
MANAGEMENT DISCUSSION AND ANALYSIS

This Management's Discussion & Analysis ("MD&A") of Swiss Water Decaffeinated Coffee Inc. ("Swiss Water" or the "Company"), dated as of May 6, 2019, provides a review of the financial results for the three months ended March 31, 2019 relative to the comparable period of 2018. The three-month period represents the first quarter ("Q1") of our 2019 fiscal year. This MD&A should be read in conjunction with Swiss Water's condensed consolidated interim financial statements for the three month period ended March 31, 2019, the audited consolidated financial statements for the year ended December 31, 2018, and in conjunction with the Annual Information Form which are available at 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 are based on numerous assumptions and may prove to be incorrect. Therefore, such financial outlook information should not be relied upon by readers. These statements are neither promises nor guarantees but involve known and unknown risks and uncertainties that may cause our actual results, level of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed in or implied by these statements. These risks include, but are not limited to, risks related to processing volumes and sales growth, operating results, supply of coffee, supply of utilities, general industry conditions, commodity price risks, technology, competition, foreign exchange rates, construction timing, costs and financing of capital projects, general economic conditions and those factors described herein under the heading 'Risks & Uncertainties'.

The forward-looking statements contained herein are also based on assumptions that we believe are current and reasonable, including but not limited to, assumptions regarding: (i) trends in certain market segments and the economic climate generally; (ii) the financial strength of our customers; (iii) the value of the Canadian dollar versus the US dollar; (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 month period ended March 31, 2019, Swiss Water recorded significantly higher processing volumes, revenues and operating income compared to the same period last year. We reported strong volume growth within all trading regions, accelerated growth in Europe, continued to develop market share versus our competitors, increased operating margins, and improved our operational efficiencies 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 of the Swiss Water brand by targeting specific customer groups in North America. A summary of our financial results is in the table below:

<i>In \$000s except per share amounts (unaudited)</i>	3 months ended March 31, 2019		3 months ended March 31, 2018	
Sales	\$	24,170	\$	21,215
Gross Profit		3,544		2,842
Operating income		976		555
Net (loss) income		(9)		489
EBITDA ¹		2,312		1,106
Net income - basic ²	\$	-	\$	0.05
Net income - diluted ²	\$	-	\$	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 Per-share calculations are based on the weighted average number of shares outstanding during the periods.

Operational highlights

- Our total volumes shipped in the first quarter grew by 23% compared to the same period in 2018. Since the beginning of this year, underlying volume from existing customers has increased, and we have gained new business as customers migrate away from chemical decaffeination. Our global reach extends to 56 different countries, and we export volume to customers on every continent.
- Shipments to roasters grew by 21% over 2018 level for the first three months of this year. Shipments to importers in Q1 2019 increased by 28% compared to the same period last year. The growth in roaster and importer volumes reflects gains in market share, due in part, to a reduction in global decaffeination capacity following plant shutdowns by competitors in 2018.
- Volumes shipped to our specialty accounts grew by 11% in the first quarter compared to the same period in 2018. Recognition of the Swiss Water brand is driving penetration gains in this segment.
- Shipments to our commercial accounts increased by 32% in the first three months of the year when compared to the same period last year. Low availability of chemical free decaffeination capacity is helping to drive this growth.
- In January 2019 our European subsidiary was formally incorporated. Momentum is building behind our European business, in Q1 2019 volume grew by 28% compared to the same period in 2018.
- Our largest geographical market by volume in Q1 2019 was the United States, followed by Canada, and other international markets. By dollar value, 48% of our sales were to customers located in the United States, 37% were to Canada, and the remaining 16% were to other countries. As we continue to expand our business in Europe, we anticipate revenues from our international markets will increase in both dollar and percentage terms.

Financial highlights

- Quarterly revenue increased by 14% over Q1 2018 to \$24.2 million. The increase was due to growth in our processing volumes, partially offset by a lower coffee futures price ("NY'C") and lower average US dollar ("US\$") exchange rate.
- Gross profit grew 25% in Q1 2019 to \$3.5 million, with a margin of 15%. This represents a \$0.7 million increase over Q1 2018 and a 1.2% increase in margin. Results have been positively impacted by increased processing volumes, revenue management initiatives, and management's ongoing efforts to control Swiss Water's operating costs.
- We continue to pursue margin maintenance and improvement initiatives, following a recent period of inflationary pressure on our cost base. In Q1 we executed revenue management initiatives in our subsidiary, Seaforth Supply Chain Solutions Inc. We also continue to seek ways to reduce our variable and fixed costs, without sacrificing the quality of our product.
- Operating expenses increased by 12% to \$2.6 million in the first quarter compared to the same period last year, due to higher staffing and staff-related expenses, in addition to investment in advertising and consumer initiatives.
- Operating income increased by \$0.4 million, or 76%, to \$1.0 million in the first quarter of 2019.
- First quarter net loss was \$0.01 million, compared to a net income of \$0.5 million in Q1 2018. Our improved operating income was offset by higher non-cash expenses and by the adoption of the new IFRS 16 standard related to leases. The quarterly net loss was primarily due to the revaluation of an embedded derivative on the Company's convertible debenture. Higher finance expenses related to interest expense on leases as a result of the adoption of IFRS 16, and interest on a construction loan.
- EBITDA for Q1 2019 was \$2.3 million, up by \$1.2 million, or 109%, over the same period last year. The increase has been driven by strong growth in processing volumes, ongoing efforts across the Company to enhance cost recovery, increased financial contribution from our supply chain subsidiary, and due to new accounting standards related to leases. We will continue to invest in our production infrastructure and human resources to prepare for the significant growth we anticipate.

OUTLOOK

Looking ahead, we expect to record a strong year-over-year increase in annual volume in 2019. Production capacity continues to benefit from low cost volume expansion projects executed in 2018. During 2018, we saw growth in volumes shipped to roasters, importers, specialty and commercial accounts, this trend has continued into Q1 2019. This reflects the fact that we have won business with new roasters and increased business with existing customers who have grown their distribution, locations or expanded their product offerings. A portion of our new business is from roasters who previously obtained their decaffeinated coffees from a decommissioned CO₂ plant in Europe, while other account wins are related to the recent closure of a CO₂ plant in Houston, Texas.

We believe these plant closures have tightened the chemical free decaffeination coffee market and that the resulting drop in available decaffeination services will allow us to more rapidly utilize the additional production capacity we have coming online in late 2019.

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 coffee consumers. We now export to 56 countries globally. We expect increased marketing and sales investments in 2019 to drive further gains in recognition and conversion going forward.

Construction of our new Swiss Water® Process decaffeination facility, which is located in Delta, British Columbia, Canada, is progressing well. 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. The new production line is expected to be commissioned in the fourth quarter of 2019.

In anticipation of more immediate growth in demand, we completed an efficiency enhancement project in Q2 2018 to increase capacity at our current facility, and we continue to look for opportunities to optimize further in 2019. These changes, together with the capacity that was added at the same facility in Q1 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 operational. Overall, we continue to gain market share, particularly in the premium decaffeination market.

As a part of our ongoing evaluation of the Company's cost structure and with the goal of increasing overall margins, we are reviewing cost recovery opportunities for both Swiss Water and its subsidiary, Seaforth Supply Chain Solutions Inc. ("Seaforth"). While Seaforth's operating costs rose substantially in the first half of 2018 due to a warehouse expansion, there has been an improvement in operating costs in the subsequent three quarters. In Q1 2019 Seaforth made a positive contribution towards our gross profit improvement.

The market for decaffeinated coffee continues to be strong. On a year-over-year basis, the growth rate of the decaffeinated coffee market has increased and continues to outpace growth in the US coffee market as a whole. We believe this is due, in part, to the premiumization of the coffee market, as well as growing awareness and consumption of premium decaffeinated coffee. Over the past 5 years, the largest consumers of decaffeinated coffee have been 18 to 24-year-olds¹. This demographic wants to drink great-tasting coffee throughout the day without worrying about the potential side effects of excess caffeine.

Younger consumers are more conscious of, and concerned about, artificial ingredients and chemicals in the production of their food and beverages. As a result, we have seen increased demand for our chemical free and sustainable Swiss Water® Process coffees, as more food companies now employ our branded coffees to help them respond to this growing consumer demand. Demand for organic coffee continues to grow and is the most broadly purchased certification: 39% of consumers say they are much more likely to buy coffee that is Certified Organic coffee, and 49% of consumers say they're more likely to buy coffee if it is grown in an environmentally sustainable way.¹

Various media sources² have recently underscored the health and environmental hazards associated with methylene chloride (the primary chemical used by our competitors to decaffeinate coffee). Additionally, multiple major retailers in the U.S. are banning paint strippers that contain methylene chloride. We believe this rise in consumer awareness is helping to drive demand for our 100% chemical free coffees, and we will continue to proactively employ positive messaging to accentuate the benefits of our amazing coffees without caffeine.

¹ National Coffee Association 2018 Coffee Drinking Trends

² New York Times has published (<https://www.nytimes.com/2017/10/21/us/epa-toxic-chemicals.html>) and podcasted (<https://www.nytimes.com/podcasts/the-daily?r=0>) a piece on EPA regulations, as the EPA is highlighting methylene chloride as a key chemical that isn't, but should be, regulated, because it's a hazard to people's health. 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.

Over the near future, our primary focus will be to position Swiss Water to maintain our current growth momentum and enhance our operating margins. In January 2019, we completed the registration of our European subsidiary. We believe that opening a European sales office will give us a solid footprint to better serve customers in the largest decaffeinated coffee market in the world. In addition, we are expanding our ability to target specific customer groups in the United States. Developing our European and US sales teams has and will continue to increase our expenses somewhat, but we expect these initiatives to generate increased sales orders in the longer term to drive major account wins. As converting large customers to Swiss Water® Process coffees typically takes several quarters, we believe strengthening our sales capability now is a critical part of our preparation to ramp up orders and win new business as we add significant capacity with our new facility in 2019.

BUSINESS OVERVIEW

Swiss Water is a premium green coffee decaffeinator located in Burnaby, BC. Swiss Water employs the proprietary Swiss Water® Process to decaffeinate green coffee without the use of chemicals, leveraging science-based systems and controls to produce coffee that is 99.9% caffeine free. It 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 chemicals is our primary business.

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

Swiss Water's shares trade on the Toronto Stock Exchange under the symbol 'SWP', formerly TPK. As at the date of this report 9,061,210 shares were issued and outstanding.

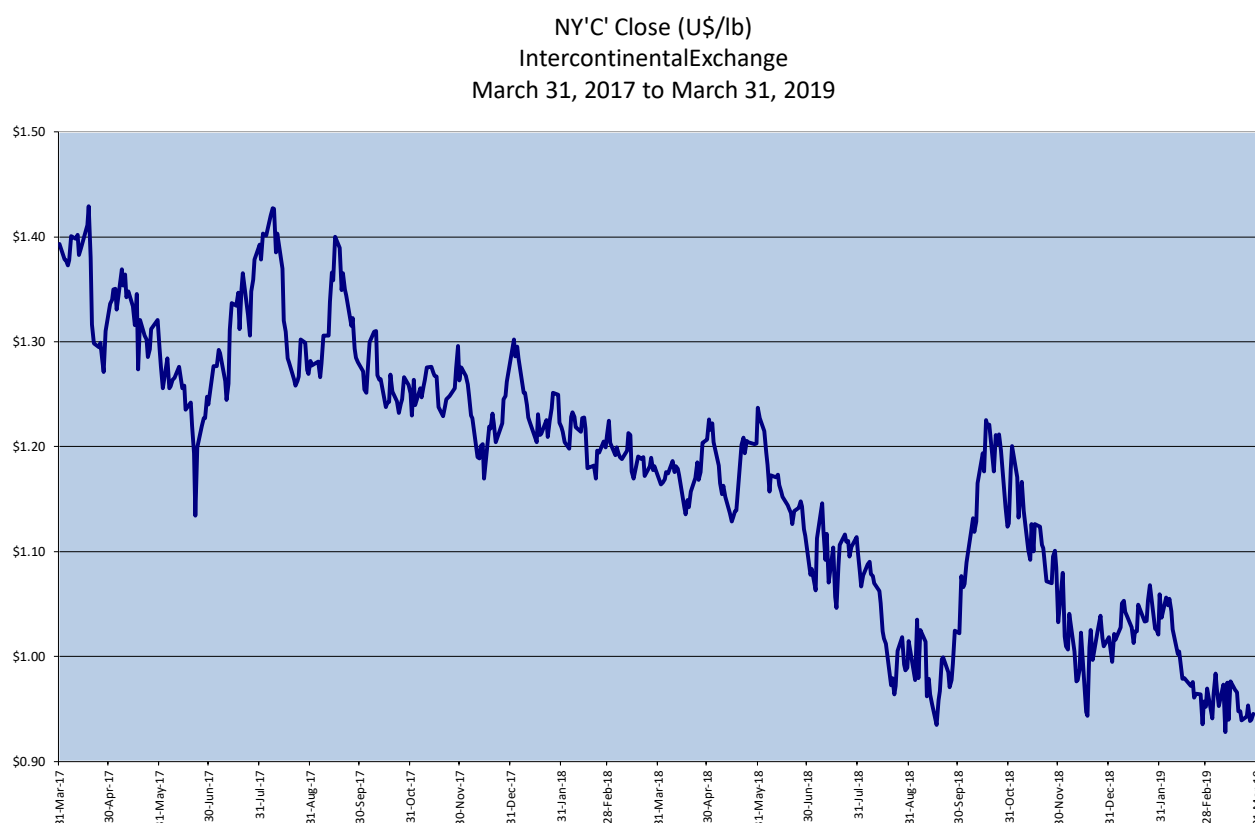
Swiss Water Decaffeinated Coffee Business

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.

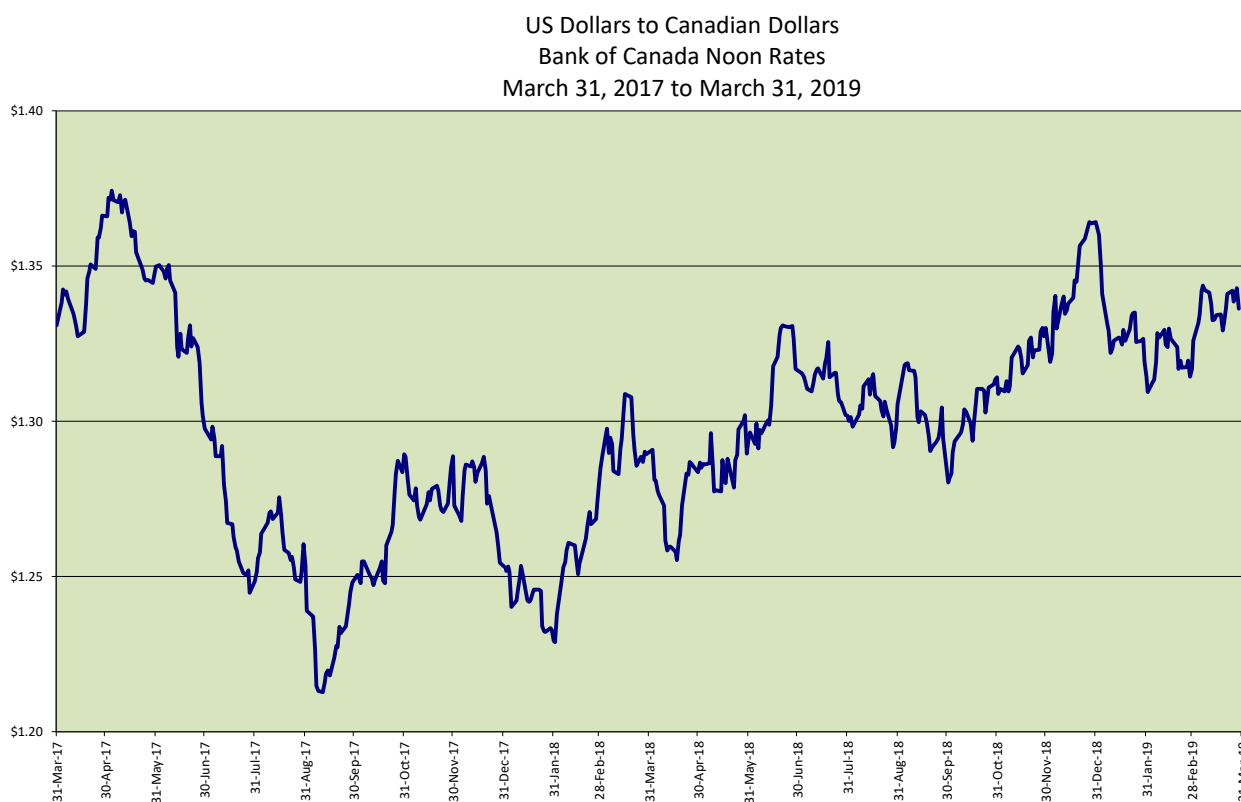
The chart below shows the movement in the NY'C' for the last eight quarters:



In Q1 2019, the NY'C' averaged US\$0.99/lb compared to an average of US\$1.21/lb in Q1 2018. The rise and fall of the NY'C' affects our shipped volumes, 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 3 months), our customers tend to add to their inventories.

The majority of our revenues are generated in US dollars, while a significant portion of our costs are 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 dollar ("US\$") to the Canadian dollar ("C\$") exchange rates for the last eight quarters:



In Q1 2019, the US\$ averaged C\$1.33, an increase of 5% over the same period in 2018. During Q1 2018, the US\$ ranged between C\$1.23 and C\$1.31. In Q1 2019, it ranged between C\$1.31 and C\$1.36. When the US\$ depreciates (appreciates), it decreases (increases) our gross profit on green coffee revenues.

OPERATING RESULTS

Revenue

We categorize our customers by the nature of their business: either coffee importers or roasters. Coffee importers act like grocery stores to roasters, sourcing and importing green coffee from various origins and carrying a selection of different origins and quality levels for roasters to choose from. Importers buy from us in order to resell our coffees to roasters when and where they need it. Roasters are in the business of roasting and packaging coffee for sale to consumers in their own coffee shops, or for home or office use. Roasters either buy directly from us, 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 from period to period than those to importers.

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

<i>(In \$000s)</i> <i>(unaudited)</i>	3 months ended March 31, 2019	3 months ended March 31, 2018
Process revenue	\$ 6,460	\$ 5,371
Green revenue	15,870	14,597
Distribution revenue	1,840	1,247
	\$ 24,170	\$ 21,215

For the quarter ended March 31, 2019 sales totaled \$24.2 million, an increase of \$3.0 million, or 14%, compared to the same quarter in 2018.

The increases in our first quarter sales by category reflect an increase in our processing volumes. Distribution revenue has also benefited from revenue management initiatives:

- Process revenue increased by \$1.1 million, or 20%
- Green revenue increased by \$1.3 million, or 9%
- Distribution revenue rose by \$0.6 million, or 48%

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

- Sales volume in North America increased by 19%
- Sales volume in Europe increased by 28%
- Sales volume in Asia Pacific increased by 74%

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 team in France to support sales growth 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. Cost of sales incorporates an allocation of fixed overhead costs, which includes depreciation of our plant, production equipment and amortization of our proprietary process technology. In addition, cost of sales includes the costs of operating Seaforth's warehouses.

Our first quarter cost of sales increased by \$2.3 million, or 12%, to \$20.6 million this period, compared to the same period in 2018. The increase in the first quarter is consistent with our increased business activities during the period. The increase is a result of higher variable production costs associated with the significant growth in our 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 the first quarter of 2019, we also absorbed higher 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 in March 2019 which significantly reduced the supply of gas. This inflation is not expected to be carried forward through 2019.

Gross Profit

Gross profit increased by 25% to \$3.5 million for the first quarter of this year, as higher revenues more than offset the increases in our cost of sales. Improvement has been driven by increased processing volumes, revenue management initiatives, and leveraging enhanced cost recovery, without sacrificing 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 Q1 2019 totaled \$1.7 million. This was an increase of \$0.2 million, or 13%, compared to the same period last year. The increase largely reflects higher salary expenses as part of our annual cost of living adjustment and costs incurred to support strategic growth initiatives for 2019.

Sales and Marketing Expenses

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

Sales and marketing expenses were up by \$0.1 million, or 11%, to \$0.8 million in Q1 2019. The increases are due to full year costs for our expansion into Europe and the United States, and higher investment in brand awareness activities, in support of our strategic growth initiatives.

Occupancy Expenses

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

Finance Expenses and Income

Finance income reflects the charges we bill to customers for financing coffee inventories and interest earned on cash balances and short-term investments. Finance expenses include interest costs on bank debt, other borrowings and the interest expense on the convertible debenture and construction loan.

Net finance expenses were \$0.4 million for the three months ended March 31, 2019, compared to net finance expenses of \$0.2 million in the same period last year. The interest expense of \$0.2 million on finance leases, due to the adoption of IFRS 16 in 2019, accounted for the majority of the change.

In addition, 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.

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', below). Thus, 'Gain on risk management activities' includes only those gains and losses on derivative financial instruments or portions of such instruments that are not designated as hedging instruments.

For the three months ended March 31, 2019, we recorded a gain of \$0.5 million, compared to a loss of \$0.08 million for the same period 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 which must be revalued at each balance sheet date. The fair value of the

derivative liability was determined using the Black-Scholes Option Pricing Model. The variables and assumptions used in computing the fair value are based on management's best estimate at each balance sheet date.

The revaluation on this embedded option resulted in a loss of \$0.7 million in the first quarter of 2019 compared to a gain of \$0.5 million in the same period 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.

For the three months ended March 31, 2019, we recorded a loss of \$0.3 million on foreign exchange, compared to a loss of \$0.01 million for the same period in 2018.

Income Before Taxes and Net Income

In the first quarter of 2019, we recorded income before taxes of \$0.04 million, compared to \$0.7 million in the same period last year. The most material driver of this variance was the revaluation of an embedded derivative on a convertible debenture. Current and deferred income taxes reduced net income in Q1 2019 by \$0.05 million, compared to \$0.2 million in Q1 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 are offset by the tax benefit of loss carry forwards recognized.

Overall, after tax, we recorded a net loss of \$0.01 million for the first quarter, compared to a net income of \$0.5 million for the same period last year.

Basic and Diluted Earnings per Share

Basic earnings per share is calculated by dividing net income by the basic weighted average number of shares outstanding during the period. Similarly, diluted earnings per share is 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 first quarter of 2019 and 2018, the potential common shares issuable under the Restricted Share Unit ("RSU") Plan are anti-dilutive, and as such, they are excluded from the calculation of diluted earnings per share in the quarter.

In addition, for Q1 2019, the potential common shares issuable under convertible debenture are also anti-dilutive and therefore, are excluded from the calculation of diluted earnings per share in the quarter.

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

<i>(In 000s except for per share data)</i> <i>(unaudited)</i>	3 months ended March 31, 2019	3 months ended March 31, 2018
Basic EPS		
Net (loss) income attributable to shareholders	\$ (9)	\$ 489
Weighted average number of shares	9,061,210	9,048,794
Basic EPS	\$ -	\$ 0.05
Diluted EPS		
Net (loss) income attributable to shareholders	(9)	489
Interest on convertible debenture	-	261
Loss (gain) on fair value adjustment of embedded option	-	(458)
Net (loss) income after effect of diluted securities	\$ (9)	\$ 292
Weighted average number of shares – basic	9,061,210	9,048,794
Effect of diluted securities: convertible debenture	-	1,818,182
Weighted average number of shares - diluted	9,061,210	10,866,976
Diluted EPS	\$ -	\$ 0.03

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 gain, net of tax, for the first quarter of 2019 was \$1.2 million, compared to a loss of \$0.9 million in the same period last year. The increases and decreases are related to the fluctuations in the value of the Canadian dollar versus the US dollar.

NON-IFRS MEASURES

EBITDA

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 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.

The reconciliation of net income to EBITDA is as follows:

<i>(in \$000s)</i> <i>(unaudited)</i>	3 months ended March 31, 2019	3 months ended March 31, 2018
(Loss) income for the period	\$ (9)	\$ 489
Income taxes	54	223
Income before tax	\$ 45	\$ 712
Finance income	(154)	(152)
Finance expenses	600	357
Depreciation & amortization	864	432
Unrealized (gain) or loss on foreign exchange forward contracts	(334)	85
Fair value loss (gain) on embedded option	728	(458)
Loss of foreign exchange	290	12
Share-based compensation	273	118
EBITDA	\$ 2,312	\$ 1,106

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

<i>(in \$000s)</i> <i>(unaudited)</i>	3 months ended March 31, 2019	3 months ended March 31, 2018
Operating income for the period	\$ 976	\$ 555
Add back:		
Depreciation & amortization	864	432
Share-based compensation	273	118
Loss (gain) on risk management activities	533	(84)
Deduct:		
Unrealized (Gain) loss on foreign exchange forward contracts	(334)	85
EBITDA	\$ 2,312	\$ 1,106

EBITDA for the three months ended March 31, 2019 was \$2.3 million, up by 109% compared to Q1 2018. In the first quarter of 2019, we adopted IFRS 16 Leases without restating comparative amounts for the year 2018, as permitted by the standard.

This resulted in the recognition of \$0.4 million in depreciation expense and \$0.2 million in interest expense related to finance leases, which are costs excluded from the calculation of EBITDA in Q1 2019. For the 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.

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:

	8 Quarter Average	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017
Sales	22,330	24,170	22,979	23,087	22,658	21,215	20,662	21,955	21,915
Gross Profit	3,496	3,544	3,686	4,439	3,952	2,842	3,178	3,014	3,364
Operating income	1,310	976	1,618	1,927	1,528	555	958	1,117	1,470
EBITDA ¹	1,855	2,312	2,050	2,717	1,868	1,106	1,334	1,678	2,235
Net (loss) income	1,036	(9)	919	1,828	1,294	489	(380)	1,385	1,720
Per Share²									
Net (loss) income - basic	0.09	(0.00)	0.10	0.20	0.14	0.05	(0.04)	0.15	0.19
Net (loss) income - diluted	0.07	(0.00)	0.03	0.18	0.10	0.03	(0.04)	0.15	0.17

¹ EBITDA is defined in the section on 'Non-IFRS Financial Measures' along with details of its calculation.

² Per-share calculations are based on the weighted average number of shares outstanding during the period.

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

LIQUIDITY AND CAPITAL RESOURCES

Operating activities

For the three months ended March 31, 2019, we used \$1.5 million in net cash from operating activities, compared to using \$0.7 million in the same period last year.

Inventory

Our inventory increased by 26% in volume and by 21% in value between December 31, 2018 and March 31, 2019, due to lower NY'C' in the first quarter of 2019.

Under hedge accounting, gains/losses on derivative instruments for coffee to be sold in future periods are recorded in inventory. The hedge accounting component of inventory as at March 31, 2019 was a loss of \$0.8 million, compared to a loss of \$0.4 million in Q1 2018.

Accounts Receivable

Our accounts receivable increased by \$0.7 million, or 5%, between December 31, 2018 and March 31, 2019, compared to a decrease of \$0.2 million, or 2% between December 31, 2017 and March 31, 2018.

Investing Activities

Cash outflows in investing activities for Q1 2019 were \$2.9 million, which were capital expenditures related to our plant expansion in Delta, British Columbia. This compares to cash inflows in investing activities of \$3.8 million in Q1 2018, which was the net of \$7.0 million of proceeds from short-term investments and capital expenditures of \$3.2 million related to our expansion plans. No short-term investments were made during the first quarter in 2019 and 2018.

Financing Activities

During the three months ended March 31, 2019, we paid \$0.6 million in dividends to shareholders. This is unchanged from the same period in 2018. In Q1 2019, the Company received proceeds for a term loan of \$2.7 million from the Business Development Bank of Canada ("BDC").

Credit Facilities and Liquidity

Our current credit facilities include a \$14.5 million revolving operating line of credit and a \$1.5 million revolving swing line, each of which bears an interest rate of prime plus 0.75%. Any US\$-denominated debt under the revolving operating line of credit or swing line can be financed using LIBOR loans at the LIBOR rate plus 2.35% per annum.

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

Our credit facilities are collateralized by a general security agreement and first security over the present and after-acquired personal property and second security over existing and new machinery and equipment and a floating hypothecation agreement over cash balances.

We have certain bank covenants which relate to the maintenance of specified financial ratios and we were in compliance with all covenants as at March 31, 2019.

BDC 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 twelve years with principal repayment commencing on September 1, 2020.

The Term Loan matures on August 1, 2032. Interest only will be paid on the outstanding balance on a monthly basis prior to September 1, 2020. The Term loan is secured by a general security agreement and a first security interest on all existing equipment and machinery plus new equipment and machinery financed with the Term Loan. Seaforth has provided a guarantee for the Term Loan. As of March 31, 2019, the loan amount outstanding was \$12.1 million with interest accrued of \$0.04 million.

Contractual Obligations

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

<i>(In \$000s)</i> <i>(unaudited)</i>	Total	Less than 1 year	2-3 years	4-5 years	Over 5 years
Long-term debt ⁽¹⁾	\$ 27,100	\$ -	\$ 1,344	\$ 17,017	\$ 8,739
Finance leases ⁽²⁾	17,099	3,081	4,539	5,386	4,093
Purchase obligations ⁽³⁾	35,013	34,632	381	-	-
Total contractual obligations	\$ 79,212	\$ 37,713	\$ 6,264	\$ 22,402	\$ 12,832

¹ Long-term debt represents the principal amounts of the convertible debenture and construction loan.

² Minimum obligations for our finance leases.

³ Represents outstanding coffee and natural gas purchase commitments.

Swiss Water leases a facility which 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.

Seaforth leases warehouses in two locations for its primary operations. These leases expire in June 2019 and November 2019. During Q1 2019, Seaforth entered into an agreement to lease a warehouse facility, commencing in 2019, until 2027. Seaforth also leases a commercial vehicle, for which the lease expires in April 2023.

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

As at March 31, 2019, our estimated costs to complete the production line and facility located in Delta, BC are \$20.6 million. This amount includes costs for the production line, the construction of the specialized portion of the facility which will house the production equipment, leasehold improvements, and ancillary costs necessary to bring the production line into productive use. This is expected to be funded through cash on hand, working capital or other debt facilities, and cash from operations.

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 period:

<i>(In \$000s)</i> <i>(unaudited)</i>	3 months ended March 31, 2019	3 months ended March 31, 2018
Sales	\$ 106	\$ 164
Purchases of raw materials	\$ 720	\$ 1,961

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 March 31, 2019, our accounts receivable balance with this company was \$0.04 million (December 31, 2018: \$0.01 million) while our accounts payable balance with this company was \$0.3 (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 ability to pay dividends is dependent upon the earnings and cash flow generated from the Company'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 decaffeinator, and

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 that houses two decaffeination lines. The lease expires in 2023 and provides for an additional five-year renewal term (to 2028), subject to the express approval of the landlord. Any plans to relocate the 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).

CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES

Critical accounting judgments and estimates used in preparing our unaudited condensed consolidated interim financial statements are described in Swiss Water's annual MD&A and annual consolidated financial statements for the year ended December 31, 2018. The preparation of consolidated financial statements in accordance with IFRS requires us to make both estimates and assumptions that could materially affect the amounts recognized in the financial statement. By their nature, judgments and estimates may change in light of new facts and circumstances in the internal and external environment.

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

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 condensed consolidated interim financial statements for the three month period ended March 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.

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 collected 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 reclassified 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 March 31, 2019, we had futures contracts to buy 4.9 million lbs of green coffee with a notional value of US\$4.7 million, and contracts to sell 6.4 million lbs of green coffee with a notional value of US\$6.0 million. The furthest contract matures in March 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 March 31, 2019, we had forward currency contracts to buy US\$5.5 million and sell US\$62.3 million (2018: buy US\$6.6 million and sell US\$65.0 million) from April 2019 through to April 2023 at various Canadian exchange rates ranging from \$1.2147 to \$1.3415.

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 March 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 March 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 March 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 March 31, 2019 that have materially affected or are reasonably likely to materially affect, Swiss Water’s ICFR.

SUBSEQUENT EVENTS

On April 15, 2019, the Company paid an eligible dividend in the amount of \$0.6 million (\$0.0625 per share) to shareholders of record on March 29, 2019.