the period of initial application.

HEDGE ACCOUNTING

We adopted the hedge accounting provisions of IFRS 9 on January 1, 2016, in order to reduce volatility in our financial results, by better matching our accounting practices to our hedging practices. We did ***not*** change our risk management strategies with the adoption of hedge accounting. The economic impact of our hedges is unchanged from before January 1, 2016, even though the accounting for these derivative instruments has changed.

We enter into three types of hedges:

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

Each type of hedge is discussed below.

Commodity Hedges

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

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

Revenue Hedges

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

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

Customer-Specific Hedges

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

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

FINANCIAL INSTRUMENTS

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

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

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

Commodity Price Risk

Commodity price risk is the risk that the fair value of inventory or future cash flows will fluctuate as a result of changes in commodity prices. Swiss Water utilizes futures contracts to manage our commodity price exposure and also buys and sells futures contracts for coffee on the Intercontinental Exchange in order to offset our inventory position and fix the input cost of green coffee. As at December 31, 2019, we 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 (December 31, 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).

Foreign Currency Risk

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

At December 31, 2019, we had forward currency contracts to buy US$3.8 million and sell US$53.0 million (December 31, 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.

INTERNAL CONTROLS OVER FINANCIAL REPORTING & DISCLOSURE CONTROLS AND PROCEDURES

The Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") of Swiss Water are responsible for establishing and maintaining adequate internal control over financial reporting ("ICFR") to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Under the supervision and with the participation of management, we conducted an evaluation of the design and effectiveness of our ICFR as of December 31, 2019, based on the updated framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO 2013"). Based on this assessment, the CEO and CFO concluded that, as of December 31, 2019, Swiss Water's ICFR was effective.

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

The CEO and CFO evaluated or caused to be evaluated under supervision, the effectiveness of our disclosure controls and procedures and based on this evaluation, the CEO and CFO concluded that, as of December 31, 2019, Swiss Water's disclosure controls and procedures were effective. There were no changes in our ICFR that occurred during the period beginning on January 1, 2019 and ended on December 31, 2019 that have materially affected or are reasonably likely to materially affect, Swiss Water's ICFR.

SUBSEQUENT EVENTS

On January 15, 2020, Swiss Water 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 14, 2020, the ownership of the company's leased facility in Burnaby, BC changed. The terms of the lease agreement on this property remain unchanged.

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.

On March 18, 2020, Swiss Water's Board of Directors decided to suspend future dividends in preparation to build a second production line in Delta, BC.

In March 2020, the World Health Organization declared a global pandemic known as COVID-19*. The impacts on global commerce are expected to be far reaching. For Swiss Water, the pandemic may impact demand for the company's products and services in the near term and may disrupt its supply chains. It may also impact expected credit losses on amounts due from customers and whether Swiss Water 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.*