



CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2016

Amended and Restated

Independent Auditor's Report

To the Shareholders of
Ten Peaks Coffee Company Inc.

We have audited the accompanying amended and restated consolidated financial statements of Ten Peaks Coffee Company Inc. and its subsidiaries, which comprise the amended and restated consolidated statements of financial position as at December 31, 2016 and December 31, 2015, and the amended and restated consolidated statements of income, comprehensive income, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information ("amended consolidated financial statements").

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these amended consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these amended consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the amended consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the amended consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the amended consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the amended consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the amended consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the amended consolidated financial statements present fairly, in all material respects, the financial position of Ten Peaks Coffee Company Inc. and its subsidiaries as at December 31, 2016 and December 31, 2015, and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

Other Matter

Without modifying our opinion, we draw attention to Note 26 to the amended consolidated financial statements, which indicates that the Company corrected an error related to the consolidated statement of cash flows for the twelve months ended December 31, 2016.

/s/ Deloitte LLP

Chartered Professional Accountants

April 21, 2017

Vancouver, British Columbia

TEN PEAKS COFFEE COMPANY INC.**Amended and Restated Consolidated Statements of Financial Position
(Tabular amounts in thousands of Canadian dollars)**

as at	Note	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Assets			
Current assets			
Inventories	6	\$ 11,574	\$ 18,960
Accounts receivable	7	11,707	7,200
Prepaid expenses and other receivables		524	462
Short-term Investments	8	12,700	-
Derivative assets	9	95	354
Cash and cash equivalents	25	<u>12,497</u>	<u>9,065</u>
Total current assets		49,097	36,041
Non-current assets			
Plant and equipment	10	16,278	12,756
Intangible assets	11	1,687	1,947
Deferred tax assets	12	<u>837</u>	<u>944</u>
Total non-current assets		18,802	15,647
Total assets		<u>\$ 67,899</u>	<u>\$ 51,688</u>
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable		2,797	1,722
Accrued liabilities		1,166	1,455
Dividend payable	20	565	563
Derivative liabilities	9	815	2,025
Current portion of other liabilities	15	<u>488</u>	<u>869</u>
Total current liabilities		5,831	6,634
Non-current liabilities			
Derivative liabilities	9	3,896	1,695
Deferred tax liabilities	12	1,676	604
Convertible debenture	14	11,283	-
Other liabilities	15	81	69
Asset retirement obligation	16	<u>797</u>	<u>702</u>
Total non-current liabilities		17,733	3,070
Total liabilities		<u>23,564</u>	<u>9,704</u>
Shareholders' equity			
Share capital	17	43,496	43,448
Share-based compensation reserve		63	72
Accumulated other comprehensive income		419	-
Retained earnings (deficit)		<u>357</u>	<u>(1,536)</u>
Total equity		44,335	41,984
Total liabilities and shareholders' equity		<u>\$ 67,899</u>	<u>\$ 51,688</u>

Commitments (note 24)**Subsequent Events (note 27)****Approved on behalf of the Board****(signed) David Rowntree, Director (signed) Frank Dennis, Director****See accompanying notes to these Amended and Restated Consolidated Financial Statements**

TEN PEAKS COFFEE COMPANY INC.**Amended and Restated Consolidated Statements of Income**
(Tabular amounts in thousands of Canadian dollars)

for the	Note	12 months ended <u>December 31, 2016</u>	12 months ended <u>December 31, 2015</u>
Revenue		\$ 81,927	\$ 83,641
Cost of sales		<u>(69,877)</u>	<u>(72,328)</u>
Gross profit		12,050	11,313
Operating expenses			
Sales and marketing expenses		(2,398)	(2,341)
Occupancy expenses		(136)	(137)
Administration expenses		<u>(4,499)</u>	<u>(4,961)</u>
Total operating expenses		(7,033)	(7,439)
Operating income		5,017	3,874
Non-operating or other			
Finance (expense) income		(4)	21
Gain on risk management activities		1,073	-
Loss on derivative financial instruments		(435)	(1,158)
Gain (loss) on foreign exchange		<u>91</u>	<u>(892)</u>
Total non-operating		725	(2,029)
Income before tax		5,742	1,845
Income tax expense	12	<u>(1,593)</u>	<u>(533)</u>
Net income for the year		<u>\$ 4,149</u>	<u>\$ 1,312</u>
Earnings per share			
Basic and diluted (per share)	22	<u>\$ 0.46</u>	<u>\$ 0.17</u>

TEN PEAKS COFFEE COMPANY INC.
(Tabular amounts in thousands of Canadian dollars)

Amended and Restated Consolidated Statements of Comprehensive Income

	12 months ended <u>December 31, 2016</u>	12 months ended <u>December 31, 2015</u>
Net income for the year	<u>4,149</u>	<u>1,312</u>
Other comprehensive income		
Items that may be subsequently reclassified to income		
Other comprehensive income for the period, net of tax of \$0.1 million	419	-
Net income and other comprehensive income for the year	<u>\$ 4,568</u>	<u>\$ 1,312</u>

Amended and Restated Consolidated Statements of Changes in Equity

	Share capital		Share-based compensation reserve	Accumulated Other Comprehensive Income ("AOCI")	Retained earnings (deficit)	Total Income and Other Comprehensive Income (Loss)	Total equity
	Shares	Amount					
Balance at December 31, 2014	6,735,099	\$ 24,770	75	-	\$(883)	\$(883)	23,962
Issue of share capital, net of share issuance costs	2,250,000	18,624	-	-	-	-	18,624
Shares issued for restricted share units	26,467	54	(54)	-	-	-	-
Share-based compensation	-	-	51	-	-	-	51
Dividends (Note 20)	-	-	-	-	(1,965)	-	(1,965)
Net income and comprehensive income	-	-	-	-	1,312	1,312	1,312
Balance at December 31, 2015	9,011,566	\$ 43,448	72	-	\$(1,536)	1,312	41,984
Shares issued for restricted share units	27,296	48	(48)	-	-	-	-
Share-based compensation	-	-	39	-	-	-	39
Dividends (Note 20)	-	-	-	-	(2,256)	-	(2,256)
Net income and comprehensive income	-	-	-	419	4,149	4,568	4,568
Balance at December 31, 2016	9,038,862	\$ 43,496	63	419	357	4,568	44,335

TEN PEAKS COFFEE COMPANY INC.
Amended and Restated Consolidated Statements of Cash Flows
(Tabular amounts in thousands of Canadian dollars)

for the	Note	<u>12 months ended</u> <u>December 31, 2016</u>	<u>12 months ended</u> <u>December 31, 2015</u>
		(restated Note 26)	
Cash flows from operating activities			
Net income for the year		\$ 4,149	\$ 1,312
Items not affecting cash			
Depreciation and amortization		2,053	1,464
Unrealized (gain) loss on derivative financial instruments	26	(1,761)	4,199
Share-based compensation (recovery) expense		(180)	945
Payment of restricted share units settled in cash		(147)	(254)
Foreign exchange loss on cash held and on debt		2	943
Income taxes recognized in profit and loss		1,593	533
Finance expense (income) recognized in profit and loss		4	(21)
		<u>5,713</u>	<u>9,121</u>
Change in non-cash working capital relating to operating activities	25, 26	<u>3,357</u>	<u>(6,479)</u>
Cash generated from operations		9,070	2,642
Interest received		337	156
Interest paid		(251)	(115)
Net cash generated from operating activities		9,156	2,683
Cash flows from investing activities			
Additions to plant and equipment		(5,293)	(2,187)
Addition to short term investments		(12,700)	-
Net cash used in investing activities		(17,993)	(2,187)
Cash flows from financing activities			
Dividends paid		(2,256)	(1,824)
Proceeds from share issuance		-	18,210
Proceeds from convertible debenture, net of financing costs		14,527	-
Repayments of bank indebtedness		-	(8,753)
Net cash generated from financing activities		12,271	7,633
Effects of foreign exchange rate changes on cash and cash equivalents held		(2)	37
Net increase in cash and cash equivalents		3,432	8,166
Cash and cash equivalents, beginning of year		9,065	899
Cash and cash equivalents, end of year		\$ <u>12,497</u>	\$ <u>9,065</u>

TEN PEAKS COFFEE COMPANY INC.

Notes to the Amended and Restated Consolidated Financial Statements

For the year ended December 31, 2016

(Tabular amounts in thousands of Canadian dollars)

1. NATURE OF BUSINESS

Ten Peaks Coffee Company Inc. (“Ten Peaks” or the “Company”) is a company incorporated under the Canada Business Corporations Act. The common shares of the Company are listed on the Toronto Stock Exchange under the symbol ‘TPK’. The Company’s registered office is located at 3131 Lake City Way, Burnaby, British Columbia, V5A 3A3.

Ten Peaks is a leading specialty coffee company that owns all of the interests of Swiss Water Decaffeinated Coffee Co. Inc (“SWDCC”), a British Columbia company, and Seaforth Supply Chain Solutions Inc. (“Seaforth”), a company incorporated under the Canada Business Corporations Act.

SWDCC is a premium green coffee decaffeinator located in Burnaby, BC. SWDCC 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. The SWISS WATER® Process is certified organic by the Organic Crop Improvement Association, and is the world’s only branded decaffeination process. SWDCC purchases premium grade green coffee, which it decaffeinate and offers for sale to coffee importers, coffee roasters and other customers (classified as its “regular” or “non-toll” business). In addition, SWDCC decaffeinate green coffee that belongs to its customers (classified as “toll” business). Coffee decaffeinate under toll arrangements is not included in inventory, as SWDCC does not take title to these coffees. SWDCC is the primary operating entity of the Company, and Ten Peaks results of operations are dependent upon those of this subsidiary.

SWDCC has two subsidiaries, Swiss Water Decaffeinated Coffee Co. USA, Inc., a Washington State corporation, and Swiss Water Process Marketing Services Inc., a British Columbia company. These companies act as SWDCC’s marketing and sales subsidiaries and do not have significant assets.

Seaforth provides a complete range of green coffee handling and storage services, including devanning coffee received from origin; inspecting, weighing and sampling coffees; and storing, handling and preparing green coffee for outbound shipments. Seaforth, which is certified organic by Ecocert Canada, serves SWDCC and other coffee importers and brokers.

2. BASIS OF PREPARATION

The Company’s consolidated financial statements for the years ended December 31, 2016 and December 31, 2015 have been prepared in accordance with International Financial Reporting Standards (“IFRSs”).

These consolidated financial statements are presented in Canadian dollars, the Company’s functional currency.

The following standards became effective for annual periods beginning on or after January 1, 2016. The adoption of the new and revised standards by the Company in 2016 did not have a material impact on its consolidated financial statements apart from the adoption of IFRS 9 (2014) Financial Instruments which is discussed in Note 3.9.

- *IFRS 9 (2014): Financial Instruments*: The Company has early adopted all of the requirements of IFRS 9 as of January 1, 2016.

TEN PEAKS COFFEE COMPANY INC.

Notes to the Amended and Restated Consolidated Financial Statements

For the year ended December 31, 2016

(Tabular amounts in thousands of Canadian dollars)

- *IFRSs (Amendment):* The Annual Improvements to IFRSs 2012-2014
- *Investment Entities (Amendments to IFRS 10: Consolidated Financial Instruments, IFRS 12: Disclosures of Interests in other entities, and IAS 28: Investments in Associates and Joint Ventures):* to address issues that have arisen in the context of applying the consolidation exception for investment entities.
- *IFRS 11: Joint Arrangement (Amendment):* amends the standard to require an acquirer of an interest in a joint operation in which the activity constitutes a business.
- *IAS 1: Presentation of Financial Statements (Amendments):* clarification to address perceived impediments to preparers exercising their judgment in presenting their financial reports.
- *IAS 16: Property, Plant and Equipment and IAS 38: Intangible Assets (Amendments):* clarification of Acceptable Methods of Depreciation and Amortization.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below.

3.1 Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values, as explained in the accounting policies below. Historical cost is based on the fair value of the consideration given in exchange for assets.

These accounting policies have been used throughout all periods presented in these consolidated financial statements.

3.2 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries, all of which are wholly owned. Subsidiaries are all entities over which the Company has the power to control the financial and operating policies generally accompanying a shareholding of more than half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity.

All intercompany transactions, balances, income and expenses are eliminated on consolidation.

3.3 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments.

A geographical segment reflects the provision of products or services within a particular economic environment that is subject to risks and returns that are different from those of other economic environments.

The Company's sales are primarily generated in a single business segment of decaffeination of green coffee beans. As such, management reports operating activities for geographical information only.

TEN PEAKS COFFEE COMPANY INC.

Notes to the Amended and Restated Consolidated Financial Statements

For the year ended December 31, 2016

(Tabular amounts in thousands of Canadian dollars)

3.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the consolidated financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which each entity operates ("the functional currency"). These consolidated financial statements are presented in Canadian dollars, which has been determined to be the Company and its subsidiaries functional and presentation currency.

(b) Transactions and balances

Monetary assets and liabilities denominated in foreign currencies are translated to Canadian dollars at the exchange rate prevailing at the reporting date.

Foreign currency transactions are translated into Canadian dollars using the exchange rates prevailing at the date of the transaction. Foreign exchange gains and losses are recognized in profit or loss in the period in which they occur.

3.5 Inventories

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

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

3.6 Plant and equipment

The Company leases two facilities which houses its production facility, offices and warehouse facilities. All plant and equipment is carried at acquisition cost or manufacturing cost less depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the items. Subsequent costs are recognized in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance expenditures are recognized in the statement of income and comprehensive income during the financial period in which they are incurred.

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

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

The costs related to the plant and equipment in the course of construction are classified as construction-in-progress. Such items are transferred to the appropriate category of plant and

TEN PEAKS COFFEE COMPANY INC.

Notes to the Amended and Restated Consolidated Financial Statements

For the year ended December 31, 2016

(Tabular amounts in thousands of Canadian dollars)

equipment when it is completed and ready for intended use. Depreciation of these assets commences when the asset is available for use.

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

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

3.7 Intangible assets

(a) Proprietary process technology ("PPT")

PPT represents intangible assets of SWDCC with a finite life and is carried at cost less accumulated amortization. Amortization is recognized on a straight-line basis to allocate the cost of PPT to its residual value over its estimated useful life of 14 years.

(b) Brand

SWDCC's brand has a finite useful life and is carried at cost less accumulated amortization. Amortization is recognized on a straight-line basis over its estimated useful life of 14 years.

3.8 Impairment of assets

Plant and equipment and intangible assets with finite lives and that are subject to depreciation or amortization are tested for impairment indicators at the end of each reporting period. If any such indicator exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss.

An impairment loss is recognized for the amount by which the carrying amount of an asset or cash generating unit ("CGU") exceeds its recoverable amount. The Company has determined that it has only one CGU and that all assets relate to that CGU. To determine the recoverable amount, management estimates either the fair value less costs to sell, or the value-in-use based on the present value of expected future cash flows from the CGU. In estimating the value-in-use, management must determine the appropriate discount rate in order to calculate the present value of those cash flows, as well as make certain assumptions about future profits which relate to future events and circumstances. Discount factors are determined individually for each asset or CGU and reflect their respective risk profiles as assessed by management. There were no indicators of impairment during the year.

TEN PEAKS COFFEE COMPANY INC.

Notes to the Amended and Restated Consolidated Financial Statements

For the year ended December 31, 2016

(Tabular amounts in thousands of Canadian dollars)

3.9 Financial instruments

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

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

Recognition

Financial assets and financial liabilities, including derivatives, are recognized on the consolidated statement of financial position when the Company becomes a party to the financial instrument or derivative contract.

Classification

From January 1, 2016, the Company classifies its financial assets and financial liabilities in the following measurement categories i) those to be measured subsequently at fair value (either through other comprehensive income or through profit or loss) and ii) those to be measured at amortized cost. The classification of financial assets depends on the business model for managing the financial assets and the contractual terms of the cash flows. Financial liabilities are classified as those to be measured at amortized cost unless they are designated as those to be measured subsequently at fair value through profit or loss (irrevocable election at the time of recognition). For assets and liabilities measured at fair value, gains and losses are either recorded in profit or loss or other comprehensive income.

The Company reclassifies financial assets when and only when its business model for managing those assets changes. Financial liabilities are not reclassified.

The Company has implemented the following classifications for financial instruments, other than derivatives:

- 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.

TEN PEAKS COFFEE COMPANY INC.

Notes to the Amended and Restated Consolidated Financial Statements

For the year ended December 31, 2016

(Tabular amounts in thousands of Canadian dollars)

With the adoption of hedge accounting “gains/losses on derivative financial instruments” reflects only the change in fair value of undesignated revenue hedges, together with gains/losses on embedded derivatives in the convertible debenture debt instruments that we issued in Q4.

Also with the adoption of hedge accounting, gains or losses on designated hedging instruments that are not otherwise recorded in the income statement with the hedged item (revenue or cost of sales) are recorded as “gains/losses on risk management activities”.

Measurement

All financial instruments are required to be measured at fair value on initial recognition, plus, in the case of a financial asset or liability not at fair value through profit and loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit and loss. Financial assets and financial liabilities with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Financial assets that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of the subsequent accounting periods. All other financial assets are measured at their fair values at the end of the subsequent accounting periods, with any changes taken through profit and loss or other comprehensive income. The requirements for classification and measurement of financial liabilities largely carried forward existing requirements in IAS 39, Financial Instruments – Recognition and Measurement, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss would, under IFRS 9, generally be recorded in other comprehensive income.

Impairment

The Company assesses all information available, including on a forward-looking basis the expected credit losses associated with its assets carried at amortized cost. The Company’s only financial asset at amortized cost are accounts receivable and other receivables, for these the Company applies the simplified approach as permitted by IFRS 9 which requires expected lifetime credit losses to be recognized from initial recognition of the receivables.

Derivatives and Hedge Accounting

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

The Company designates derivatives as hedges for the risk of changes in fair value of the purchase commitment due to changes in benchmark coffee commodity prices and foreign exchange as fair value hedges.

TEN PEAKS COFFEE COMPANY INC.

Notes to the Amended and Restated Consolidated Financial Statements

For the year ended December 31, 2016

(Tabular amounts in thousands of Canadian dollars)

The Company also designates derivatives as hedges of foreign exchange risk associated with the cash flows of highly probable forecast transactions.

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

The Company applied hedge accounting prospectively to economic hedges entered into in accordance with its Foreign Exchange Risk Management Policy (FX Policy) and the Commodity Price Risk Management Policy (Commodity Policy). Economically, the specific hedging activities carried out under these policies by the Company are as follows:

Currency risk hedges on US\$ purchases:

The Company enters into forward contracts to buy US dollars (US\$) for significant purchase commitments, such as green coffee inventory which, once decaffeinated, is sold at a fixed Canadian dollar (C\$) price. To mitigate the exposure to changing margin on these transactions arising from fluctuations in the US\$/C\$ exchange rate, the Company enters into US\$ forward purchase contracts which economically lock in the US\$/C\$ exchange rate, and effectively locks in the C\$ cost of inventory to be sold at the fixed C\$ amount.

At each period end, currency risk hedges on US\$ purchases are re-measured to their fair value. Under hedge accounting, the effective portion of the gains (losses) will be held on the consolidated statement of financial position until the inventory is received and subsequently sold, at which time the gains (losses) will flow to cost of sales on the consolidated statement of income.

Commodity price risk hedges on purchase commitments:

When the Company enters into a purchase commitment to purchase green coffee and fixes the New York 'C' ("NY'C") price component (which it will later sell at a to-be-determined price based on the NY'C'), the Company enters into an offsetting short position on the Intercontinental Exchange. The Company monitors, on a macro basis, the amount of purchase commitments and amount of inventory on hand for which the ultimate sale price is variable and has not yet been fixed based on the NY'C' and compares this to the amount of coffee covered by future net short positions to determine whether the net short position requires adjustment.

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

Currency risk hedges on US\$ future revenue:

The Company enters into forward contracts to sell US\$ at future dates to hedge the foreign exchange cash flow variability of expected US\$ processing fee revenue. The hedged processing revenue includes both processing fee revenue from tolling arrangements (processing of customer owned coffee) as well as the US\$ processing fee layer of inventory sales agreements.

TEN PEAKS COFFEE COMPANY INC.

Notes to the Amended and Restated Consolidated Financial Statements

For the year ended December 31, 2016

(Tabular amounts in thousands of Canadian dollars)

At each period end, currency risk hedges on US\$ future revenues are re-measured to their fair value. Under hedge accounting, unrealized gains (losses) for US\$ forward contracts are reclassified so that the impact on the consolidated statement of income is deferred through other comprehensive income, until the hedge instrument matures, at which time the realized gain (loss) is reflected in revenue on the consolidated statement of income.

On all hedges entered into, if the hedge ratio for risk management purposes is no longer optimal but the risk management objective remains unchanged and the hedge continues to qualify for hedge accounting, the hedge relationship will be rebalanced by adjusting either the volume of the hedged instrument or the volume of the hedged item so that the hedge ratio aligns with the ratio used for risk management purposes. Any hedge ineffectiveness is calculated and accounted for in profit or loss at the time of the hedge relationship rebalancing.

Accounting Policy Prior to January 1, 2016

The Company has applied IFRS 9 retrospectively, however it cannot restate comparatives under the provisions of IFRS 9 – hedge accounting. As a result, the comparative information provided continues to be accounted for in accordance with the Company's previous accounting policy. There were no material adjustments recognized to the carrying amounts of financial assets or liabilities at the date of adoption, thus no difference was recognized in the opening retained earnings.

Fair Value Hierarchy

The Company classifies and discloses the fair value measurements of its financial instruments using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 – valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – valuation techniques based on inputs other than quoted prices that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3 – valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. The Company classifies a financial instrument to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

3.10 Current and deferred income taxes

Income tax expense comprises current and deferred tax. Income tax expense is recognized in the statement of income and comprehensive income except to the extent that it relates to items recognized either in other comprehensive income or directly in equity.

The income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date, and any adjustments to taxes payable in respect of previous years. The Company periodically evaluates positions taken in tax returns with respect to situations in which

TEN PEAKS COFFEE COMPANY INC.

Notes to the Amended and Restated Consolidated Financial Statements

For the year ended December 31, 2016

(Tabular amounts in thousands of Canadian dollars)

applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

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

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

3.11 Provisions

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

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

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

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

3.12 Leases as the lessee

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

3.13 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenue is recognized when all the following conditions are satisfied:

- 1) persuasive evidence of an arrangement exists;
- 2) the goods are shipped;
- 3) title has passed to the customer;

TEN PEAKS COFFEE COMPANY INC.

Notes to the Amended and Restated Consolidated Financial Statements

For the year ended December 31, 2016

(Tabular amounts in thousands of Canadian dollars)

- 4) the price has been substantively determined; and
- 5) collection is reasonably assured.

3.14 Employee benefits

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

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

3.15 Share-based compensation

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

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

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

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

TEN PEAKS COFFEE COMPANY INC.

Notes to the Amended and Restated Consolidated Financial Statements

For the year ended December 31, 2016

(Tabular amounts in thousands of Canadian dollars)

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

3.16 Earning per share ("EPS")

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

3.17 Application of revised IFRSs

The following new standards, amendments to accounting standards and interpretations have been issued and will be effective in future periods:

- *IAS 7: Statement of Cash Flows:* requires an entity to present a statement of cash flows as an integral part of its primary financial statements. Cash flows are classified and presented into operating activities (either using the 'direct' or 'indirect' method), investing activities or financing activities, with the latter two categories generally presented on a gross basis. It is effective for annual periods beginning on or after January 1, 2017.
- *IAS 12: Income Taxes:* implements a 'comprehensive balance sheet method' of accounting for income taxes which recognizes both the current tax consequences of transactions and events and the future tax consequences of the future recovery or settlement of the carrying amount of an entity's assets and liabilities. It is effective for annual periods beginning on or after January 1, 2017.
- *IFRS 15: Revenue from Contracts with Customers:* provides a single, principles based five-step model to be applied to all contracts with customers. New disclosures about revenue are also introduced. It is effective for annual periods beginning on or after January 1, 2018.
- *IFRIC 22: Foreign Currency Transactions and Advance Consideration:* clarifies the appropriate exchange rate to use on initial recognition of an asset, expense or income when advance consideration is paid or received in a foreign currency. Management expects this IFRIC may change the exchange rate used to translate deposits made on inventory purchases or advances received for revenue in a foreign currency. The impact on the initial measurement of inventory and revenue would depend on the movements in exchange rates. It is effective for annual periods beginning on or after January 1, 2018.
- *IFRS 16: Leases:* introduces new requirements for the classification and measurement of leases. Management is currently assessing the impact of the new standard on its consolidated financial statements. It is effective for annual periods beginning on or after January 1, 2019.

TEN PEAKS COFFEE COMPANY INC.

Notes to the Amended and Restated Consolidated Financial Statements

For the year ended December 31, 2016

(Tabular amounts in thousands of Canadian dollars)

The Company has not yet adopted any of these new and amended standards or interpretations, and is currently assessing the impact of adoption.

4. MANAGEMENT JUDGMENTS AND ESTIMATION UNCERTAINTY

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

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

4.1 Inventories

Inventories are measured at the lower of cost and net realizable value. In estimating net realizable values, management takes into account the most reliable evidence available at the times the estimates are made. Net realizable values are determined for each individual lot of coffee by comparing its cost to the current market price for that lot of coffee, and taking into consideration the coffee's age, quality and the costs to convert raw goods to finished goods. These estimates do not take into account any offsetting coffee futures contracts entered into under the Company's commodity price risk management policy. The estimates are made on an individual rather than net basis, and as such do not take into account the fact that net realizable value on the entire inventory position may be higher. If the estimate was made on a net basis, the provision against inventory would be lower.

4.2 Impairment

An impairment loss is recognized for the amount by which an asset's or CGU's carrying amount exceeds its recoverable amount. To determine the recoverable amount, management estimates either the fair value less costs to sell, or the value-in-use based on the present value of expected future cash flows from each asset or CGU. In estimating the value-in-use, management must determine the appropriate discount rate in order to calculate the present value of those cash flows, as well as make certain assumptions about future income which relate to future events and circumstances. Actual results may vary from those estimates. In most cases, determining the applicable discount rate involves estimating the appropriate adjustment to market risk and the appropriate adjustment to asset-specific risk factors.

For the years ended December 31, 2016 and 2015, there were no impairment losses recognized.

4.3 Useful lives of depreciable assets

Management reviews the useful lives of depreciable assets at each reporting date. At December 31, 2016 management determined that the useful lives represent the expected utility of the assets to the Company.

TEN PEAKS COFFEE COMPANY INC.

Notes to the Amended and Restated Consolidated Financial Statements

For the year ended December 31, 2016

(Tabular amounts in thousands of Canadian dollars)

4.4 Provision for asset retirement obligations

Analysis and estimates are performed by the Company in order to determine the amount of restoration costs to be recognized as a provision in the Company's consolidated financial statements. The estimates consider the contract language in the lease, the expected useful lives of the Company's equipment, and the expected costs that would be paid to a third party to remove equipment.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When the final determination of such obligation amounts differs from the recognized provisions, the Company's financial statements will be impacted.

4.5 Share-based compensation

The Company has issued compound financial instruments under its RSU plan, and management must make estimates that affect how these instruments are accounted for in the consolidated financial statements. Management must estimate the forfeiture rates for RSUs as at the grant date, and the portion of each RSU that is expected to be settled in cash. As necessary, the Company revises its estimates if subsequent information indicates that the forfeiture rate or the cash claim rate differs from previous estimates. Actual forfeiture rates and cash claim rates may be different from estimates, and may result in future adjustments which would affect the amount of share-based compensation expense recorded in a particular period.

4.6 Income taxes

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

Deferred tax assets also reflect estimates of the recoverability of non-capital loss carry forwards. The Company has recognized the benefit of loss carry forwards to the extent that it is probable that taxable income will be available in the future against which the non-capital loss carry forwards can be utilized.

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

4.7 Convertible Debenture

Management estimates the interest rate on a similar instrument of comparable credit status and providing for substantially the same cash flows, on the same terms, but without the equity conversion option in the calculation of the fair value of the liability portion of the convertible debenture upon initial recognition. Management also estimates the fair values of the derivative liability related to the convertible debenture at initial recognition and at the end of each reporting

TEN PEAKS COFFEE COMPANY INC.

Notes to the Amended and Restated Consolidated Financial Statements

For the year ended December 31, 2016

(Tabular amounts in thousands of Canadian dollars)

period using the Black-Scholes option pricing model which requires management estimates. Details of these can be found in Note 14.

5. CAPITAL MANAGEMENT

The Company's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain the future development of the business. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. The Company considers its capital structure to include shareholders' equity and bank indebtedness. In order to maintain or adjust the capital structure, the Company may from time to time issue common shares, adjust its capital spending, modify its dividend policy, and/or dispose of certain assets to manage current and projected debt levels.

The Company manages its capital in order to meet its growth objectives while continuing to pay quarterly dividends to its shareholders. The dividend policy of Ten Peaks is subject to the discretion of the Board of Directors, which reviews the level of dividends periodically on the basis of a number of factors including Ten Peaks' financial performance, future prospects, and the capital requirements of the business. Quarterly dividends are paid on a level basis in order to smooth out normal seasonal fluctuations that occur over the course of a year.

6. INVENTORIES

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Raw materials	\$ 5,863	\$ 11,853
Finished goods	5,835	6,656
Carbon	315	341
Packaging	147	110
Hedge accounting component	(587)	-
	<u>\$ 11,574</u>	<u>\$ 18,960</u>

During the year ended December 16, 2016, the cost of inventories recognized in cost of sales was \$65 million (2015: \$68 million). The inventory provision was \$0.07 million during the year (2015: nil).

7. ACCOUNTS RECEIVABLE

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Accounts receivable	\$ 11,707	\$ 7,200

The Company's accounts receivable has been reviewed for indicators of impairment. No accounts were found to be impaired and therefore no allowance for credit losses was provided as at December 31, 2016 (December 31, 2015: nil).

8. SHORT-TERM INVESTMENTS

Short-term investments consist of guaranteed investment certificates with original maturities greater than 3 months and less than 9 months with a fixed interest rate ranging from 1.2% to 1.5%.

TEN PEAKS COFFEE COMPANY INC.

Notes to the Amended and Restated Consolidated Financial Statements
For the year ended December 31, 2016
(Tabular amounts in thousands of Canadian dollars)

9. DERIVATIVE FINANCIAL INSTRUMENTS

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

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Coffee futures contracts, net	\$ 95	\$ 354
US Dollar forward contracts, current	(815)	(2,025)
US Dollar forward contracts, long term	(582)	(1,695)
Derivative financial liability, convertible debenture	(3,314)	-
	<u>\$ (4,616)</u>	<u>\$ (3,366)</u>

The significant year-over-year change in the net fair value of derivative liabilities is due to the designation of US\$ revenue hedges as hedging instruments upon adoption of hedge accounting effective January 1, 2016 and the value of the embedded derivative liability of the convertible debenture.

10. PLANT AND EQUIPMENT

	<u>Machinery and equipment</u>	<u>Leasehold improvements</u>	<u>Computer</u>	<u>Furniture and fixtures</u>	<u>Construction in progress</u>	<u>Total</u>
Cost						
Balance January 1, 2016	\$ 28,284	\$ 4,952	\$ 998	\$ 304	\$ 2,127	\$ 36,665
Additions	-	63	-	-	5,230	5,293
Disposals	(23)	-	-	-	-	(23)
Write-downs	-	-	-	-	-	-
Transfers	5,296	37	64	(123)	(5,274)	-
Balance December 31, 2016	<u>\$ 33,557</u>	<u>\$ 5,052</u>	<u>\$ 1,062</u>	<u>\$ 181</u>	<u>\$ 2,083</u>	<u>\$ 41,935</u>
Depreciation						
Balance January 1, 2016	\$ (20,229)	\$ (2,882)	\$ (641)	\$ (157)	\$ -	\$ (23,909)
Depreciation	(1,285)	(345)	(109)	(9)	-	(1,748)
Disposals	-	-	-	-	-	-
Transfers	(32)	-	-	32	-	-
Balance December 31, 2016	<u>\$ (21,546)</u>	<u>\$ (3,227)</u>	<u>\$ (750)</u>	<u>\$ (134)</u>	<u>\$ -</u>	<u>\$ (25,657)</u>
Carrying amount December 31, 2016	<u>\$ 12,011</u>	<u>\$ 1,825</u>	<u>\$ 312</u>	<u>\$ 47</u>	<u>\$ 2,083</u>	<u>\$ 16,278</u>
Cost						
Balance January 1, 2015	\$ 28,208	\$ 5,007	\$ 873	\$ 270	\$ 175	\$ 34,533
Additions	54	-	-	33	2,100	2,187
Write-downs	-	(55)	-	-	-	(55)
Transfers	22	-	125	1	(148)	-
Balance December 31, 2015	<u>\$ 28,284</u>	<u>\$ 4,952</u>	<u>\$ 998</u>	<u>\$ 304</u>	<u>\$ 2,127</u>	<u>\$ 36,665</u>
Depreciation						
Balance January 1, 2015	\$ (19,372)	\$ (2,611)	\$ (563)	\$ (148)	\$ -	\$ (22,694)
Depreciation	(857)	(271)	(78)	(9)	-	(1,215)
Balance December 31, 2015	<u>\$ (20,229)</u>	<u>\$ (2,882)</u>	<u>\$ (641)</u>	<u>\$ (157)</u>	<u>\$ -</u>	<u>\$ (23,909)</u>
Carrying amount December 31, 2015	<u>\$ 8,055</u>	<u>\$ 2,070</u>	<u>\$ 357</u>	<u>\$ 147</u>	<u>\$ 2,127</u>	<u>\$ 12,756</u>

TEN PEAKS COFFEE COMPANY INC.

Notes to the Amended and Restated Consolidated Financial Statements

For the year ended December 31, 2016

(Tabular amounts in thousands of Canadian dollars)

For the year ended December 31, 2016, depreciation expense of \$1.7 million (2015: \$1.1 million) has been charged to cost of sales and \$0.13 million (2015: \$0.12 million) was included in administrative expenses. There was no impairment loss recognized for the years ended December 31, 2016 and 2015.

11. INTANGIBLE ASSETS

	PPT		Brand		Total
Cost					
Balance January 1, 2016	\$	3,246	\$	1,000	\$ 4,246
Balance December 31, 2016	\$	3,246	\$	1,000	\$ 4,246
Amortization					
Balance January 1, 2016	\$	(1,440)	\$	(859)	\$ (2,299)
Amortization		(240)		(20)	(260)
Balance December 31, 2016	\$	(1,680)	\$	(879)	\$ (2,559)
Carrying amount December 31, 2016	\$	1,566	\$	121	\$ 1,687
Cost					
Balance January 1, 2015	\$	3,246	\$	1,000	\$ 4,246
Balance December 31, 2015	\$	3,246	\$	1,000	\$ 4,246
Amortization					
Balance January 1, 2015	\$	(1,200)	\$	(840)	\$ (2,040)
Amortization		(240)		(19)	(259)
Balance December 31, 2015	\$	(1,440)	\$	(859)	\$ (2,299)
Carrying amount December 31, 2015	\$	1,806	\$	141	\$ 1,947

For the year ended December 31, 2016, amortization expense of \$0.2 million (2015: \$0.2 million) relating to PPT has been charged to cost of sales and \$0.02 million (2015: \$0.02 million) relating to Brand was included in administrative expenses.

There was no impairment loss recognized for the years ended December 31, 2016 and 2015.

12. TAX

12.1 Income tax expense

	2016		2015	
Current tax expense	\$	403	\$	24
Deferred tax expense	\$	1,190	\$	509
Total income tax expense	\$	1,593	\$	533

TEN PEAKS COFFEE COMPANY INC.

Notes to the Amended and Restated Consolidated Financial Statements
For the year ended December 31, 2016
(Tabular amounts in thousands of Canadian dollars)

12.2 Reconciliation

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

	2016		2015	
Statutory rate		26.0%		26.0%
Income before tax	\$	5,742	\$	1,845
Income tax calculated at applicable tax rates	\$	1,493	\$	480
Non-deductible expenses		88		29
Income tax expense in foreign countries	\$	12		24
Income tax expense	\$	1,593	\$	533

12.3 Current income tax liabilities

	December 31, 2016		December 31, 2015	
Income tax payable	\$	403	\$	24
	\$	403	\$	24

12.4 Deferred income tax assets (liabilities)

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

	Goodwill and intangibles	Share and debt issuance costs	Plant and equipment	ARO	Share-based compensation	Derivative liability and convertible debenture	Other comprehensive income	Tax losses	Total
Balance January 1, 2015	\$ 818	\$ -	\$ (2,158)	\$ 193	\$ 207	\$ -	\$ -	\$ 1,364	\$ 424
Unamortized Value (Expense) recovery	- (120)	413 (21)	- (661)	- (11)	- 153	- -	- -	- 151	413 (509)
Balance Dec 31, 2015	\$ 698	\$ 392	\$ (2,819)	\$ 182	\$ 360	\$ -	\$ -	\$ 1,515	\$ 328
(Expense) recovery	(19)	41	193	25	16	(123)	(147)	(1,153)	(1,167)
Balance December 31, 2016	\$ 679	\$ 433	\$ (2,626)	\$ 207	\$ 376	\$ (123)	\$ (147)	\$ 362	\$ (839)

SWDCC has no non-capital tax losses carry forwards as the end of December 31, 2016 (2015: \$4.5 million). Ten Peaks has non-capital tax loss carry forwards of \$1.0 million which begin to expire in 2033. Seaforth has non-capital tax loss carry forwards of \$0.4 million that begin to expire in 2034.

TEN PEAKS COFFEE COMPANY INC.

Notes to the Amended and Restated Consolidated Financial Statements

For the year ended December 31, 2016

(Tabular amounts in thousands of Canadian dollars)

13. BANK INDEBTEDNESS

The Company had no outstanding debt as at December 31, 2016 or December 31, 2015, other than temporary overdraft accounts in the amount of \$0.2 million (2015: NIL).

The following credit facilities as at December 31, 2016 and December 31, 2015:

- a. a \$14.5 million revolving operating line of credit which bears interest at the bank's prime lending rate plus 75 basis points; and
- b. a \$1.5 million swing operating line of credit which bears interest at the bank's prime lending rate plus 75 basis points.

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, the Company has a US\$8.0 million foreign exchange and commodity futures contract facility, which allows the Company to enter into spot, forward and other foreign exchange rate transactions and commodity futures transactions with the bank with a maximum term of up to 60 months.

These facilities are collateralized by a general security agreement over all of the assets of the Company and a floating hypothecation agreement over cash balances.

As at December 31, 2016, the Company was in compliance with its debt covenants and had not made use of any of its credit facilities.

14. CONVERTIBLE DEBENTURE

Balance, December 31, 2015	\$	-
Proceeds from issuance		15,000
Debt issuance costs		(473)
Fair value of derivative		(3,319)
Interest charged		306
Interest paid		(231)
Balance, December 31, 2016	\$	11,283

On October 11, 2016, the Company issued an unsecured subordinated convertible debenture for gross proceeds of \$15,000,000. The Convertible Debenture bears interest at a rate of 6.85% per annum to be paid quarterly in arrears and is due on October 11, 2023.

The 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, Ten Peaks has the option to pay interest-in-kind for the first two years. If elected, this option will increase the principal sum by the interest owing.

The Convertible Debenture also includes a net share settlement feature that allows Ten Peaks, 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

TEN PEAKS COFFEE COMPANY INC.

Notes to the Amended and Restated Consolidated Financial Statements

For the year ended December 31, 2016

(Tabular amounts in thousands of Canadian dollars)

Shares being issued. The Company paid financing costs of \$0.47 million in respect of issuing the convertible debenture.

The liability component was initially measured at fair value amounted to \$11.2 million, which represents the present value of the contractually determined stream of cash flows discounted at the prevailing market interest rate at that time applicable to instruments of comparable credit status and providing substantially the same cash flows, on the same terms, but without derivative components of 12.15% per annum.

The Company uses the residual value method to allocate the fair value of the convertible debentures between the liability component and the derivative liability. Under this method, 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:

Share price	\$7.37
Exercise price	\$8.25
Option life	7 years
Volatility	39%
Risk-free interest rate	0.92%
Dividend yield	3.39%

15. OTHER LIABILITIES

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

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Current portion	\$ 488	\$ 869
Long term	81	69
Total other liabilities	<u>\$ 569</u>	<u>\$ 938</u>

16. ASSET RETIREMENT OBLIGATION

The Company estimates the total undiscounted amount of any cash flows required to settle its ARO is approximately \$0.9 million, which will be incurred on or about the expiry of the third lease renewal term in 2023. As at December 31, 2016, the Company has a long-term liability ARO of \$0.8 million (December 31, 2015: \$0.7 million), reflecting the present value of the ARO using a credit adjusted risk free rate of 2.75%.

TEN PEAKS COFFEE COMPANY INC.

Notes to the Amended and Restated Consolidated Financial Statements

For the year ended December 31, 2016

(Tabular amounts in thousands of Canadian dollars)

17. SHARE CAPITAL

Ten Peaks is authorized to issue an unlimited number of common shares. Each share is equally eligible to receive dividends when declared, and represents one vote at meetings of shareholders.

As of December 31, 2016, there were 9,038,862, common shares, and 48,285, restricted share units outstanding, respectively.

Restricted share units

The Company has a restricted share unit plan ("RSU Plan") which allows it to grant RSUs to officers, employees and consultants of Ten Peaks or its subsidiaries. The RSU Plan is administered by the Board of Directors, which sets the terms of incentive awards under the RSU Plan. The maximum number of common shares available for issue under the RSU Plan is 333,760, being 5% of the issued and outstanding common shares of the Company as at the date it was approved by shareholders. These grants vest on the third anniversary of issuance (with certain exceptions) provided the grant recipient is still employed by Ten Peaks or one of its subsidiaries as at the date of vesting. Grants are forfeited (with certain exceptions) if a recipient is no longer employed by Ten Peaks or one of its subsidiaries. Upon vesting, each RSU converts to one common share. These grants allow participants to receive up to 50% of the market value of the award in cash (instead of shares) upon vesting, in order to facilitate payment of taxes owing on the awards. Any RSUs paid in cash are returned to the pool and may be re-issued, subject to the maximum number of common shares available under RSU.

The Company granted RSU awards on September 15, 2011, November 21, 2012, September 13, 2013, and February 20, 2015. Each award is increased by the value of dividends paid to shareholders during the vesting period, using a formula which uses the higher of the then-current share price or \$3.20.

The movement in RSUs for the years ended December 31, 2016 and December 31, 2015 is as follows:

	Number of RSUs at	Volume based weighted average share price	Remaining vesting period (years)	Performance based
Balance at January 1, 2015	94,042	\$ 4.39	1.29	
RSUs granted	48,800	\$ 4.67	2.14	No
RSUs issued for dividends	4,642	\$ 7.13	1.87	No
RSUs cash-settled	(23,712)	\$ 10.71	-	No
RSUs exercised	(26,467)	\$ 10.71	-	No
Balance at December 31, 2015	97,304	\$ 12.01	1.45	
RSUs issued for dividends	2,477	\$ 8.62	1.03	No
RSUs forfeited	(3,136)	\$ 6.92	-	No
RSUs cash-settled	(21,064)	\$ 6.96	-	No
RSUs exercised	(27,296)	\$ 6.96	-	No
Balance at December 31, 2016	48,285	\$ 7.86	1.14	

TEN PEAKS COFFEE COMPANY INC.

Notes to the Amended and Restated Consolidated Financial Statements

For the year ended December 31, 2016

(Tabular amounts in thousands of Canadian dollars)

Deferred share units

The Company has a deferred share unit plan (the “DSU Plan”) in order to issue deferred share units (“DSUs”) to non-employee directors (collectively, “participants”) of Ten Peaks. The DSU Plan was adopted to allow participants the opportunity to defer compensation and encourage a sense of ownership in Ten Peaks. Under the DSU Plan, participants may elect to defer compensation and receive DSUs equal to the value of the deferred compensation.

The first DSUs were issued in April 2012. The number of DSUs was determined by dividing the amount of deferred compensation by the Fair Market Value. The Fair Market Value of DSUs is defined in the DSU Plan as the weighted average closing price of Ten Peaks shares for the five business days immediately preceding the relevant date.

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

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

The movement in DSUs for the years ended December 31, 2016 and December 31, 2015 is as follows:

	Number of DSUs at	Weighted average share price	Performance based
Balance at January 1, 2015	43,572	\$ 4.68	
DSUs issued	13,819	\$ 6.48	No
Balance at December 31, 2015	57,391	\$ 12.06	
DSUs issued	11,488	\$ 8.79	No
Balance at December 31, 2016	68,879	\$ 7.08	

TEN PEAKS COFFEE COMPANY INC.

Notes to the Amended and Restated Consolidated Financial Statements
For the year ended December 31, 2016
(Tabular amounts in thousands of Canadian dollars)

18. EMPLOYEE BENEFITS EXPENSES

Expenses recognized for employee benefits are detailed below:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Short-term benefits	\$ 6,794	\$ 6,728
Long-term benefits	(180)	946
Post-employment benefits	607	580
Total employee benefits expenses	<u>\$ 7,221</u>	<u>\$ 8,254</u>

Short-term benefits are comprised of salaries, accrued bonuses, benefits and director fees. Long-term benefits comprise share-based compensation under the RSU Plan and the DSU Plan. The weighted average share price for December 31, 2016 was \$7.08 (December 31, 2015: \$12.06) resulting in a decrease in the value of the DSU plan of \$.3 million.

Post-employment benefits are contributions to employee retirement accounts, as well as statutory remittances related to post-employment benefits. These are recognized as an expense when employees have rendered service entitling them to the contributions. For the years ended December 31, 2016, the total expense recognized in the consolidated statement of income of \$0.6 million (2015: \$0.6 million) represented contributions paid to RRSPs, IRAs, CPP and EI by the Company at rates specified in the rules of the plans.

19. RELATED PARTY TRANSACTIONS

The Company's related parties include its subsidiaries, key management personnel and companies related to directors.

Details of transactions between the Company and related parties (other than its subsidiaries) are discussed below. All intercompany transactions, balances, income and expenses are eliminated on consolidation.

Compensation of Key Management Personnel

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

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Short-term benefits	\$ 1,132	\$ 1,586
Long-term benefits	(181)	893
Post-employment benefits	53	89
Total	<u>\$ 1,004</u>	<u>\$ 2,568</u>

The recovery in long-term benefits is due to a decrease in the fair value of the DSUs of \$0.3 million resulting from a decrease in the Company's average share price during the year ended December 31, 2016 (see Note 17).

TEN PEAKS COFFEE COMPANY INC.

Notes to the Amended and Restated Consolidated Financial Statements

For the year ended December 31, 2016

(Tabular amounts in thousands of Canadian dollars)

Trading transactions

During the year, the Company entered into the following transactions with companies that are related to directors:

	<u>December 31, 2016</u>		<u>December 31, 2015</u>	
Sales	\$	764	\$	2,162
Purchase of raw materials	\$	4,509	\$	4,167

	<u>December 31, 2016</u>		<u>December 31, 2015</u>	
Accounts receivable	\$	121	\$	178
Accounts payable	\$	94	\$	599

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

20. DIVIDENDS

For the year ended December 31, 2016, the Company declared quarterly eligible dividends to shareholders totaling \$2.3 million or \$0.25 per share (2015: \$2.0 million) of which \$0.57 million was payable at December 31, 2016 (2015: \$0.56 million).

21. SEGMENT REPORTING

The Company's sales are primarily generated in a single segment (decaffeination of green coffee) and in three geographic areas – Canada, United States and other international markets.

The Company's revenue from external customers and its non-current assets by location are detailed below:

	<u>December 31, 2016</u>		<u>December 31, 2015</u>	
Canada	\$	31,908	\$	32,860
United States		37,173		40,779
Other		12,846		10,002
	\$	81,927	\$	83,641

TEN PEAKS COFFEE COMPANY INC.

Notes to the Amended and Restated Consolidated Financial Statements
For the year ended December 31, 2016
(Tabular amounts in thousands of Canadian dollars)

Non-Current Assets (not including deferred tax assets)

	December 31, 2016		December 31, 2015	
Canada	\$	17,951	\$	14,589
United States		14		52
	\$	17,965	\$	14,641

22. BASIC AND DILUTED EARNINGS PER SHARE

2016		Income		Shares		EPS
Basic EPS:						
Net income, weighted average shares outstanding, EPS	\$	4,149		9,019,621	\$	0.46
Effect of diluted securities: RSUs		19		83,932		
Diluted EPS:						
Net income and assumed conversions	\$	4,168		9,103,552	\$	0.46
2015						
Basic and diluted EPS:						
Net income, weighted average shares outstanding, EPS	\$	1,312		7,690,812	\$	0.17

The following potential common shares are anti-dilutive and are therefore excluded from the weighted average number of common shares outstanding for the purposes of calculating the diluted earnings per share:

	2016	2015
Share units from the conversion of the convertible debenture	407,352	-
Weighted average number of RSUs granted	-	133,357

23. FINANCIAL RISK MANAGEMENT

The Company's risk management program focuses on the unpredictability of commodity prices and foreign exchange rates, and seeks to minimize potential adverse effects on the Company's financial performance and cash flows. The Company uses derivative financial instruments to hedge these risk exposures. In addition, the Company monitors other financial risks on a regular basis.

Risk management is carried out under policies approved by the Board of Directors. The Company's exposure to and management of financial risks is discussed in more detail below.

TEN PEAKS COFFEE COMPANY INC.

Notes to the Amended and Restated Consolidated Financial Statements

For the year ended December 31, 2016

(Tabular amounts in thousands of Canadian dollars)

23.1 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. The Company utilizes futures contracts to manage its commodity price exposure. The Company buys and sells futures contracts for coffee on the Intercontinental Exchange in order to offset its inventory position and fix the input cost of green coffee. As at December 31, 2016, the Company had futures contracts to buy 2.0 million lbs of green coffee with a notional value of US\$2.7 million, and contracts to sell 6.4 million lbs of green coffee with a notional value of US\$8.8 million (December 31, 2015 – buy 1.2 million lbs with a notional value of US\$1.5 million, and sell 5.1 million lbs with a notional value of US\$6.4 million), with the furthest contract maturing in December 2019. The net notional value of the contracts outstanding at December 31, 2015 was approximately US\$4.9 million.

The following tables provide a summary of amounts related to future contracts designated as hedging instruments as at December 31, 2016:

	Nominal amount of the hedging instruments (In US\$000s)	Carrying amount of the hedging instruments		Line item in the statement of financial position where the hedging instrument is located	Changes in fair value used for calculating hedge ineffectiveness for 2016
		Assets	Liabilities		
Fair Value hedges					
Commodity price risk					
-Coffee futures	6,055	\$ 497	\$ -	Derivative Assets	\$ -

	Nominal amount of the Hedged item (In 000s lbs)	Accumulated amount of fair value hedge adjustment on the hedged item included in the carrying amount of the hedged items		Line item in the statement of financial position where the hedged item is located	Changes in fair value used for calculating hedge ineffectiveness for 2016	Cashflow hedge reserve
		Assets	Liabilities			
Fair Value hedges						
Purchase commitments and coffee inventory	4,432	\$ -	\$ 565	Other assets and inventories	\$ -	N/A

As at December 31, 2016 the Company has entered into contracts to hedge purchase commitments, coffee inventory as well as sales agreements for net notional volumes of 4.4 million pounds of coffee. The fair value of the derivatives portfolio at December 31, 2016 is in favour of the Company and is recorded within Derivative assets.

TEN PEAKS COFFEE COMPANY INC.

Notes to the Amended and Restated Consolidated Financial Statements

For the year ended December 31, 2016

(Tabular amounts in thousands of Canadian dollars)

23.2 Foreign currency risk

The Company realizes a significant portion of its sales in US\$, and purchases green coffee in US\$ which is, in some cases, sold to customers in Canadian dollars. The Company enters into forward foreign currency contracts to manage its exposure to currency rate fluctuations and to minimize the effect of exchange rate fluctuations on business decisions. These contracts relate to the Company's future net cash flows in US\$ from sales. In addition, the Company enters into forward contracts to buy US\$ for coffee that it resells in Canadian dollars. At December 31, 2016, the Company had forward currency contracts to buy US\$9.5 million and sell US\$42.7 million (December 31, 2015: buy US\$5.6 million and sell US\$39.5 million) from January 2017 through to December 2019 at various Canadian exchange rates ranging from \$1.1980 to \$1.3935. The net notional value of the contracts outstanding at December 31, 2016 was approximately US\$33.2 million.

The following tables provide a summary of amounts related to foreign currency forward contracts designated as hedging instruments as at December 31, 2016:

	Nominal amount of the Hedging instruments (In US\$000s)	Carrying amount of the hedging instruments		Line item in the statement of financial position where the hedging instrument is located	Changes in fair value used for calculating hedge ineffectiveness for 2016	
		Assets	Liabilities			
Fair Value hedges						
Foreign Exchange Risk						
- Designated Foreign Currency Purchase forwards	6,773	\$ 128	\$ 1	Derivative Assets and Inventories	\$ 40	
Cashflow Hedges						
Foreign Exchange Risk						
- Foreign Currency Forwards	32,560	\$ 59	\$ 1,144	Derivative Liabilities	-	
	Nominal amount of the Hedged item (In US\$000s)	Accumulated amount of fair value hedge adjustment on the hedged item included in the carrying amount of the hedged items		Line item in the statement of financial position where the hedged item is located	Changes in fair value used for calculating hedge ineffectiveness for 2016	Cashflow hedge reserve
		Assets	Liabilities			
Foreign Exchange Risk						
- Purchase commitments and coffee inventory	6,773	\$ -	\$ 23	Other assets and Inventories	\$ 40	N/A
Cashflow Hedges						
Foreign Exchange Risk						
- Foreign Currency Forwards	N/A	N/A	N/A	N/A	\$ -	\$ 567

TEN PEAKS COFFEE COMPANY INC.

Notes to the Amended and Restated Consolidated Financial Statements

For the year ended December 31, 2016

(Tabular amounts in thousands of Canadian dollars)

As at December 31, 2016 the Company has entered into forward contracts with a nominal value of US\$6.8 million to hedge purchase commitments and coffee inventory for sale in Canadian dollars. The fair value of the derivatives portfolio for fair value hedges at December 31, 2016 is \$0.1 million in favour of the Company and is recorded within Other Assets and Inventories. In addition, the Company has entered into forward contracts with a nominal value of US\$32.6 million to hedge future forecasted sales revenue. The fair value of the derivatives portfolio for cash flow hedges at December 31, 2016 is \$1.1 million not in favour of the Company and is recorded within derivative liabilities. The cash flow hedge reserve of \$0.6 million is before any adjustment for future income taxes.

Not included in the table above are fair value changes for swap contracts, as these are not designated hedge instruments.

23.3 Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company believes that interest rate risk is low as all cash equivalents and short-term investments are made in fixed rate instruments. The Company does have some interest rate risk related to its credit facilities; however the obligations are small enough that any exposure is not material at this time. There is no interest rate risk on the convertible debenture as the interest rates are fixed.

23.4 Credit risk

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

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

The Company follows a program of credit evaluations of customers and limits the amount of credit extended when deemed necessary. For the year ended December 31, 2016, revenues from three major customers of \$31 million (2015: \$29 million) represented 38% (2015: 47%) of total revenues for the year. These customers represented 34% of total accounts receivable as at December 31, 2016 (December 31, 2015: 32%).

The Company had 13% of its accounts receivable past due as at December 31, 2016 (December 31, 2015: 16%). Of the accounts receivable past due, 94% are 1-30 days past due and 6% are 31-60 days past due.

The Company manages the credit risk related to its derivative financial instruments by entering into such contracts only with high credit quality institutions.

23.5 Liquidity risk

The Company has in place a planning and budgeting process to assist in determining the funds required to support the Company's normal operating requirements on an ongoing basis and its future plans. The Company ensures that there are sufficient committed financing facilities to meet its short-term business requirements, taking into account its anticipated cash flows from operations, its existing bank indebtedness and additional borrowing capacity. The Company has

TEN PEAKS COFFEE COMPANY INC.

Notes to the Amended and Restated Consolidated Financial Statements

For the year ended December 31, 2016

(Tabular amounts in thousands of Canadian dollars)

maintained compliance with its banking covenants and remains able to satisfy its liabilities as they become due.

Non-derivative financial liabilities	Carrying Amount	Contractual Cash Flows			
	December 31, 2016	2017	2018-2019	2020-2021	Thereafter
Accounts payable	\$ 2,797	\$ 2,797	\$ -	\$ -	\$ -
Other liabilities	569	488	81	-	-
Convertible debenture	11,283	-	-	-	15,000
Total non-derivative financial liabilities	\$ 14,649	\$ 3,285	\$ 81	\$ -	\$ 15,000

23.6 Fair value of financial instruments

Financial instruments that are measured at FVTPL are categorized as follows:

	December 31, 2016	Level 1	Level 2	Level 3
Financial assets at FVTPL				
Cash, Cash Equivalents and Short Term Investments	\$ 25,197	\$ 25,197	\$ -	\$ -
Derivative assets	95	95	-	-
	\$ 25,292	\$ 25,292	\$ -	\$ -
Financial liabilities at FVTPL				
Derivative liabilities	\$ 4,711	\$ -	\$ 4,711	\$ -
	\$ 4,711	\$ -	\$ 4,711	\$ -

	December 31, 2015	Level 1	Level 2	Level 3
Financial assets at FVTPL				
Cash, Cash Equivalents and Short Term Investments	\$ 9,065	\$ 9,065	\$ -	\$ -
Derivative assets	354	354	-	-
	\$ 9,419	\$ 9,419	\$ -	\$ -
Financial liabilities at FVTPL				
Derivative liabilities	\$ 3,720	\$ -	\$ 3,720	\$ -
	\$ 3,720	\$ -	\$ 3,720	\$ -

During the period, there were no transfers between level 1 and 2 instruments.

24. COMMITMENTS

24.1 Operating lease commitments

SWDCC leases a facility which houses its decaffeination plant and offices. The current lease term expires in 2018. After 2018, the lease on the decaffeination facility can be renewed at SWDCC's option for one additional 5-year term.

Seaforth leases a warehouse facility, the lease for which expires on June 30, 2019. In Q4 2016, a short term lease for a small facility was terminated effective October 31, 2016.

Swiss Water Decaffeinated Coffee Company USA, Inc. holds a lease for its Seattle sales office, which expires on March 31, 2017.

A summary of future minimum payments under these operating leases as at December 31, 2016 is as follows:

TEN PEAKS COFFEE COMPANY INC.

Notes to the Amended and Restated Consolidated Financial Statements

For the year ended December 31, 2016

(Tabular amounts in thousands of Canadian dollars)

Minimum lease payments due:	
No later than 1 year	\$ 1,000
Later than 1 year and no later than 5 years	1,179
Later than 5 years	-
	<u>\$ 2,179</u>

24.2 Other lease commitments

On August 26, 2016, SWDCC signed a lease agreement for a build-to-suit production facility. The lease has an initial term of 5 years, and can be renewed at SWDCC's option in five-year increments up to a total of 30 years. The lease will commence the earlier of the date of opening of the SWDCC business in any part of the premises, and the date of expiry of the fixturing period, which is estimated to be December 1, 2017. Under the lease, SWDCC 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 the highly specialized building to house the production plant. The landlord will finance a portion of the building, with loan payments commencing on the earlier of substantial completion of construction and January 1, 2019. There is no loan outstanding as at the date of these financial statements.

A summary of future minimum payments under this lease as at December 31, 2016 is as follows:

Minimum lease payments due:	
No later than 1 year	\$ -
Later than 1 year and no later than 5 years	4,713
Later than 5 years	1,178
	<u>\$ 5,891</u>

24.3 Other commitments

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

The Company has, in the normal course of business, entered into various contracts. As at December 31, 2016, these contracts related to the purchase of green coffee in the amount of \$34.0 million, and natural gas purchase commitments in the amount of \$0.3 million. \$34.2 million of these contracts will become payable within 12 months from December 31, 2016.

TEN PEAKS COFFEE COMPANY INC.

Notes to the Amended and Restated Consolidated Financial Statements
For the year ended December 31, 2016
(Tabular amounts in thousands of Canadian dollars)

25. SUPPLEMENTAL CASH FLOW INFORMATION

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

	December 31, 2016	December 31, 2015
Cash	\$ 6,490	\$ 9,065
Cash Equivalents	6,007	-
	<u>\$ 12,497</u>	<u>\$ 9,065</u>

Change in non-cash working capital

	12 months ended	
	December 31, 2016	December 31, 2015
	(restated Note 26)	
Accounts receivable	(4,506)	314
Inventory	7,387	(4,975)
Prepaid expenses	(64)	(143)
Accounts payable and accrued liabilities	276	(946)
Derivative assets at fair value through profit or loss	259	557
Derivative liabilities at fair value through profit or loss	5	(1,286)
	<u>\$ 3,357</u>	<u>\$ (6,479)</u>

26. RESTATEMENT OF CONSOLIDATED STATEMENT OF CASH FLOWS

Subsequent to the issuance of the previously filed consolidated financial statements (filed on SEDAR on March 15, 2017), management discovered an error relating to the amount of unrealized gain on derivative financial instruments presented within cash from operating activities before changes in non-cash working capital accounts. The correction of such error resulted in a decrease in unrealized loss (gain) on derivative financial instruments and the corresponding subtotal before change in non-cash working capital relating to operating activities of \$3.5 million, and a corresponding increase of \$3.5 million in change in non-cash working capital relating to operating activities. The following identifies the error that was corrected by management for the year ended December 31, 2016.

TEN PEAKS COFFEE COMPANY INC.

Notes to the Amended and Restated Consolidated Financial Statements For the year ended December 31, 2016 (Tabular amounts in thousands of Canadian dollars)

<u>Line Item on Cash Flow Statement ('000s)</u>	<u>As Reported</u>	<u>Adjustment</u>	<u>Adjusted</u>
Net income for the year	\$ 4,149	\$	4,149
Items not affecting cash			
Depreciation and amortization	2,053		2,053
Unrealized loss (gain) on derivative financial instruments	1,761	(3,522)	(1,761)
Share-based compensation recovery	(180)		(180)
Payment of restricted share units settled in cash	(147)		(147)
Foreign exchange loss on cash held and on debt	2		2
Income taxes recognized in profit and loss	1,593		1,593
Finance expense recognized in profit and loss	4		4
	9,235	(3,522)	5,713
<u>Change in non-cash working capital relating to operating activities</u>	<u>(165)</u>	<u>3,522</u>	<u>3,357</u>
Cash generated from operations	9,070	-	9,070
Interest received	337	-	337
Interest paid	(251)	-	(251)
Net cash generated from operating activities	\$ 9,156	-	\$ 9,156

The restatement did not impact net cash generated from operating activities, or any other cash flows for the years presented. The restatement only affected the consolidated statement of cash flows. There was no change to the consolidated statements of financial position, income, comprehensive income or the changes in equity for the years presented, and there was no impact to basic and diluted earnings per share.

27. SUBSEQUENT EVENTS

These amended consolidated financial statements for the year ended December 31, 2016 were approved for issuance on April 21, 2017. There were no significant non-adjusting events that occurred between the reporting date and the date of authorization other than as noted below.

On January 16, 2017, the Company paid an eligible dividend in the amount of \$0.6 million (\$0.0625 per share) to shareholders of record on December 31, 2016.

On March 14, 2017, the Directors declared an eligible dividend of \$0.0625 per share, to be paid on April 17, 2017 to shareholders of record on March 31, 2017.

In March 2017, Swiss Water Decaffeinated Coffee Company USA, Inc. extended its lease for its Seattle sales office, for a further 3 years. The lease extension expires on March 31, 2020.