

TEN PEAKS COFFEE COMPANY INC. REPORT TO SHAREHOLDERS



# Q3/2014

For the period ended  
September 30, 2014





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## COMPANY OVERVIEW

Ten Peaks is a leading specialty coffee company that owns all of the interests of the Swiss Water Decaffeinated Coffee Company Inc. (SWDCC), a premium green coffee decaffeinator located in Burnaby, BC. We also own and operate Seaforth Supply Chain Solutions Inc. (Seaforth), a green coffee handling and warehousing business located in Metro Vancouver.

Our vision is to grow Ten Peaks into a global coffee company. To do that, we intend to focus on enhancing the business of SWDCC, while leveraging our significant knowledge of, and expertise in, the specialty coffee trade to expand into complementary markets.

Ten Peaks trades on the Toronto Stock Exchange under the symbol 'TPK'.

## ABOUT SWDCC

Established in 2000, SWDCC is one of the world's few chemical free coffee decaffeimators. It employs the SWISS WATER® Process, a proprietary decaffeination method that leverages science-based systems and controls to produce amazing coffee without caffeine. The SWISS WATER® Process is certified organic by the Organic Crop Improvement Association and produces coffee that is 99.9% caffeine-free.

Because they are chemical-free, SWISS WATER® Process decaffeinated green coffees are distinct from the majority of the world's decaffeinated coffees, which are exposed to chemical solvents such as methylene chloride and ethyl acetate during the decaffeination process.

Additionally, the SWISS WATER® Process is the world's only branded decaffeination process and enjoys substantial recognition in the specialty coffee trade and with consumers.

SWISS WATER® Process decaffeinated green coffees are sold to many of North America's leading specialty roaster retailers, specialty coffee importers and commercial coffee roasters. SWDCC also sells coffees internationally through regional distributors.

## ABOUT SEAFORTH

Seaforth provides a complete range of green coffee logistics services including devanning coffee received from origin; inspecting, weighing and sampling coffees; and storing, handling and preparing green coffee for outbound shipments. Seaforth's warehouse and handling operation is certified organic by Ecocert Canada.

## Q3 2014 PERFORMANCE HIGHLIGHTS

In \$000s except per share amounts (Unaudited)	3 months ended Sept 30, 2014	3 months ended Sept 30, 2013	9 months ended Sept 30, 2014	9 months ended Sept 30, 2013
<b>Operations</b>				
Sales	\$ 17,245	\$ 13,217	\$ 46,724	\$ 38,079
Gross Profit	2,589	1,354	8,140	4,263
EBITDA	1,342	1,066	3,963	3,010
Net income	201	559	1,346	1,312
<b>Per share amounts:</b>				
EBITDA	\$ 0.20	\$ 0.16	\$ 0.59	\$ 0.45
Net income	\$ 0.03	\$ 0.08	\$ 0.20	\$ 0.20

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

*This Management's Discussion & Analysis ("MD&A") of Ten Peaks Coffee Company Inc. ("Ten Peaks" or the "Company"), dated as of November 13, 2014, provides a review of the financial results for the three and nine months ended September 30, 2014 relative to the comparable periods of 2013. The three-month period represents the third quarter ("Q3") of our 2014 fiscal year. This MD&A should be read in conjunction with the Company's condensed consolidated interim financial statements for the period ended September 30, 2014, as well as the audited consolidated financial statements for the year ended December 31, 2013, which are available at [www.sedar.com](http://www.sedar.com).*

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

### FORWARD-LOOKING STATEMENTS

This MD&A contains forward-looking statements, including statements regarding the future success of our business and market opportunities. Forward-looking statements typically contain words such as "believes", "expects", "anticipates", "continue", "could", "indicates", "plans", "will", "intends", "may", "projects", "schedule", "would" or similar expressions suggesting future outcomes or events, although not all forward-looking statements contain these identifying words.

Examples of such statements include, but are not limited to, statements concerning: (i) expectations regarding Ten Peaks' future success in various geographic markets; (ii) future financial results including anticipated future sales and processing volumes; (iii) future dividends; (iv) the expected actions of the third parties described herein; (v) factors affecting the coffee market including supplies and commodity pricing; and (vi) the business and financial outlook of Ten Peaks. In addition, this MD&A contains financial outlook information that is intended to provide general guidance for readers based on our current estimates, but which is based on numerous assumptions and may prove to be incorrect. Therefore, such financial outlook information should not be relied upon by readers. These statements are neither promises nor guarantees, but involve known and unknown risks and uncertainties that may cause our actual results, level of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed in or implied by these statements. These risks include, but are not limited to, risks related to processing volumes and sales growth, operating results, supply of coffee, general industry conditions, commodity price risks, technology, competition, foreign exchange rates, general economic conditions and those factors described herein under the heading 'Risks & Uncertainties'.

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

### EXECUTIVE SUMMARY

We generated very strong financial and operating results in the third quarter of 2014, building on the growth that we achieved in the first half of this year. Revenue, gross profit and EBITDA were all up compared to the three and nine months ended September 30, 2013. The improved results were driven by double-digit volume growth in both the third quarter and first nine months of the year.

Processing volumes rose by 21% during the quarter compared to Q3 2013. The strong gains were led by a 51% increase in volumes to specialty regional customers and supported by a 9% increase in volumes to our national accounts. For the first nine months of 2014, our volumes rose by 16%, with shipments to specialty regional accounts up by 33% and volumes to national accounts increasing by 9%. We recorded growth in all geographic markets, with the most significant gains being generated in the US.

The coffee commodity price, or "NY'C", remained relatively high during the first nine months of the year, averaging US\$1.81 during the third quarter and \$1.73 for the year-to-date. This represents an increase of 53% and 32%, respectively, over the same periods last year. The higher NY'C' increased our revenues and, to a lesser extent, our cost of sales in both periods. While higher commodity prices typically slow demand, we continued to win market share and grow our volumes.

Revenues grew significantly on a year-over-year basis, increasing by 30% to \$17.2 million in the third quarter and by 23% to \$46.7 million in the first nine months. All three of our revenue categories – process revenue, green coffee revenue and

distribution revenue – recorded gains. Revenues were boosted in part by a stronger US dollar, as we bill the majority of our customers in US dollars. Higher volumes and the elevated NY'C' also contributed to this year's revenue growth.

Cost of sales rose by 24% in Q3 and by 14% in the first nine months of the year. As growth in our revenues more than offset these increases, our quarterly and nine-month gross profit rose by \$1.2 million (91%) and \$3.9 million (91%) respectively.

Administration expenses rose somewhat in the first nine months of this year, owing to increased stock-based compensation and higher professional fees.

For the year-to-date, losses on commodity futures partially offset our higher gross profit. We also saw this during the first quarter of 2014, when the NY'C' rose rapidly and generated losses on our commodity hedges. Our losses on commodity futures were only \$0.5 million in the third quarter, such that the increased gross profit more than offset losses on derivative instruments.

The appreciation of the US dollar in the quarter resulted in unrealized (non-cash) losses on our foreign exchange forward contracts, and also generated foreign exchange losses on our debt denominated in US dollars. The combined impact lowered our net income by \$0.5 million in the quarter.

Overall, we generated net income of \$0.2 million in Q3, down from \$0.6 million in the third quarter of last year. For the first nine months of 2014, net income was \$1.3 million, unchanged from the same period last year.

EBITDA rose in both periods, increasing from \$1.1 million to \$1.3 million in Q3 and from \$3.0 million to \$4.0 million for the year-to-date. In both cases, the significant increase in gross profit drove the increase in EBITDA.

We used \$1.7 million in cash to fund operating activities in the first nine months of 2014. Although we generated \$3.2 million in cash from operations before changes in working capital accounts, we used \$4.7 million to fund inventory, accounts receivable and other working capital requirements. As a result, our net debt rose by \$3.6 million during the first nine months of this year.

## **BUSINESS OVERVIEW**

Ten Peaks is a leading specialty coffee company doing business through two wholly owned subsidiaries, Swiss Water Decaffeinated Coffee Company, Inc. ("SWDCC") and Seaforth Supply Chain Solutions Inc. ("Seaforth"). 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. We believe that the SWISS WATER® Process is the world's only 100% chemical free water process for third-party coffee decaffeination. It is certified organic by the Organic Crop Improvement Association, and is also the world's only consumer-branded decaffeination process. This is our primary business, and the financial results of Ten Peaks are dependent upon the results of SWDCC.

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

As at September 30, 2014, the condensed consolidated interim financial statements of Ten Peaks included the accounts of Ten Peaks; our wholly owned subsidiaries SWDCC and Seaforth; and two wholly owned subsidiaries of SWDCC, Swiss Water Decaffeinated Coffee Company USA, Inc., and Swiss Water Process Marketing Services Inc. Inter-company accounts and transactions have been eliminated on consolidation.

Ten Peaks' shares trade on the Toronto Stock Exchange under the symbol 'TPK'. As at the date of this report, 6,735,099 shares were issued and outstanding.

## **SWISS WATER DECAFFEINATED COFFEE COMPANY'S BUSINESS**

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

We also decaffeinate coffee owned by our customers for a processing fee under toll arrangements (our "toll" business). The value of the coffee processed under toll arrangements does not form part of our inventory, our revenue or our cost of sales. Revenue from toll arrangements consists entirely of processing revenue. In the first nine months of 2014, approximately 20% of the coffee we processed was under toll arrangements, with the balance being regular business.

Our cost of sales is comprised primarily of the cost of green coffee purchased for our regular business, and the plant labour and other processing costs directly associated with our production facility. This incorporates an allocation of fixed overhead costs, which includes depreciation of our production equipment and amortization of our proprietary process technology.

For our regular business, we work with coffee importers to source premium-grade green coffees from coffee-producing countries located in Central and South America, Africa and Asia. The purchase price is based on the New York 'C' ("NY'C") coffee commodity price on the IntercontinentalExchange, plus a quality differential. The NY'C' component typically makes up more than 80% of the total cost of green coffee, while the quality differential typically accounts for less than 20%. Both the NY'C' price and the quality differential fluctuate in response to fundamental commodity factors that affect supply and demand.

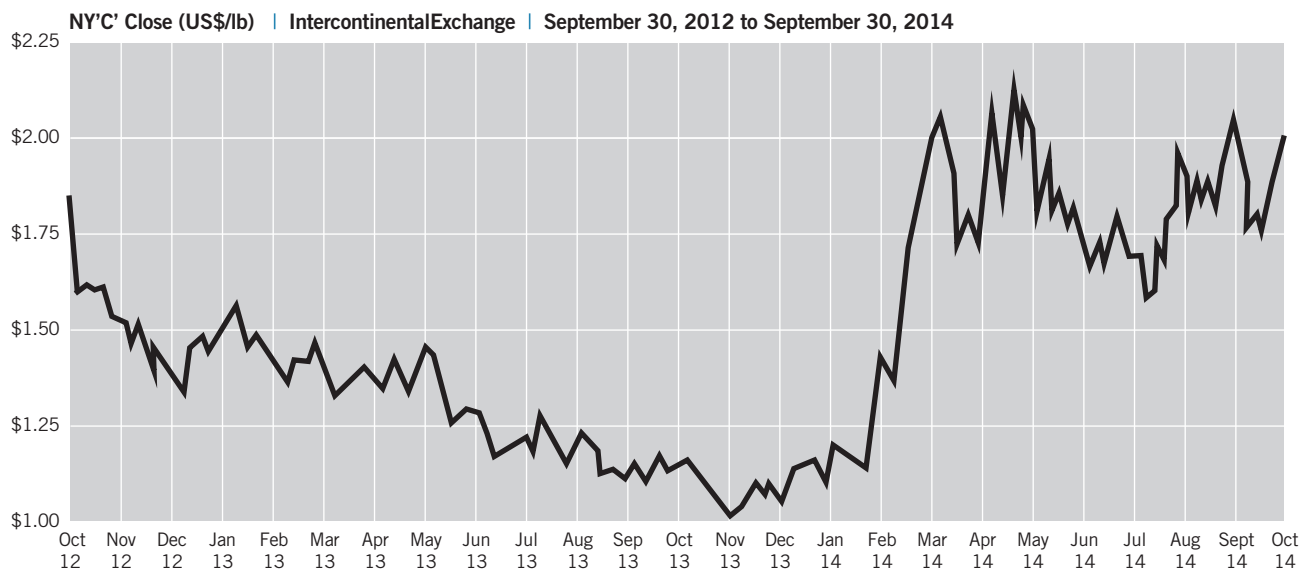
### Commodity Futures

We use derivative instruments to help offset the effect of movements in the NY'C' component of coffee pricing between the time we purchase green coffee and the time we sell decaffeinated green coffee to our customers (approximately four months). Our commodity price risk mitigation strategy requires us to short sell a futures contract for one lot (37,500 lbs) of coffee on the IntercontinentalExchange whenever we agree to buy one lot of coffee from a supplier at a fixed price. The short sale protects us from changes in the price of coffee while we hold the coffee in inventory, as an increase (decrease) in the NY'C' price will generate an increase (decrease) in the value of the coffee we hold in inventory, and an equivalent decrease (increase) in the value of the derivative instrument. As coffee is sold, the short sales are covered by purchasing offsetting long contracts on the IntercontinentalExchange.

There is no open market to hedge the quality differential component of our green coffee cost. Therefore, in periods of rising differential markets, we may experience a differential cost recovery gain, and in periods of falling differential markets, we may experience a differential cost recovery loss.

Volatility in the NY'C' generates gains or losses on the derivative financial instruments that we hold. Although these gains and losses offset corresponding losses or gains in the value of the inventory we hold, International Financial Reporting Standards ("IFRS") do not allow us to mark our inventory to market. As such, gains in the value of our inventory that result from increases in the NY'C' are not reflected on our statement of financial position, nor in our profitability through our statement of operations, until sold. Conversely, under IFRS the fair value of the commodity futures contracts must be recorded on our statement of financial position, and changes in fair value from one period to the next are recorded as unrealized gains and losses on derivative instruments on our statement of operations. As a result, even though holding derivative financial instruments in respect of our commodity purchases is a prudent risk management strategy, it can result in significant swings in our reported income in any period, since a substantial portion of our current assets are invested in coffee commodities. We saw the impact of this swing in the first nine months of this year.

The chart below shows the movement in the NY'C' since September 30, 2012:



As is evident in the chart above, the NY'C' rose rapidly in the first quarter of 2014, owing to market concerns over future coffee supplies. A recent drought in Brazil is expected to reduce the overall quality and quantity of Brazilian coffee in both this year's and next year's harvest (due to damage to the trees). As Brazil is the largest coffee-producing country in the world, this has led to considerable concern and market speculation in the coffee commodity market. We expect the NY'C' to remain at higher than normal levels for the remainder of 2014.

The NY'C' averaged US\$1.81 in Q3 of this year, up by 53% from Q3 last year. For the nine months ended September 30, 2014, the average NY'C' was US\$1.73, up by 32% from the first nine months of 2013. All else being equal, a higher

average NY'C' will increase the value of green coffee included in both our sales and our cost of sales. Green coffee revenues and costs of sales are also affected by the proportionate mix of our toll and regular business, the quality differentials for the specified coffees, and the US-Canadian dollar exchange rate.

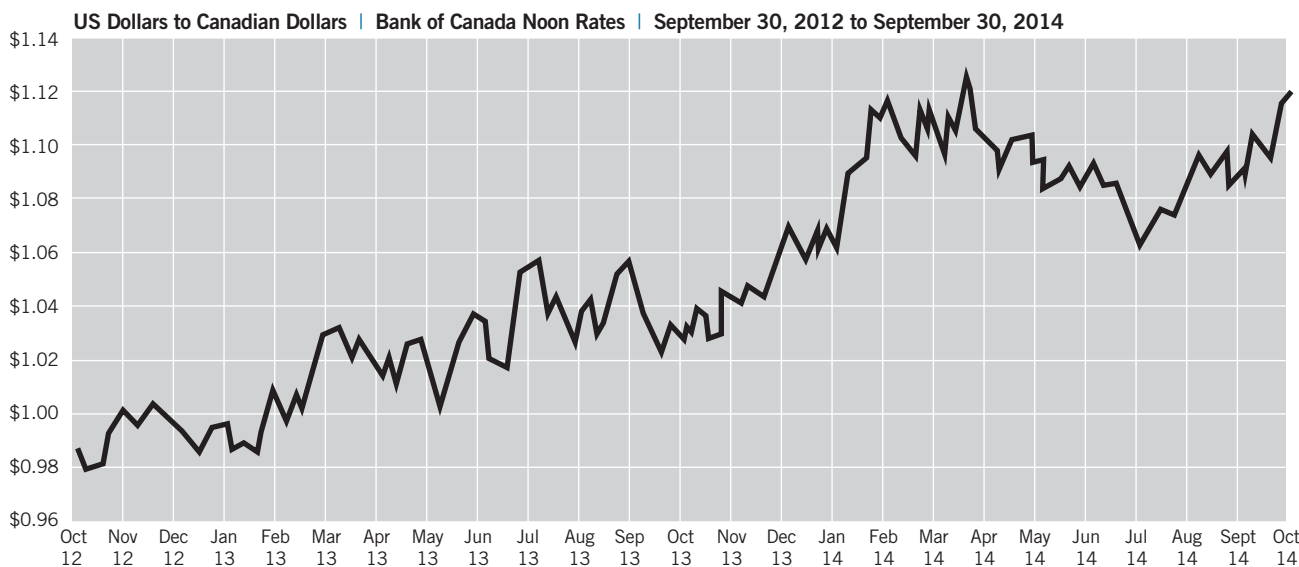
### Currency Forwards

Coffee is traded in US dollars ("US\$"), as buyers and sellers reference the NY'C' coffee price when entering into contracts. As a result, the majority of our revenues are denominated in US\$, while a significant portion of our expenses and cash outflows occur in Canadian dollars. Therefore, our financial results are affected by any significant fluctuation in US-Canadian dollar exchange rates. In accordance with our foreign exchange risk management policy, we use financial instruments to manage our currency risk based on estimates of our net US\$ cash flows up to 24 months in advance. We purchase forward contracts to sell US\$ at fixed future dates and exchange rates. This enables us to more reliably predict how much Canadian currency we will receive for our US\$ sales. Cash flows in the immediate 12-month period are hedged at a higher percentage of expected future cash flows than those farther out, reflecting greater uncertainty in the 13 to 24-month period. As our assumptions about the timing and amount of US\$ cash flows change over time, we enter into offsetting forward contracts to buy US\$ as required to eliminate any over-hedged positions in accordance with our risk management policy.

In addition, our risk management policies require us to enter into forward contracts to purchase US\$ when we have large, predictable outlays of US\$ for upcoming expenses or purchase commitments. This allows us to fix the exchange rate for purchases or expenses, as applicable, at the time the commitment is entered into.

With cash flows hedged in this manner, we can make informed decisions about capital and operating expenditures. However, as we do not use hedge accounting, our currency hedging practices can result in significant volatility in our reported net income. This is because our US\$ revenues and expenses are recognized at the exchange rates in effect at the time sales are made or expenses incurred (rather than at the exchange rate implied by the derivative instrument). At the same time, IFRS requires us to mark our derivative instruments to market at each financial statement date, with changes in the value of these instruments being recognized in income during the period. This means that in an environment where the US\$ has depreciated relative to the Canadian dollar, our revenue would decrease. Concurrently, we would recognize offsetting gains on our currency hedges, which appear on our statement of income and comprehensive income under 'Gain/(Loss) on derivative financial instruments'. Realized gains or losses on derivative financial instruments relate to contracts that have been settled in the period, while unrealized gains or losses relate to contracts which mature in future periods.

The chart below illustrates the US–Canadian dollar exchange rates since September 30, 2012:



The US\$ averaged \$1.09 in Q3 2014, up by 5% from an average of \$1.04 in Q3 2013. In the first nine months of 2014, the US\$ averaged at \$1.09, an increase of 7% over the same period of last year. The stronger US\$ contributed to an increase in our revenues, as 72% of our nine-month sales were generated in US\$, compared to 62% in the same period in 2013.

The rapid increase in the US\$ in Q3 2014 also generated unrealized losses on our US\$ denominated debt in the period. Similarly, it generated unrealized losses on our forward contracts. Both these items reduced our net income (as is discussed further below), but as non-cash items, did not reduce our EBITDA in the three- and nine-months ended September 30, 2014.

## OPERATING RESULTS

### *Sales and Processing Volumes*

During the third quarter, our processing volumes grew by 21% over Q3 2013. Nine-month processing volumes were up by 16% over the same period last year, as we continued to win market share. During Q3 2014, volumes to specialty regional accounts increased by 51% and volumes to national accounts rose by 9%. For the year-to-date, specialty regional accounts recorded growth of 33% and volumes to national accounts rose by 9%.

As our total revenues can be influenced considerably by changes in the NY'C', we monitor and report our sales in three categories. Process revenue represents the amount we charge our customers for decaffeinating green coffee, and it generally increases as processing volumes increase. Green coffee cost recovery revenue (or "green revenue") is the amount we charge our customers for the green coffee we purchase for decaffeination. It rises and falls with the NY'C'. Distribution revenue consists of shipping, handling and warehousing charges billed to our customers. It typically rises with processing volumes and with the growth of Seaforth's business.

Our revenue by category was as follows:

(In \$000s) (unaudited)	3 months ended Sept 30, 2014	3 months ended Sept 30, 2013	9 months ended Sept 30, 2014	9 months ended Sept 30, 2013
Process revenue	\$ 4,244	\$ 3,413	\$ 11,597	\$ 9,526
Green revenue	12,182	9,231	32,975	27,140
Distribution revenue	819	573	2,153	1,413
Total	\$ 17,245	\$ 13,217	\$ 46,724	\$ 38,079

Our third quarter sales totaled \$17.2 million, an increase of \$4 million, or 30%, over the same quarter last year. Process revenue increased by \$0.8 million, or 24%, driven by higher processing volumes and a stronger US\$. Green revenue increased by \$3 million, or 32%, due to a rising NY'C' and higher sales volumes. Distribution revenue was up by \$0.2 million, or 43%, reflecting the expansion of Seaforth's business and our increased volumes.

In the first nine months of this year, revenue totaled \$46.7 million, up by \$8.6 million, or 23%, over the same period last year. As with the third quarter, volume growth boosted all three revenue types. Process revenue rose 22% to 11.6 million, while green revenue increased by 22% to \$33.0 million. Distribution revenue was up by \$0.7 million, or 52%, reflecting the expansion of Seaforth's business and increased volumes.

### *Cost of Sales*

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

For Q3 2014, our cost of sales totaled \$14.7 million, up by 24% over the same period last year. The increase was mainly related to higher green coffee costs, which were driven by our increased volumes and the higher NY'C'. It also includes higher warehousing and handling costs, freight charges, and utilities costs.

For the first nine months of 2014, our cost of sales rose by 14% to \$38.6 million. Several factors contributed to the increase, including our growing processing volumes, higher utility charges and increased costs at Seaforth. In addition, the labour disruption at the Port Metro Vancouver in March of this year increased our freight and handling charges, as we purchased coffee from warehouses in other parts of North America and shipped it to our facility to replace green coffee that was stuck at the port.

### *Gross Profit*

Gross profit for the third quarter increased by 91% to \$2.6 million, and by 91% to \$8.1 million in the first nine months of 2014. In both periods, the year-over-year growth was driven by our higher sales revenue, which more than offset the increases in our cost of sales.

### *Sales and Marketing Expenses*

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

Sales and marketing expenses were \$0.3 million for the quarter and \$1.0 million for nine months ended September 30, 2014, unchanged from the same periods last year.



### **Occupancy Expenses**

Occupancy expenses include the cost of renting administration offices. Occupancy costs are up somewhat for the third quarter and year-to-date, as we opened a new sales office in Seattle, WA in Q2 2014. Our Seattle location gives us greater presence in the US market, where we are continuing to experience double-digit volume growth.

### **Administration Expenses**

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

For Q3 2014, administration expenses were \$1.0 million. This represents an increase of \$0.3 million, or 39%, over the same period last year, with the change due to increased stock-based compensation expenses.

For the nine months ended September 30, 2014, administration expenses were \$2.7 million, up by 25% on a year-over-year basis. The increase reflects higher stock-based compensation expenses, staff-related expenses and professional fees.

### **Finance Income / Expenses**

Finance income reflects the charges we bill to customers for financing coffee inventories. Finance expenses include interest costs on bank debt and other borrowings, and the accretion expense on our asset retirement obligation.

Finance income and finance expenses were relatively unchanged compared to the same periods last year.

### **Gains and Losses on Derivative Financial Instruments**

We enter into commodity futures and foreign exchange forward contracts to manage the effect of changes in the NY'C' and US dollar exchange rates on our business. We record both realized and unrealized gains and losses on foreign currency forward contracts and coffee futures contracts as gains and losses on derivative financial instruments on our statement of income. These are based on marked-to-market calculations at the end of the relevant reporting period. Realized gains (losses) on derivative financial instruments are incurred when the instruments mature during the period. In contrast, unrealized gains and losses represent the change in the fair value of the derivative financial instruments that mature in future periods. The amount of any unrealized gain or loss may change before the underlying financial instrument is actually liquidated.

Realized gains (losses) on foreign exchange forward contracts increase (decrease) both our reported net income and our cash from operations in the relevant period. Unrealized gains and losses on foreign exchange derivative instruments are non-cash charges, and only affect our reported net income in the relevant period.

For coffee futures, it is the overall value of our derivative contracts on the IntercontinentalExchange that drives cash inflows and outflows for the period. Unlike foreign exchange forward contracts, decreases in the fair value of outstanding futures contracts generate unrealized losses which must be funded on a daily basis. These mark-to-market losses take the form of margin calls, which we fund through increased bank indebtedness. If a change in the NY'C' results in gains on these contracts, we can recoup the cash on account for the excess over the current margin requirements. Thus, realized and unrealized gains and losses on coffee futures contracts affect both our cash flows and our earnings in any reporting period.

In the third quarter of this year, we recorded \$0.1 million in realized losses on our futures contracts, compared with \$0.1 million in realized gains in the same quarter last year. We also recorded \$0.3 million in unrealized losses on coffee futures in Q3 2014, compared to \$0.1 million in unrealized gains in third quarter of 2013. The net effect was that we recognized \$0.4 million in net losses on futures contracts during the third quarter of 2014, compared to net gains of \$0.2 million in Q3 2013.

In Q3 2014, we also recorded \$0.1 million in realized losses on our foreign currency derivatives, compared with a realized \$0.1 million gain in the third quarter of 2013. We also recorded \$0.3 million in unrealized losses on foreign exchange forward contracts for the three months ended September 30, 2014, compared to the unrealized gain of \$0.1 million for the same period in 2013. Overall, we recognized a loss on foreign exchange contracts of \$0.4 million in the third quarter, compared to a \$0.2 million gain in Q3 last year. Unrealized gains or losses on foreign exchange contracts do not impact our cash flows in the period.

For the first nine months of this year, we realized \$2.4 million in losses in our commodity futures contracts, compared to realized gains of \$1.3 million for the first nine months of last year. We also recorded \$0.6 million in unrealized gains on our futures contracts, compared to \$0.6 million in unrealized losses in 2013. The net effect was a year-to-date loss of \$1.8 million on commodity futures contracts, compared to net gains of \$0.7 million for the first nine months of last year.

For the first nine months of 2014, we realized \$0.1 million in losses on our foreign currency derivatives, compared to realized gains of \$0.1 million for the first nine months of last year. We also recorded \$0.3 million in unrealized losses on our foreign currency derivatives, compared to \$0.1 million in unrealized losses in 2013. The net effect was a year-to-date loss of \$0.4 million on foreign currency derivatives, compared to a loss of \$0.1 million for the first nine months of last year.

### ***Gains and Losses on Foreign Exchange***

We realize gains and losses on transactions denominated in foreign currencies when they occur, and on assets and liabilities denominated in foreign currencies when they are translated into Canadian dollars as at the financial statement date. This is separate from foreign exchange forward contracts, which are reported under 'Gains and Losses on Derivative Financial Instruments' above.

We recorded foreign exchange losses of \$0.2 million for the three months ended September 30, 2014, compared with gains of \$38 thousand in Q3 2013.

For the first nine months of this year, we recorded a loss on foreign exchange of \$0.2 million, compared with losses of \$8 thousand for the same period last year.

### ***Income Before Taxes and Net Income***

In the third quarter of this year, we recorded income before taxes of \$0.2 million, compared to \$0.7 million for the same period in 2013. Our net income for the period was reduced slightly by deferred income taxes. Deferred income taxes arise mainly from temporary differences between the depreciation and amortization expenses deducted for accounting purposes, and the capital cost allowances deducted for tax purposes, as well as changes in corporate income tax rates as adjusted for substantively enacted higher future tax rates. The latter are offset by the tax benefit of loss carry forwards recognized. Overall, we recorded net income of \$0.2 million for the quarter, compared to \$0.6 million for the same period last year.

For the first nine months of 2014, our income before taxes was \$1.9 million, compared to \$1.7 million for the same period last year. Our nine-month net income was reduced by deferred income taxes of \$0.5 million. As a result, we recorded net income of \$1.3 million this year, unchanged from the same period in 2013.

### ***Basic and Diluted Earnings per Share***

Basic earnings per share is calculated by dividing net income by the basic weighted average number of shares outstanding during the period. Similarly, diluted earnings per share is calculated by dividing net income adjusted for the effects of all dilutive potential common shares, by the diluted weighted average number of shares outstanding. As our potential common shares are anti-dilutive, there is no difference between basic and diluted earnings under IFRS.

For the quarter ended September 30, 2014, basic and diluted earnings per share were \$0.03, compared to \$0.08 per share on a basic and diluted basis in Q3 2013. During the quarter, the basic and diluted weighted average number of shares outstanding were 6,685,627 and 6,860,450, compared to 6,675,254 and 6,831,351 respectively in Q3 2013.

For the nine months ended September 30, 2014, basic and diluted earnings per share were \$0.20, unchanged from the same period in 2013. During the first nine months of 2014, the basic and diluted weighted average number of shares outstanding was 6,678,750 and 6,870,198, compared to 6,675,254 and 6,822,903 respectively last year.

## **NON-IFRS MEASURES**

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

### ***EBITDA***

We define EBITDA as net income before interest, depreciation, amortization, impairments, share-based compensation, gains/losses on foreign exchange, gains/losses on disposal of capital equipment, unrealized gains/losses on foreign exchange forward contracts and provision for income taxes. Our definition of EBITDA reflects realized gains and losses on foreign exchange forward contracts which offset the currency risk of our US\$ denominated revenues. It also includes gains and losses on coffee as it is sold, together with the offsetting gains and losses on the commodity futures trading account.

We use EBITDA as one measure of our financial performance. It is a calculation of cash from operations independent of changes in working capital balances, and thus complements cash flows from operations as reported on the statement of changes in financial position. As we do not use hedge accounting, our reported results under IFRS are heavily influenced by changes in the closing market values of the NY'C' and the US-Canadian dollar exchange rate, and thus can be difficult to interpret quarter by quarter. Our measure of EBITDA takes the cash flow impact of our currency and commodity hedges into account, and it represents cash flows that we can reasonably forecast and impact (through growth initiatives and operational cost controls).

The reconciliation of net income to EBITDA is as follows:

(In \$000s) (unaudited)	3 months ended Sept 30, 2014	3 months ended Sept 30, 2013	9 months ended Sept 30, 2014	9 months ended Sept 30, 2013
Income for the period	\$ 201	\$ 559	\$ 1,346	\$ 1,312
Income taxes	48	183	518	354
Income before tax	249	742	1,864	1,666
Finance income	(25)	(24)	(61)	(70)
Finance expenses	59	32	149	117
Depreciation & amortization	396	354	1,125	1,059
Unrealized (gain) loss on foreign exchange forward contracts	308	(57)	294	82
Loss/(gain) on foreign exchange	181	(39)	214	8
Share--based compensation	174	58	378	148
<b>EBITDA</b>	<b>\$ 1,342</b>	<b>\$ 1,066</b>	<b>\$ 3,963</b>	<b>\$ 3,010</b>

EBITDA for the third quarter was \$1.3 million, compared to \$1.1 million in Q3 2013. EBITDA for the first nine months of this year totaled \$4.0 million, compared to \$3.0 million for the same period last year. The increase reflects this year's higher gross profit, partially offset by the loss on commodity futures contracts.

## QUARTERLY INFORMATION / SEASONALITY

The following table summarizes results for each of the eight most recently completed fiscal quarters:

	Q3 2014	Q2 2014	Q1 2014	Q4 2013	Q3 2013	Q2 2013	Q1 2013	Q4 2012
Sales	17,245	15,997	13,482	15,794	13,217	12,819	12,043	14,718
Gross profit	2,589	3,437	2,116	1,949	1,354	1,739	1,170	1,496
EBITDA <sup>(1)</sup>	1,342	2,497	123	1,201	1,067	1,365	577	1,271
Net income	201	1,820	(673)	343	561	644	106	590
Per share <sup>(2)</sup>								
EBITDA <sup>(1)</sup> – basic and diluted	0.20	0.37	0.02	0.18	0.16	0.20	0.09	0.19
Net income – basic and diluted	0.03	0.27	(0.10)	0.05	0.08	0.10	0.02	0.09

<sup>(1)</sup> EBITDA is defined in the section on 'Non-IFRS Measures' along with details of its calculation.

<sup>(2)</sup> Per-share calculations are based on the weighted average number of shares outstanding during the period.

There is a seasonality factor in the specialty coffee industry, with fourth quarter sales volumes typically being the strongest.

## LIQUIDITY AND CAPITAL RESOURCES

### Cash Flow from Operations

For the nine months ended September 30, 2014, we generated \$3.2 million in cash from operations before changes in non-cash working capital. This was down from \$3.7 million in the first nine months of 2013.

Changes in non-cash working capital accounts used \$4.7 million in the first nine months of this year, compared to cash generation of \$1.1 million last year. Increases in inventory used \$3.5 million for working capital in this period, while higher accounts receivable used \$1.9 million. In both cases, this reflects the higher NY'C' and the stronger US\$ compared to the same periods last year. Accounts receivable also reflects the increased sales volumes. Overall, cash used in operating activities was \$1.7 million, compared to cash generation of \$4.7 million in the nine months ended September 30, 2013.

### Investing Activities

Capital expenditures for the first nine months of 2014 were \$0.4 million, up by \$0.2 million from the same period last year. Purchases of capital equipment vary from year-to-year, based on the needs of the business. Capital expenditures grew during the first nine months of this year as we implemented new enterprise resource planning software, upgraded our leased facilities and invested in some additional machinery.

### **Financing Activities**

During the nine months ended September 30, 2014, we paid \$1.3 million in dividends to shareholders, which was unchanged from the same period last year.

Our bank debt grew by \$3.5 million in the first nine months of 2014, as the rising NY'C' increased the burden on working capital. This compares to a reduction in bank indebtedness of \$2.6 million in the same period last year.

As at September 30, 2014, our net debt (bank indebtedness less cash on hand) was \$5.8 million. This represents an increase of \$3.6 million since the beginning of the year.

### **Credit Facilities and Liquidity**

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

In addition, we have a US\$2.0 million foreign exchange and commodity futures contract facility, which allows us to enter into spot, forward and other foreign exchange rate transactions and commodity futures transactions with our bank with a maximum term of up to 24 months.

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

We have certain bank covenants which relate to the maintenance of specified financial ratios and we were in compliance with all covenants as at September 30, 2014.

### **Contractual Obligations**

The following table sets forth our contractual obligations and commitments as at September 30, 2014:

(In \$000s) (unaudited)	Total	Less than 1 year	1-3 Years	4-5 Years	Over 5 Years
Operating leases <sup>(1)</sup>	\$ 2,210	\$ 1,002	\$ 942	\$ 266	\$ -
Purchase obligations <sup>(2)</sup>	28,545	28,442	103	-	-
Total contractual obligations	\$ 30,755	\$ 29,444	\$ 1,045	\$ 266	\$ -

<sup>(1)</sup> Minimum obligations for our facilities for the current lease terms.

<sup>(2)</sup> Represents outstanding coffee purchasing 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 holds two leases for its warehouse facilities. The first warehouse lease expires on December 30, 2015 and the second on July 31, 2016.

In Q2 2014, Swiss Water Decaffeinated Coffee Company USA, Inc. entered into a lease for its new Seattle sales office, which expires on March 31, 2017.

Purchase commitments increased by \$7.8 million from the second quarter due to higher sales volumes and demand, coupled with a strengthening NY'C' and US dollar.

### **OFF-BALANCE SHEET ARRANGEMENTS**

Ten Peaks has no off-balance sheet arrangements.

### **RELATED PARTY TRANSACTIONS**

We provide toll decaffeination services and/or sell finished goods to, and purchase raw material inventory from, companies that are related to two Ten Peaks Directors. For Q3 of 2014, \$0.2 million of our total sales (September 30, 2013 - \$0.3 million) were to those companies and \$0.6 million (September 30, 2013 - \$0.6 million) of our green coffee purchases were from those companies. For the nine months ended September 30, 2014, \$1.1 million of our total sales (September 30, 2013 - \$0.8 million) were to those companies and \$1.8 million (September 30, 2013 - \$1.7 million) of our green coffee purchases were from those companies.

All transactions were in the normal course of operations and were measured at the fair value of the consideration received or receivable, which was established and agreed to by the related parties. As at September 30, 2014, our accounts receivable balances with these companies were \$47 thousand (December 31, 2013 - \$60 thousand) and our accounts payable balance with these companies was nil (December 31, 2013 - \$0.2 million).

## OUTLOOK

We made significant gains during the first nine months of 2014 and expect to continue growing our business during the balance of the year. The rate of growth in the fourth quarter of this year is expected to be somewhat slower than we have seen for the year-to-date, as the fourth quarter of 2013 was particularly strong.

As we have noted before, our commitment to 100% chemical free processing, and to preserving the unique quality of fine coffees through the decaffeination process, are recognized, valued and respected by the coffee trade. We have steadily gained market share over the past few years as a result of our ability to deliver premium-quality chemical free decaffeinated coffees, while providing exceptional customer service.

The growth we have experienced over the past several quarters has highlighted the need to invest strategically in customer service and logistics at both our head office in Burnaby, BC and in our new office in Seattle, WA. Accordingly, we added a few staff positions in the third quarter in order to ensure that we continue to provide the level of service that our customers value and appreciate.

Our coffee handling and warehousing subsidiary, Seaforth Supply Chain Solutions, has seen its handling and storage volumes increase substantially compared to 2013. We believe that Seaforth will continue to make a modest contribution to our results in 2014 and beyond.

## RISKS AND UNCERTAINTIES

Ten Peaks' ability to pay dividends is dependent upon the earnings and cash flow generated from SWDCC's operations, as well as our current and planned future investments in capital equipment. Cash from operations may fluctuate with the performance of the business, which can be susceptible to a number of risks. These risks may include, but are not limited to, foreign exchange fluctuations, labour relations, coffee prices (notwithstanding hedging programs, as exact hedging correlation is not attainable), the availability of coffee, competition from existing chemical and other natural or chemical free coffee decaffeinator, competition from new entrants with alternate processing methods or agricultural technologies, environmental and regulatory risks, terms of credit agreements, commodity futures losses, ability to maintain organic certification, adequacy of insurance, dependence on key personnel, product liability, uncollectable debts, and general economic downturns. The future effect of these risks and uncertainties cannot be quantified or predicted. In addition, SWDCC leases the building that houses its decaffeination lines. The lease is renewable at its option under an additional term which, if exercised, would expire in 2023. The landlord may extend the lease on the facility for a further five years at its option. Any plans to relocate the production equipment would result in significant capital expenditures and the payment of the asset retirement obligation (currently recorded as a long-term liability on our financial statements).

## FINANCIAL INSTRUMENTS

All financial instruments, including derivatives, are included on the consolidated statement of financial position and are measured either at fair value or at amortized cost. Cash and accounts receivable are designated as "loans and receivables" and measured at amortized cost. Bank indebtedness, accounts payable and accrued liabilities, and dividends payable to shareholders are designated as "other financial liabilities" and measured at amortized cost.

Derivative financial instruments are included on the consolidated statement of financial position and measured at fair value. For derivatives that qualify as hedging instruments, unrealized gains or losses are included either in other comprehensive income or on the statement of financial position, depending on whether it is a 'cash flow hedge' or a 'fair value hedge'. Derivatives that do not qualify as hedging instruments are designated as held-for-trading and unrealized gains and losses are reported in earnings. We do not have any derivatives that qualify as hedging instruments.

We measure our coffee futures contracts at fair value based on their quoted market prices on the IntercontinentalExchange. Similarly, we measure our outstanding foreign exchange forward contracts at fair value based on quoted market prices for comparable contracts. The fair values represent the amounts we would have received from a counterparty to settle the contracts at the market rates in effect at the financial statement date. Any related unrealized gains or losses are reported in the statement of income and comprehensive income in the period.

We had neither available-for-sale nor held-to-maturity instruments during the nine-month period ended September 30, 2014.

### **Foreign Exchange and Coffee Hedging**

We use derivative financial instruments to manage price risks associated with our coffee inventories, as well as foreign currency futures to manage risks associated with changes in the value of the US dollar (the primary currency for coffee sales) relative to the Canadian dollar. These instruments are used as economic hedges. We choose not to account for these derivative financial instruments under hedge accounting as the requirements are onerous and provide no incremental economic benefit. As a consequence, our derivative financial instruments are measured at fair value and marked-to-market at the end of each period. Consequently, we are unable to defer unrealized gains and losses on these instruments related to future transactions, even though the NY'C' and currency exchange rates underlying the marked-to-market calculations may change before the hedge instruments are actually liquidated.

### **Commodity Price Risk**

We utilize futures contracts to manage our commodity price exposure. We buy and sell coffee futures contracts on the IntercontinentalExchange in order to offset our inventory position and fix the input cost of green coffee.

As at September 30, 2014, we had futures contracts to buy 1.8 million lbs of green coffee with a notional value of US\$3.6 million, and contracts to sell 4.9 million lbs of green coffee with a notional value of US\$9.5 million (December 31, 2013 – buy 1.5 million lbs with a notional value of US\$1.6 million, and sell 2.4 million lbs with a notional value of US\$2.7 million), with the furthest contract maturing in May 2015. The net notional value of the contracts outstanding at September 30, 2014 was approximately US\$6.0 million.

The following table describes the realized and unrealized gain and loss on coffee futures contracts recognized in the consolidated statements of operations:

(In \$000s) (unaudited)	3 months ended Sept 30, 2014	3 months ended Sept 30, 2013	9 months ended Sept 30, 2014	9 months ended Sept 30, 2013
Realized loss (gain)	\$ 123	\$ (129)	\$ 2,404	\$ (1,303)
Unrealized (gain) loss	334	(76)	(572)	568
	\$ 457	\$ (205)	\$ 1,832	\$ (735)

At September 30, 2014, the net derivative assets related to these contracts was \$0.3 million (December 31, 2013: \$0.2 million) and was comprised of cash on account. We estimated a one percent change in the mark-to-market rate applied to the futures contracts would have resulted in an estimated \$67,000 change in income before taxes.

### **Foreign Currency Risk**

We realize the majority of our sales in US dollars. We enter into forward exchange contracts to manage our exposure to currency rate fluctuations and to minimize the effect of exchange rate fluctuations on business decisions in the current operating year. These contracts relate to our future net cash flows in US\$ from sales. In addition, we enter into forward contracts to purchase US\$ for coffee that we resell in Canadian dollars.

At September 30, 2014, we had forward currency contracts to buy US\$5.7 million and sell US\$14.8 million (December 31, 2013: buy US\$7.5 million and sell US\$16.9 million) from October 2014 through to September 2016 at various Canadian exchange rates ranging from \$1.0019 to \$1.1279. The net notional value of the contracts outstanding at September 30, 2014 was approximately US\$9.1 million.

The following table describes the realized and unrealized gain and loss on foreign currency forward contracts in the consolidated statement of operations:

(In \$000s) (unaudited)	3 months ended Sept 30, 2014	3 months ended Sept 30, 2013	9 months ended Sept 30, 2014	9 months ended Sept 30, 2013
Realized loss (gain)	\$ 77	\$ (98)	\$ 84	\$ (52)
Unrealized (gain) loss	308	(57)	294	82
	\$ 385	\$ (155)	\$ 378	\$ 30

At September 30, 2014, the net derivative liabilities related to these contracts was \$544,000 (December 31, 2013: liabilities of \$250,000). We estimated a 100 basis point change in the US\$ exchange rate relative to the Canadian dollar under forward foreign exchange contracts would have resulted in an estimated \$91,000 change in income before taxes.

## CRITICAL ACCOUNTING ESTIMATES

### *Measurement Uncertainty*

The preparation of financial statements in accordance with IFRS requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Estimates are used when accounting for provisions for uncollectible accounts receivable, the estimated useful life of long-lived assets and their amortization rates, provisions for inventory obsolescence, the net realizable value of inventories, asset retirement obligations, impairment assessments for long-lived assets, share-based compensation and income taxes. Actual results may be different from these estimates.

An accounting estimate is deemed critical only if it requires us to make assumptions about matters that are highly uncertain at the time the accounting estimate is made, and different estimates that we could have used in the current period would have a material impact on our financial condition or results of operations. None of our estimates were deemed to be critical accounting estimates in the current period.

## CHANGES IN ACCOUNTING STANDARDS

The following amendments to accounting standards and interpretations have been issued and became effective on January 1, 2014:

- IAS 32 (Amendment): Clarifies the application of the requirements of offsetting financial assets and financial liabilities.
- IAS 36 (Amendment): Sets forth additional disclosures with respect to nonfinancial assets.
- IFRIC 21: Levies: Addresses accounting for a liability to pay a levy imposed by the government if that liability is within the scope of IAS 37 – Provisions, Contingent Liabilities and Contingent Assets.

We have adopted these amended standards and interpretations, and we assessed that there are no impacts on our condensed consolidated interim financial statements.

## DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

As management, we maintain disclosure controls and procedures designed to provide reasonable assurance that information required to be disclosed in our annual filings, interim filings and other reports filed or submitted under securities legislation are recorded, processed, summarized, and reported within the required time periods. The Chief Executive Officer (“CEO”) and the Chief Financial Officer (“CFO”), after evaluating the effectiveness of our disclosure controls and procedures as of September 30, 2014, have concluded that disclosure controls and procedures, as of such date, were effective to provide reasonable assurance that information required to be disclosed by us that we file or submit, is (i) recorded, processed, summarized and reported within the time periods as required, and (ii) accumulated and made known to management, including our CEO and CFO, to allow timely decisions regarding required disclosure.

Management is responsible for establishing and maintaining adequate internal controls over financial reporting (“ICFR”) to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Under the supervision and with the participation of management, including the CEO and CFO, we conducted an evaluation of the design and effectiveness of our ICFR as of September 30, 2014, based on the framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”). Based on this evaluation, we have concluded that, as of September 30, 2014, Ten Peaks maintained effective ICFR.

While we believe that the current disclosure controls and procedures and ICFR provide a reasonable level of assurance of achieving their objectives, it cannot be expected that existing disclosure controls and procedures or internal financial controls will prevent all human error and circumvention or overriding of the controls and procedures. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

There were no changes in our ICFR that occurred during the period beginning on July 1, 2014 and ended on September 30, 2014 that materially affected, or are reasonably likely to materially affect, Ten Peaks’ ICFR.

## SUBSEQUENT EVENTS

### *Payment of Dividend*

Ten Peaks paid an eligible dividend of \$0.0625 per share on October 15, 2014 to shareholders of record on September 30, 2014.

TEN PEAKS COFFEE COMPANY INC.


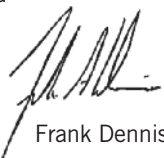
**CONDENSED CONSOLIDATED INTERIM STATEMENTS  
OF FINANCIAL POSITION**

(Tabular amounts in thousands of Canadian dollars, except per share and number of shares figures) (Unaudited)

as at	Note	September 30 2014	December 31 2013
<b>Assets</b>			
Current assets			
Inventories	4	\$ 9,920	\$ 6,463
Accounts receivable	5	6,845	4,972
Prepaid expenses and other receivables		400	236
Derivative assets	6	344	152
Cash		2,769	2,594
Total current assets		20,278	14,417
Non-current assets			
Plant and equipment	7	12,006	12,508
Intangible assets	8	2,271	2,465
Deferred tax assets		1,060	1,578
Total non-current assets		15,337	16,551
Total assets		\$ 35,615	\$ 30,968
<b>Liabilities and shareholders' equity</b>			
Current liabilities			
Bank indebtedness		\$ 8,551	\$ 4,786
Accounts payable		1,304	916
Accrued liabilities		1,081	1,118
Dividend payable		421	417
Derivative liabilities	6	373	119
Current Portion of Other Liabilities	9	189	219
Total current liabilities		11,919	7,575
Non-current liabilities			
Derivative liabilities	6	171	131
Other liabilities	9	86	28
Asset retirement obligation		740	725
Total non-current liabilities		997	884
Total liabilities		12,916	8,459
Shareholders' equity			
Share capital	10	24,770	24,631
Share-based compensation reserve		63	106
Deficit		(2,134)	(2,228)
Total equity		22,699	22,509
Total liabilities and shareholders' equity		\$ 35,615	\$ 30,968

Commitments (note 17)

Approved on behalf of the Board



  
 David Rowntree, Director      Frank Dennis, Director

See accompanying notes to these Condensed Consolidated Interim Financial Statements



TEN PEAKS COFFEE COMPANY INC.

**CONDENSED CONSOLIDATED INTERIM STATEMENTS  
OF INCOME AND COMPREHENSIVE INCOME**

(Tabular amounts in thousands of Canadian dollars, except per share and number of shares figures) (Unaudited)

for the	Note	3 months ended Sept 30, 2014	3 months ended Sept 30, 2013	9 months ended Sept 30, 2014	9 months ended Sept 30, 2013
Revenue		\$ 17,245	\$ 13,217	\$ 46,724	\$ 38,079
Cost of sales		(14,656)	(11,863)	(38,584)	(33,816)
Gross profit		2,589	1,354	8,140	4,263
Sales and marketing expenses		(274)	(284)	(981)	(1,044)
Occupancy expenses		(36)	(15)	(79)	(44)
Administration expenses		(973)	(701)	(2,704)	(2,157)
Finance income		25	24	61	70
Finance expenses		(59)	(32)	(149)	(117)
Realized gain (loss) on derivative financial instruments		(200)	226	(2,488)	1,353
Unrealized (loss) gain on derivative financial instruments		(642)	132	278	(650)
(Loss) gain on foreign exchange		(181)	38	(214)	(8)
Income before tax		249	742	1,864	1,666
Income tax expense		(48)	(183)	(518)	(354)
<b>Net income and comprehensive income for the period</b>		<b>\$ 201</b>	<b>\$ 559</b>	<b>\$ 1,346</b>	<b>\$ 1,312</b>
<b>Earnings per share</b>					
Basic and Diluted (per share)	15	\$ 0.03	\$ 0.08	\$ 0.20	\$ 0.20

## TEN PEAKS COFFEE COMPANY INC.

**CONDENSED CONSOLIDATED INTERIM STATEMENTS  
OF CHANGES IN EQUITY**

(Tabular amounts in thousands of Canadian dollars, except per share and number of shares figures) (Unaudited)

	Share capital		Share-based compensation reserve	Deficit	Total equity
	Shares	Amount			
<b>Balance at December 31, 2012</b>	6,675,254	\$ 24,631	\$ 45	\$ (2,213)	\$ 22,463
Shares issued for restricted share units	-	-	-	-	-
Share-based compensation	-	-	43	-	43
Dividends	-	-	-	(1,251)	(1,251)
Net income and comprehensive income	-	-	-	1,311	1,311
<b>Balance at September 30, 2013</b>	6,675,254	\$ 24,631	\$ 88	\$ (2,153)	\$ 22,566
Shares issued for restricted share units	-	-	-	-	-
Share-based compensation	-	-	18	-	18
Dividends	-	-	-	(418)	(418)
Net income and comprehensive income	-	-	-	343	343
<b>Balance at December 31, 2013</b>	6,675,254	\$ 24,631	\$ 106	\$ (2,228)	\$ 22,509
Shares issued for restricted share units	59,845	139	(139)	-	-
Share-based compensation	-	-	96	-	96
Dividends (Note 13)	-	-	-	(1,252)	(1,252)
Net income and comprehensive income	-	-	-	1,346	1,346
<b>Balance at September 30, 2014</b>	6,735,099	\$ 24,770	\$ 63	\$ (2,134)	\$ 22,699

## TEN PEAKS COFFEE COMPANY INC.

**CONDENSED CONSOLIDATED INTERIM STATEMENTS  
OF CASH FLOWS**

(Tabular amounts in thousands of Canadian dollars, except per share and number of shares figures) (Unaudited)

for the	9 Months Ended Sept 30, 2014	9 Months Ended Sept 30, 2013
<b>Cash flows from operating activities</b>		
Net income for the period	\$ 1,346	\$ 1,312
Items not affecting cash		
Depreciation and amortization	1,125	1,059
Unrealized loss (gain) on derivative financial instruments	(278)	650
Share-based compensation	378	148
Payment of restricted share units settled in cash	(254)	-
Foreign exchange (gain) loss on cash held	(45)	(28)
Foreign exchange (gain) loss on debt	290	162
Income taxes recognized in profit and loss	518	354
Interest income recognized in profit and loss	(61)	(69)
Interest expense recognized in profit and loss	149	117
	3,168	3,705
Movements in working capital:		
Accounts receivable	(1,873)	88
Inventory	(3,457)	1,965
Prepaid expenses	(162)	(155)
Accounts payable and accrued liabilities	373	(212)
Derivative assets at fair value through profit or loss	(194)	(15)
Derivative liabilities at fair value through profit or loss	573	(605)
Change in non-cash working capital relating to operating activities	(4,740)	1,066
<b>Cash (used in) generated from operations</b>	(1,572)	4,771
Interest received	61	69
Interest paid	(134)	(102)
Income taxes paid	(20)	-
<b>Net cash (used in) generated from operating activities</b>	(1,665)	4,738
<b>Cash flows from investing activities</b>		
Additions to plant and equipment	(428)	(272)
<b>Net cash used in investing activities</b>	(428)	(272)
<b>Cash flows from financing activities</b>		
Dividends paid	(1,251)	(1,251)
Proceeds from bank indebtedness	3,474	-
Repayments of bank indebtedness	-	(2,620)
<b>Net cash generated from (used in) financing activities</b>	2,223	(3,871)
Effects of foreign exchange rate changes on cash held	45	28
<b>Net increase in cash</b>	175	623
<b>Cash, beginning of period</b>	2,594	1,304
<b>Cash, end of period</b>	\$ 2,769	\$ 1,927

## TEN PEAKS COFFEE COMPANY INC.

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2014

(Tabular amounts in thousands of Canadian dollars, except per share and number of shares figures) (unaudited)

### 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 decaffeinated 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 condensed consolidated interim financial statements for the three and nine months ended September 30, 2014 have been prepared using accounting policies consistent with International Financial Reporting Standards (“IFRSs”) and in accordance with International Accounting Standard (“IAS”) 34 Interim Financial Reporting.

These notes to the condensed consolidated interim financial statements should be read in conjunction with the consolidated financial statements for the year ended December 31, 2013 and the condensed consolidated interim financial statements for the period ended June 30, 2014.

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

### 3. 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.

### 4. INVENTORIES

For the three and nine months ended September 30, 2014, the cost of inventories recognized as an expense was \$13.2 million (2013: \$11.2 million) and \$35.4 million (2013: \$32.0 million) respectively. The inventory provision decreased by \$17,000 (2013: decreased \$19,000), reflecting the sale of inventories previously written down.

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

For the three and nine months ended September 30, 2014

(Tabular amounts in thousands of Canadian dollars, except per share and number of shares figures) (unaudited)

	September 30, 2014	December 31, 2013
Raw materials	\$ 5,799	\$ 4,203
Finished goods	3,831	1,992
Carbon	256	236
Packaging	34	49
Inventory provision	-	(17)
	<b>\$ 9,920</b>	<b>\$ 6,463</b>

**5. ACCOUNTS RECEIVABLE**

	September 30, 2014	December 31, 2013
Accounts receivable	\$ 6,859	\$ 4,979
Provision for doubtful accounts	(14)	(7)
	<b>\$ 6,845</b>	<b>\$ 4,972</b>

All of the Company's accounts receivable have been reviewed for indicators of impairment. Certain accounts receivable were found to be impaired and an allowance for credit losses of \$14,000 (December 31, 2013: \$7,000) has been provided.

**6. DERIVATIVE FINANCIAL INSTRUMENTS**

The Company's derivative financial instruments were carried at FVTPL as follows:

	September 30, 2014	December 31, 2013
Coffee futures contracts, net	\$ 344	\$ 152
US Dollar forward contracts	(544)	(250)
Net fair value of derivatives	<b>\$ (200)</b>	<b>\$ (98)</b>

**7. PLANT AND EQUIPMENT**

	Machinery and equipment	Leasehold improvements	Computer	Furniture and fixtures	Construction in progress	Total
<b>Cost</b>						
Balance January 1, 2014	\$ 27,967	\$ 4,868	\$ 576	\$ 261	\$ 259	\$ 33,931
Additions	137	32	5	-	254	428
Transfers	102	105	290	-	(496)	0
Balance September 30, 2014	<b>\$ 28,206</b>	<b>\$ 5,005</b>	<b>\$ 871</b>	<b>\$ 261</b>	<b>\$ 17</b>	<b>\$ 34,359</b>
<b>Depreciation</b>						
Balance January 1, 2014	\$ (18,477)	\$ (2,316)	\$ (503)	\$ (127)	\$ -	\$ (21,423)
Depreciation	(665)	(213)	(37)	(15)	-	(930)
Balance September 30, 2014	<b>\$ (19,142)</b>	<b>\$ (2,529)</b>	<b>\$ (540)</b>	<b>\$ (142)</b>	<b>\$ -</b>	<b>\$ (22,353)</b>
<b>Carrying amount September 30, 2014</b>	<b>\$ 9,064</b>	<b>\$ 2,476</b>	<b>\$ 331</b>	<b>\$ 119</b>	<b>\$ 17</b>	<b>\$ 12,006</b>
<b>Cost</b>						
Balance January 1, 2013	\$ 27,842	\$ 4,847	\$ 568	\$ 214	\$ 137	\$ 33,608
Additions	53	16	2	55	244	370
Disposals	-	-	(39)	(8)	-	(47)
Transfers	72	5	45	-	(122)	-
Balance December 31, 2013	<b>\$ 27,967</b>	<b>\$ 4,868</b>	<b>\$ 576</b>	<b>\$ 261</b>	<b>\$ 259</b>	<b>\$ 33,931</b>
<b>Depreciation</b>						
Balance January 1, 2013	\$ (17,640)	\$ (2,046)	\$ (513)	\$ (111)	\$ -	\$ (20,310)
Depreciation	(837)	(270)	(29)	(20)	-	(1,156)
Disposals	-	-	39	4	-	43
Balance December 31, 2013	<b>\$ (18,477)</b>	<b>\$ (2,316)</b>	<b>\$ (503)</b>	<b>\$ (127)</b>	<b>\$ -</b>	<b>\$ (21,423)</b>
<b>Carrying amount December 31, 2013</b>	<b>\$ 9,490</b>	<b>\$ 2,552</b>	<b>\$ 73</b>	<b>\$ 134</b>	<b>\$ 259</b>	<b>\$ 12,508</b>

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

For the three and nine months ended September 30, 2014

(Tabular amounts in thousands of Canadian dollars, except per share and number of shares figures) (unaudited)

For the three months ended September 30, 2014, depreciation expense of \$301,000 (2013: \$275,000) has been charged to cost of sales and \$30,000 (2013: \$15,000) was included in administrative expenses.

For the nine months ended September 30, 2014, depreciation expense of \$867,000 (2013: \$817,000) has been charged to cost of sales and \$64,000 (2013: \$51,000) was included in administrative expenses.

There was no impairment loss recognized for the nine months ended September 30, 2014 or September 30, 2013.

**8. INTANGIBLE ASSETS**

	PPT	Brand	Total
<b>Cost</b>			
Balance January 1, 2014	\$ 3,246	\$ 1,000	\$ 4,246
Balance September 30, 2014	\$ 3,246	\$ 1,000	\$ 4,246
<b>Amortization</b>			
Balance January 1, 2014	\$ (960)	\$ (821)	\$ (1,781)
Amortization	(180)	(14)	(194)
Balance September 30, 2014	\$ (1,140)	\$ (835)	\$ (1,975)
<b>Carrying amount September 30, 2014</b>	<b>\$ 2,106</b>	<b>\$ 165</b>	<b>\$ 2,271</b>
<b>Cost</b>			
Balance January 1, 2013	\$ 3,246	\$ 1,000	\$ 4,246
Balance December 31, 2013	\$ 3,246	\$ 1,000	\$ 4,246
<b>Amortization</b>			
Balance January 1, 2013	\$ (720)	\$ (802)	\$ (1,522)
Amortization	(240)	(19)	(259)
Balance December 31, 2013	\$ (960)	\$ (821)	\$ (1,781)
<b>Carrying amount December 31, 2013</b>	<b>\$ 2,286</b>	<b>\$ 179</b>	<b>\$ 2,465</b>

For the three months ended September 30, 2014, amortization expense of \$60,000 (2013: \$60,000) relating to the proprietary process technology ("PPT") has been charged to cost of sales and amortization expense of \$5,000 (2013: \$5,000) relating to the Brand was included in administrative expenses.

For the nine months ended September 30, 2014, amortization expense of \$180,000 (2013: \$180,000) relating to the proprietary process technology ("PPT") has been charged to cost of sales and amortization expense of \$14,000 (2013: \$14,000) relating to the Brand was included in administrative expenses.

There was no impairment loss recognized for the nine months ended September 30, 2014 or September 30, 2013.

**9. 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 at the financial statement date.

	September 30, 2014	December 31, 2013
Current portion	\$ 189	\$ 219
Long term	86	28
<b>Total other liabilities</b>	<b>\$ 275</b>	<b>\$ 247</b>

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

For the three and nine months ended September 30, 2014

(Tabular amounts in thousands of Canadian dollars, except per share and number of shares figures) (unaudited)

**10. SHARE CAPITAL**

Restricted share units ("RSUs")

The movement in RSUs as at September 30, 2014 is as follows:

	Number of RSUs at	Volume based Weighted average share price	Remaining vesting period	Performance based
<b>Balance at January 1, 2013</b>	139,655	\$ 2.65	2.08	No
RSUs granted	43,600	\$ 2.80	2.70	No
RSUs issued for dividends	12,085	\$ 2.81	1.19	No
<b>Balance at December 31, 2013</b>	195,340	\$ 3.34	2.16	
RSUs issued for dividends	9,698	\$ 3.84	1.17	No
RSUs forfeited	(1,725)	\$ 4.98	-	No
RSUs cash-settled	(50,670)	\$ 5.02	-	No
RSUs exercised	(59,845)	\$ 5.02	-	No
<b>Balance at September 30, 2014</b>	92,798	\$ 4.64	1.54	

**Deferred share units ("DSUs")**

The issuance of DSUs as at September 30, 2014 is as follows:

	Number of DSUs at	Weighted average share price	Performance based
Balance at January 1, 2013	9,725	\$ 2.66	No
DSUs issued	20,038	\$ 2.76	No
Balance at December 31, 2013	29,763	\$ 3.40	No
DSUs issued	10,662	\$ 3.92	No
Balance at September 30, 2014	40,425	\$ 4.68	

**11. EMPLOYEE BENEFITS EXPENSES**

Expenses recognized for employee benefits are detailed below:

	3 months ended Sept 30, 2014	3 months ended Sept 30, 2013	9 months ended Sept30, 2014	9 months ended Sept 30, 2013
Short-term benefits	\$ 1,333	\$ 1,289	\$ 4,043	\$ 3,682
Long-term benefits	174	58	378	148
Post-employment benefits	95	82	435	373
Total employee benefits expenses	\$ 1,602	\$ 1,429	\$ 4,856	\$ 4,203

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

Post-employment benefits are contributions to employee retirement accounts, as well as statutory remittances related to post-employment benefits. These are recognized as an expense when employees have rendered service entitling them to the contributions. For the three and nine months ended September 30, 2014, the total expense recognized in the statement of income and comprehensive income was \$95,000 (2013: \$82,000) of \$435,000 (2013: \$373,000) respectively represented contributions paid to RRSPs, IRAs, CPP and EI by the Company at rates specified in the rules of the plans.

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

For the three and nine months ended September 30, 2014

(Tabular amounts in thousands of Canadian dollars, except per share and number of shares figures) (unaudited)

**12. 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 for the periods was as follows:

	3 months ended Sept 30, 2014	3 months ended Sept 30, 2013	9 months ended Sept 30, 2014	9 months ended Sept 30, 2013
Short-term benefits	\$ 296	\$ 285	\$ 920	\$ 854
Long-term benefits	168	52	355	135
Post-employment benefits	19	10	69	69
Total	\$ 483	\$ 347	\$ 1,344	\$ 1,058

**Trading transactions**

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

	3 months ended Sept 30, 2014	3 months ended Sept 30, 2013	9 months ended Sept 30, 2014	9 months ended Sept 30, 2013
Sales	\$ 219	\$ 277	\$ 1,119	\$ 787
Purchases	612	581	1,821	1,677

	Sept 30, 2014	December 31, 2013
Accounts receivable	\$ 47	\$ 60
Accounts payable	\$ 0	\$ 204

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.

**13. DIVIDENDS**

For the nine months ended September 30, 2014, the Company declared quarterly eligible dividends to shareholders totaling \$1.3 million or \$0.1875 per share (2013: \$1.3 million).

**14. 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 continuing operations from external customers and its non-current assets by location are detailed below:

**Revenue from External Customers**

	3 months ended Sept 30, 2014	3 months ended Sept 30, 2013	9 months ended Sept 30, 2014	9 months ended Sept 30, 2013
Canada	\$ 8,253	\$ 7,516	\$ 22,610	\$ 21,132
United States	7,510	5,005	19,660	14,190
Other	1,482	696	4,453	2,757
	\$ 17,245	\$ 13,217	\$ 46,724	\$ 38,079

**Non-Current Assets**

	Sept 30, 2014	Dec 31, 2013
Canada	\$ 14,232	\$ 14,973
United States	\$ 44	\$ -
	\$ 14,276	\$ 14,973



**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

For the three and nine months ended September 30, 2014

(Tabular amounts in thousands of Canadian dollars, except per share and number of shares figures) (unaudited)

**15. BASIC AND DILUTED (LOSS) EARNINGS PER SHARE**

	3 months ended Sept 30, 2014	3 months ended Sept 30, 2013	9 months ended Sept 30, 2014	9 months ended Sept 30, 2013
Profit attributable to shareholders (basic)	\$ 201	\$ 559	\$ 1,346	\$ 1,312
Weighted average number of shares (basic)	6,685,627	6,675,254	6,678,750	6,675,254
Basic and diluted EPS	\$ 0.03	\$ 0.08	\$ 0.20	\$ 0.20

The following potential common shares, outstanding at September 30, 2014, 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:

	Sept 30, 2014	Sept 30, 2013
RSUs granted	92,798	191,598

**16. 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.

**16.1 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 IntercontinentalExchange in order to offset its inventory position and purchase commitments, and to fix the input cost of green coffee. As at September 30, 2014, the Company had futures contracts to buy 1.8 million lbs of green coffee with a notional value of US\$3.6 million, and contracts to sell 4.9 million lbs of green coffee with a notional value of US\$9.5 million (December 31, 2013 – buy 1.5 million lbs with a notional value of US\$1.6 million, and sell 2.4 million lbs with a notional value of US\$2.7 million), with the furthest contract maturing in May 2015. The net notional value of the contracts outstanding at September 30, 2014 was approximately US\$6.0 million.

The following table describes the realized and unrealized gain and loss on coffee futures contracts recognized in the statement of income and comprehensive income:

	3 months ended Sept 30, 2014	3 months ended Sept 30, 2013	9 months ended Sept 30, 2014	9 months ended Sept 30, 2013
Realized loss (gain)	\$ 123	\$ (129)	\$ 2,404	\$ (1,303)
Unrealized (gain) loss	334	(76)	(572)	568
	\$ 457	\$ (205)	\$ 1,832	\$ (735)

At September 30, 2014, the net derivative assets related to these contracts was \$0.3 million (December 31, 2013: \$0.2 million) and was comprised of margin requirements and cash on account.

The Company estimated a 1 percent change in the mark-to-market rate applied to the futures contracts as at September 30, 2014 would have resulted in an estimated \$67,000 change in income before taxes.

**16.2 Foreign currency risk**

The Company realizes a significant portion of its sales in US dollars ("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 September 30, 2014, the Company had forward currency contracts to buy US\$5.7 million and sell US\$14.8 million (December 31, 2013: buy US\$7.5 million and sell US\$16.9 million) from October 2014 through to September 2016 at various Canadian exchange rates ranging from \$1.0019 to \$1.1279. The net notional value of the contracts outstanding at September 30, 2014 was approximately US\$9.1 million.

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

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(Tabular amounts in thousands of Canadian dollars, except per share and number of shares figures) (unaudited)

The following table describes the realized and unrealized gain and loss on forward foreign exchange contracts recognized in the statement of operations:

	3 months ended Sept 30, 2014	3 months ended Sept 30, 2013	9 months ended Sept 30, 2014	9 months ended Sept 30, 2013
Realized loss (gain)	\$ 77	\$ (98)	\$ 84	\$ (52)
Unrealized (gain) loss	308	(57)	294	82
	\$ 385	\$ (155)	\$ 378	\$ 30

At September 30, 2014, the net derivative liabilities related to these contracts was \$544,000 (December 31, 2013: liabilities of \$250,000). The Company estimates a 100 basis point change in the US\$ exchange rate relative to the Canadian dollar under forward foreign exchange contracts would have resulted in an estimated \$91,000 change in income before taxes.

Although the Company employs economic hedges to manage its currency risk, it is not perfectly hedged on an economic basis. The Company is subject to additional currency risk through the following financial assets and liabilities denominated in US\$:

	Sept 30, 2014	Dec 31, 2013
Bank indebtedness	\$ (7,581)	\$ (2,980)
Accounts receivable	5,192	3,825
Derivative instruments	307	203
Accounts payable and accrued liabilities	(1,018)	(713)
Net US dollar exposure	\$ (3,100)	\$ 335

At September 30, 2014, the Company estimated a 100 basis point change in the US\$ exchange rate relative to the Canadian dollar in the net US\$ exposure would have resulted in an estimated \$31,000 change in income before taxes.

**16.3 Interest rate risk**

The Company is exposed to interest rate risk arising from fluctuations in interest rates on its credit facilities as rates vary with prime and LIBOR. The Company monitors its exposure to interest rates and has not entered into any derivatives contracts to manage this risk. The weighted average interest rate paid by the Company during the period ended September 30, 2014 on its outstanding borrowings was 2.51% (2013: 2.64%). The Company estimated that a 100 basis point fluctuation in interest rates would have resulted in an estimated \$53,000 change in the interest expense.

**16.4 Credit risk**

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

The Company does not have significant credit risk related to cash as amounts are held with a major Canadian bank.

The Company follows a program of credit evaluations of customers and limits the amount of credit extended when deemed necessary. For the period ended September 30, 2014, revenues from three major customers of \$17.9 million (2013: \$14.8 million) represented 39% (2013: 44%) of total revenues for the period. These customers represented 17% of total accounts receivable as at September 30, 2014 (September 30, 2013: 24%; December 31, 2013: 16%).

The Company had 26% of its accounts receivable past due as at September 30, 2014 (December 31, 2013: 15%). Of the accounts receivable past due, 88% are 1-30 days past due, 6% are 31-60 days past due, and 6% are over 90 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.

**16.5 Liquidity risk**

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

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

For the three and nine months ended September 30, 2014

(Tabular amounts in thousands of Canadian dollars, except per share and number of shares figures) (unaudited)

**16.6 Fair value of financial instruments**

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

	Sept 30, 2014	Level 1	Level 2	Level 3
<b>Financial assets at FVTPL</b>				
Derivative assets	\$ 344	\$ 344	\$ -	\$ -
	\$ 344	\$ 344	\$ -	\$ -

**Financial liabilities at FVTPL**

Derivative liabilities	\$ 544	\$ -	\$ 544	\$ -
Other liabilities	\$ 274	\$ -	\$ 274	\$ -
	\$ 818	\$ -	\$ 818	\$ -

	Sept 30, 2014	Level 1	Level 2	Level 3
<b>Financial assets at FVTPL</b>				
Derivative assets	\$ 152	\$ 152	\$ -	\$ -
	\$ 152	\$ 152	\$ -	\$ -

**Financial liabilities at FVTPL**

Derivative liabilities	\$ 250	\$ -	\$ 250	\$ -
Other liabilities	\$ 247	\$ -	\$ 247	\$ -
	\$ 497	\$ -	\$ 497	\$ -

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

**17. COMMITMENTS****17.1 Operating lease commitments**

SWDCC leases a facility which houses the decaffeination plant and office. The current lease term will expire in 2018. After 2018, the lease on the decaffeination facility can be renewed at the Company's option for one additional 5-year term. Seaforth leases 2 warehouses. The lease for one facility expires on December 30, 2015, and the lease for the second warehouse facility expires on July 31, 2016.

In April 2014, Swiss Water Decaffeinated Coffee Co. USA, Inc. entered into a lease for offices which expires on March 31, 2017.

A summary of future minimum payments under these operating leases as at September 30, 2014 is as follows:

Minimum lease payments due:	
No later than 1 year	\$ 1,002
Later than 1 year and no later than 5 years	1,208
Later than 5 years	-
	\$ 2,210

**17.2 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 September 30, 2014, these contracts related to the purchase of green coffee in the amount of \$28.4 million which will become payable within 12 months.

**18. SUBSEQUENT EVENTS**

The condensed consolidated interim financial statements for the three and nine months ended September 30, 2014 were approved for issuance on November 12, 2014. There were no significant non-adjusting events that occurred between the reporting date and the date of authorization other than as noted below.

On October 15, 2014, the Company paid an eligible dividend in the amount of \$0.4 million (\$0.0625 per share) to shareholders of record on September 30, 2014.

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