TEN PEAKS COFFEE COMPANY INC. REPORT TO SHAREHOLDERS

TEN PEAKS

Q2/2015

For the period ended June 30, 2015

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

Created in 1988, SWDCC is one of the world's few chemical free coffee decaffeinators. 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.

Q2 2015 PERFORMANCE HIGHLIGHTS

In $000s except per share amounts (unaudited)	3 months ended June 30, 2015	3 months ended June 30, 2014	6 months ended June 30, 2015	6 months ended June 30, 2014
Operations				
Sales	$ 20,242	$ 15,998	$ 41,788	$ 29,480
Gross profit	1,986	3,437	4,586	5,553
EBITDA(1)	967	2,499	4,017	2,622
Net income	311	1,820	1,068	1,147
Per share amounts:				
EBITDA per share	0.14	0.37	0.60	0.39
Net income per share	0.05	0.27	0.16	0.17

(1) EBITDA is defined under 'Non-IFRS Measures' along with details of its calculation.

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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 August 6, 2015, provides a review of the financial results for the three and six months ended June 30, 2015 relative to the comparable period of 2014. The three-month period represents the second quarter ("Q2") of our 2015 fiscal year. This MD&A should be read in conjunction with the Company's condensed consolidated interim financial statements for the period ended June 30, 2015, as well as the audited consolidated financial statements for the year ended December 31, 2014, which are available at www.sedar.com.

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

FORWARD-LOOKING STATEMENTS

This MD&A contains forward-looking statements, including statements regarding the future success of our business and market opportunities. Forward-looking statements typically contain words such as "believes", "expects", "anticipates", "continue", "could", "indicates", "plans", "will", "intends", "may", "projects", "schedule", "would" or similar expressions suggesting future outcomes or events, although not all forward-looking statements contain these identifying words. Examples of such statements include, but are not limited to, statements concerning: (i) expectations regarding 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, construction timing, costs and financing of capital projects, general economic conditions and those factors described herein under the heading 'Risks & Uncertainties'.

The forward-looking statements contained herein are also based on assumptions that we believe are current and reasonable, including but not limited to, assumptions regarding: (i) trends in certain market segments and the economic climate generally; (ii) the financial strength of our customers; (iii) the value of the Canadian dollar versus the US dollar; (iv) the expected financial and operating performance of 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

Ten Peaks generated strong financial and operating results in the first half of 2015, as we continued to execute on our business plan, win market share and increase our global presence. Demand for coffees decaffeinated using the SWISS WATER® Process remained strong, driving double-digit year-over-year growth in our six-month processing volumes, revenue, and EBITDA.

A trucking strike at the Port Metro Vancouver during March 2014 skewed our results last year, with processing volumes and financial results lower in the first quarter and higher in the second quarter than they otherwise would have been. As a result, we believe that the most relevant comparative period is the six months ended June 30, 2014.

All of our business segments experienced substantial growth during the first half of fiscal 2015. Volumes to our national accounts grew by 23%, while shipments to our specialty regional customers grew by 15%. The significant year-over-year growth in sales to our national accounts is due to increased orders from existing customers and to large customer wins that occurred late last year. Sales to our higher-margin specialty regional customers continued to record double-digit growth, reflecting growing demand for our premium quality coffees from that market segment.

First half processing volumes rose by 20%, driving a 42% increase in revenue and 53% increase in EBITDA, year-over-year. Geographically, our volumes were up moderately in Canada and significantly in both the US and internationally. Our gains in the first half of fiscal 2015 are a result of our multi-faceted growth strategy, which has consistently driven volume gains in each of the past four years.

Our strong sales volumes helped mitigate the effect of a downward trending coffee commodity price, or NY'C', which declined by 21% from US$1.66 per lb at the beginning of this year to US$1.31 per lb by the end of the second quarter. Approximately half the coffee we decaffeinate is sold to customers based on the current commodity price, such that a declining NY'C' will lead to a decrease in our revenues. Movement in the US dollar ("US$") also influences our revenues, as 75% of our year-to-date sales were in US$. During the first half of this year, the strong US$ had a positive influence on our revenue, with the average US-Canadian dollar exchange rate up by 13% from the same period last year.

First half revenues increased by 42% to $41.8 million. All three of our revenue categories – process revenue, green coffee revenue and distribution revenue – recorded double digit year-over-year gains. The revenue increases were largely related to our high volume growth, as well as a strengthening US$.

Gross profit declined by $1.0 million or 17% year-over-year, as higher coffee prices in earlier periods (when we purchased the coffees that we sold during the first half of this year) increased our cost of sales for the current period. In addition, we buy coffee in US$ and resell it to certain national accounts in Canadian dollars. The rising US$ in the first 6 months of this year drove up the green coffee costs for these sales. We buy US$ forward contracts to mitigate the currency risk on these orders, as is further discussed below.

Our risk mitigation practices effectively offset the currency and commodity price swings that reduced our gross profit year to date. We recorded net gains on our coffee futures contracts of $1.7 million in the first six months of this year, compared to net losses of $1.4 million during the same period last year. We also realized gains on forward contracts to buy US$ in respect of coffee purchases for resale in Canadian dollars. We enter into coffee futures contracts and currency forward contracts in order to mitigate the effects of changes in the NY'C' on our EBITDA and net income. However, as we do not use hedge accounting, these gains are recorded under 'Gains and Losses on Derivative Instruments' instead of being reflected in our gross profit. In addition, gains and losses on derivatives in any particular quarter are not perfectly matched to cost of sales in that quarter. Our hedges reflect the market values at the end of the accounting period, whereas cost of sales reflects costs when our coffees were price-fixed and received into inventory (generally 1 to 2 quarters prior). The volatility in gross profit and earnings due to this timing difference reduces naturally over 2 to 3 quarters, as inventory is sold and replaced.

Our realized gains on forward contracts to buy US$ in respect of green coffee purchases were offset by realized losses on forward contacts to sell US$ in respect of our US$ revenues. In addition, unrealized losses of $0.8 million (related to forward contracts that will mature up to 24 months after period end) reduced our net income in the first six months of 2015. Unrealized losses on foreign exchange forward contracts are non-cash items, as we are not required to cover changes in the value of these contracts until the contracts mature.

EBITDA increased to $4.0 million during the first half of fiscal 2015, up from $2.6 million for the same period last year. The gain was driven by our strong revenue growth and net gains on commodity futures, partially offset by increased cost of sales and operating expenses. Net income for the first half of the year was $1.1 million, unchanged from the same period last year.

We generated $4.5 million in cash from operations before changes in working capital accounts, compared to $1.6 million in the same period last year. We used $1.2 million for changes in working capital, $0.6 million for capital expenditures, $0.3 million to repay debt and $0.8 million to pay dividends during the first half of this year. Our net debt (bank indebtedness less cash on hand) declined by $1.3 million from the end of fiscal 2014.

In July 2015, we completed an equity offering of 2,000,000 common shares, raising net proceeds of approximately $16.3 million. As was indicated in the prospectus for the equity offering (which is available on www.sedar.com), the proceeds are expected to be used to finance capacity expansion initiatives at our current facility, and to fund the construction of a new facility and/or production line, which should begin in 2016. In the near term, excess capital will be used to pay down debt.

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 June 30, 2015, 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'. At June 30, 2015, there were 6,735,099 shares outstanding. As at the date of this report and after the equity offering noted above, there were 8,735,099 shares issued and outstanding (see 'Subsequent Events', below).

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. For the first half of this year, approximately 18% 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

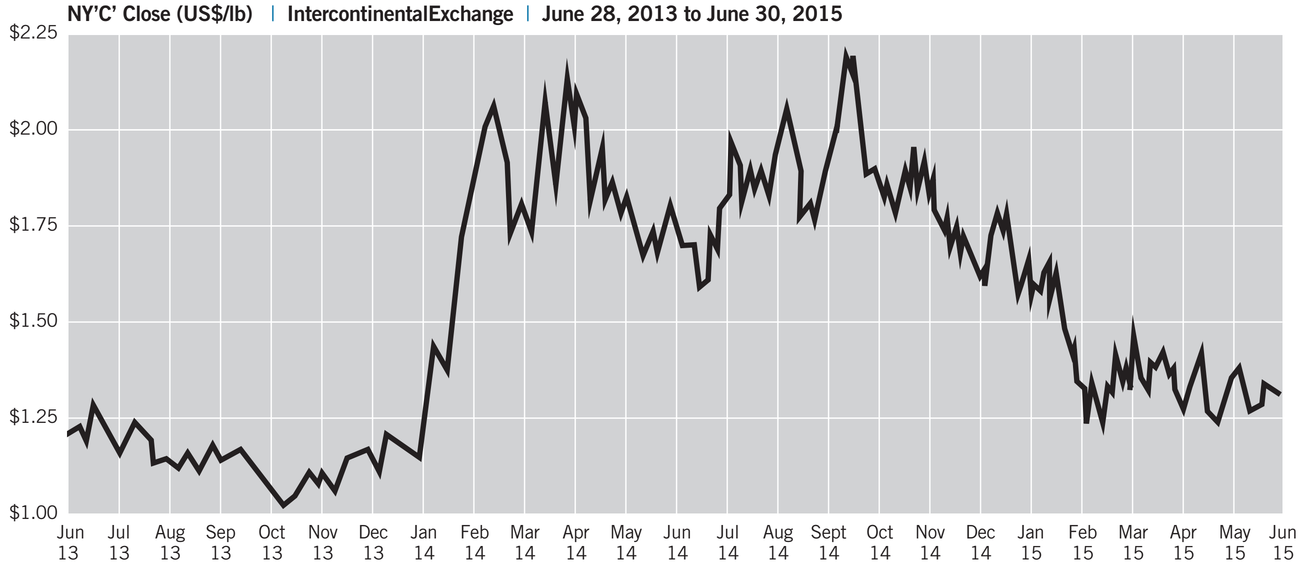
We use derivative instruments to help offset the effect of movements in the NY'C' component of coffee pricing between the time we commit to purchase green coffee at a fixed price and the time we sell decaffeinated green coffee to our customers. Our commodity price risk mitigation strategy requires us 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 purchase orders are outstanding and while we hold the coffee in inventory. 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.

The chart below shows the movement in the NY'C' since June 28, 2013:

NY'C' Close (US$/lb) | IntercontinentalExchange | June 28, 2013 to June 30, 2015



As shown in the chart above, the NY'C' rose sharply at the beginning of 2014 and remained relatively high through most of the year, before falling steadily through the first quarter of 2015 and leveling off in the second quarter. The sharp rise in the NY'C' was related to a severe drought in Brazil, which created market uncertainty about the overall quality and quantity of Brazilian coffee that would be available in both 2014 and 2015 (due to drought damage to the coffee trees). However, these concerns were largely alleviated through January and February 2015, as significant seasonal rains arrived as expected. In addition, rising coffee exports from Brazil and upward revisions to coffee crop estimates have eased market concerns. As a result, coffee prices have declined to more historical levels through the first half of this year.

The NY'C' averaged US$1.34 in the second quarter of 2015, down by 28% from Q2 2014. For the six months ended June 30, 2015, the average NY'C' was US$1.43, down by 15% from the first half of 2014. The rise and fall of the NY'C' affects our revenues and our cost of sales, as it increases or decreases the value of green coffee included in both. Green coffee revenues and costs of sales are also affected by the proportionate mix of our business segments, 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.

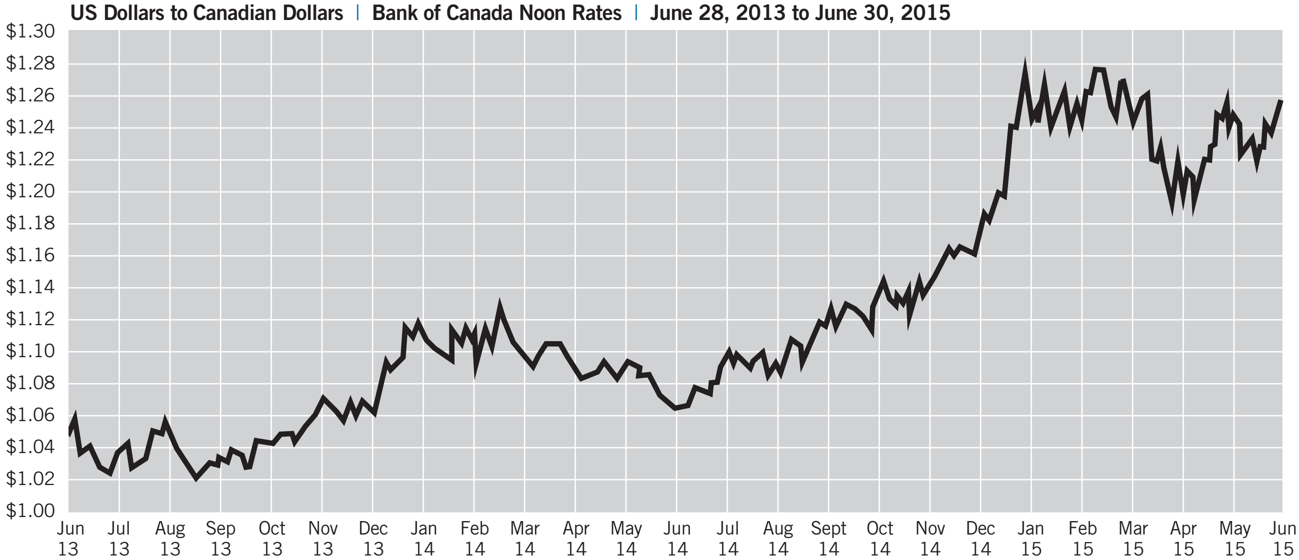
In addition, our risk management policies require us to enter into forward contracts to purchase US$ when we have large, predictable outlays of US$ for upcoming expenses or purchase commitments. This allows us to fix the exchange rate for purchases or expenses, as applicable, at the time the commitment 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 appreciated relative to the Canadian dollar, our revenue would increase. Concurrently, we would recognize offsetting losses 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 June 28, 2013:

US Dollars to Canadian Dollars | Bank of Canada Noon Rates | June 28, 2013 to June 30, 2015



The US$ averaged $1.23 in Q2 2015, up by 13% from an average of $1.09 in Q2 2014. In the first half of 2015, the US$ averaged $1.24, an increase of 13% over the same period last year. The stronger US$ contributed to an increase in our revenues, as 75% of our sales for the year-to-date were generated in US dollars.

OPERATING RESULTS

Sales and Processing Volumes

Our sales volumes have grown at an increasing rate over the past four years, as we gain market share in Canada, the US and internationally. This growth trend continued into the first half of fiscal 2015, with processing volumes for the second quarter up by 14% over Q2 2014, and up by 20% for the first half of the year. During Q2 2015, volumes with our specialty regional accounts increased by 4% and volumes to our national accounts increased by 20%. For the six months ended June 30, 2015, we recorded year-over-year growth of 15% to our specialty regional accounts and 23% to our national accounts.

As noted above, a strike at the Port Metro Vancouver in March 2014 skewed our volumes for the first half of last year, reducing the orders we were able to ship in Q1 and shifting some shipments to the second quarter. As a result, we believe that the most relevant comparative period is the six months ended June 30, 2014.

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 our processing volumes increase. "Green coffee cost recovery revenue" (or "green revenue") is the amount we charge our customers for the green coffee we purchase for decaffeination. 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 for the indicated periods was as follows:

(In $000s) (unaudited)	3 months ended June 30, 2015	3 months ended June 30, 2014	6 months ended June 30, 2015	6 months ended June 30, 2014
Process revenue	$ 4,863	$ 3,856	$ 9,578	$ 7,353
Green revenue	14,421	11,402	30,311	20,793
Distribution revenue	959	740	1,899	1,334
Total	$ 20,242	$ 15,998	$ 41,788	$ 29,480

During 2015, our second quarter sales totaled $20.2 million, an increase of $4.2 million, or 27%, over the same period in 2014. Process revenue increased by $1.0 million, or 26%, driven by higher processing volumes and a stronger US$. Green revenue increased by $3.0 million, or 26%, due to a rising US$ and higher sales volumes. Distribution revenue was up by $0.2 million, or 30%, reflecting growth of Seaforth's business and our increased volumes.

In the first half of this year, revenue totaled $41.8 million, up by $12.3 million, or 42%, over the same period last year. Process revenue rose by 30% to $9.6 million, while green revenue increased by $9.5 million, or 46%. Green revenue was up in part due to orders from national accounts which were price-fixed at a higher NY'C' last fiscal year. Distribution revenue was up by $0.6 million, or 42%, reflecting the expansion of Seaforth's business and our increased shipments.

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 Q2 2015, our cost of sales totaled $18.3 million, up by 45% over the same period in 2014. The increase was mainly related to higher green coffee costs, which were driven by the growth in our volumes, the higher NY'C' in prior periods (when the coffees were purchased), and the stronger US$. It also includes higher freight charges, which increased with the growth in our shipments to the United States and outside of North America.

For the first half of 2015, our cost of sales rose by 55% to $37.2 million. As with the second quarter, the increase was driven by our volume growth, a relatively high NY'C' (when the coffees were purchased), and the stronger US$. Higher freight charges, which increased in conjunction with our volume growth and market expansion, also contributed to the year-over-year increase in our six-month cost of sales.

Gross Profit

Gross profit decreased by 42% in the second quarter of 2015 to $2.0 million and by 17% to $4.6 million in the first half of fiscal 2015. In both periods, the lower gross profit reflects the declining NY'C' and the stronger US$.

Approximately half the coffee we decaffeinate is sold to customers based on the current NY'C'; when the NY'C' falls over an extended period of time, these coffees are sold at a lower commodity price than we paid for them. In addition, we buy coffee in US$ and resell it to certain national accounts in Canadian dollars. The rising US$ in the first 6 months of this year drove up the green coffee costs for these sales. We enter into commodity futures contracts and currency forward contracts to offset the impact of these market movements on our earnings and cash flows. However, as we do not use hedge accounting, the offsetting gains are recorded under 'Gains and Losses on Derivative Financial Instruments' rather than in gross profit.

Sales and Marketing Expenses

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

Sales and marketing expenses were $0.4 million for the three months ended June 30, 2015, which was up by $0.1 million compared to the second quarter of 2014.

First half sales and marketing expenses totaled $1.0 million, up by 46% over the same period last year. In both periods, the increase was related to additional market research and advertising, which began in Q4 2014 in support of the SWISS WATER® brand, as well as the addition of sales and customer service resources part way through 2014.

Occupancy Expenses

Occupancy expenses include the cost of renting administration offices. Occupancy costs were up somewhat for the second quarter and first half of fiscal 2015, as we opened a new sales office in Seattle, WA in Q2 2014. Our Seattle location gives us greater presence in the US, which is a key strategic market for expanding our business.

Administration Expenses

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

Administration expenses rose by 59% to $1.3 million for the second quarter compared to $0.8 million for the same period in 2014. For the six months ended June 30, 2015, administration expenses were $2.5 million, up by 43% over the first half of last year. In both periods, the increase reflects higher stock-based compensation expenses due to a significant increase in our share price, increased staffing and staff-related expenditures, as well as higher 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.

While our coffee futures and currency forward contracts provide effective economic hedges, it should be noted that gains and losses on derivative instruments in any particular quarter are not perfectly matched to the hedged item (revenues or inventory) in that quarter. Our commodity futures contracts reflect the market value of the NY'C', our purchase commitments for coffee and our inventory at the end of the accounting period, whereas cost of sales reflects the cost of coffee in Canadian dollars when it was received into inventory, which is generally determined 1 to 2 quarters prior to the sale. The volatility in our financial results due to this timing difference reduces naturally over 2 to 3 quarters, as inventory is sold and replaced. Similarly, our currency forwards reflect our forecasted future US$ revenues for each month as well as the forecasted timing of receipt of coffee. Actual US$ revenues and receipt of coffees into inventory may vary from forecasts.

For the second quarter, we recorded $1.1 million in realized gains on our futures contracts, compared with realized losses of $1.8 million in the same quarter in 2014. We also recorded $0.9 million in unrealized losses on coffee futures in Q2, compared to $1.7 million in unrealized gains in the second quarter of 2014. The net effect was that we recognized $0.2 million in net gains on futures contracts during the second quarter of 2015, compared to a net loss of $0.1 million in Q2 2014.

We recorded realized losses of $0.2 million on our foreign currency derivatives in the second quarter of 2015, compared to a loss of $0.1 million in the same quarter of 2014. We recorded unrealized gains of $0.3 million on foreign exchange forward contracts in Q2 2015, compared to $0.4 million in unrealized gains in Q2 last year. The net effect was a gain on foreign exchange contracts of $0.1 million, compared to gains of $0.3 million for the same period last year.

For the first half of this year, we realized $2.0 million in gains in our commodity futures contracts, compared to realized losses of $2.3 million for the first half of last year. We also recorded $0.3 million in unrealized losses on our futures contracts, compared to $0.9 million in unrealized gains in 2014. The net effect was a year-to-date gain of $1.7 million on commodity futures contracts, compared to net losses of $1.4 million for the first six months of last year.

For the first half of both 2015 and 2014, we recorded no realized gains or losses on our foreign currency derivatives. Realized gains on our forward contracts to buy US$ in respect of coffee purchases (for coffee which is resold in Canadian dollars) were offset by realized losses on forward contracts to sell US$ related to US$ revenues. This year, we recorded $0.8 million in unrealized losses on foreign currency derivatives, compared to no unrealized gains or losses in the first half 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 $0.1 million for the three months ended June 30, 2015, compared with gains of $0.2 million in Q2 2014.

For the first half of this year, we recorded a loss on foreign exchange of $0.4 million, compared with losses of $33 thousand for the same period last year. The loss in the current period reflects the strengthening of the US$, which increased our US$ denominated liabilities when converted to Canadian dollars on June 30, 2015.

Income Before Taxes and Net Income

In the second quarter, we recorded income before taxes of $0.4 million, compared to $2.5 million for the same period in 2014. Deferred income taxes reduced our net income by $0.1 million for the quarter. 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 $0.3 million for the quarter, compared to $1.8 million for the same period in 2014.

For the first half of 2015, our income before taxes was $1.4 million, compared to $1.6 million for the same period last year. Our six-month net income was reduced by deferred income taxes of $0.3 million. As a result, we recorded net income of $1.1 million this year, which remains unchanged from the same period last year.

Basic and Diluted Earnings per Share

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

For the quarter ended June 30, 2015, basic and diluted earnings per share were both $0.05, compared to $0.27 for the same period last year. In the first quarter of 2015, the basic and diluted weighted average number of shares outstanding were 6,735,099 and 6,880,297, compared to 6,675,254 and 6,876,746 respectively in Q2 2014.

For the six months ended June 30, 2015, basic and diluted earnings per share were $0.16, compared to $0.17 in 2014. During the first half, the basic and diluted weighted average number of shares outstanding were 6,735,099 and 6,866,164, compared to 6,675,254 and 6,875,153 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 and of our coffee purchases which are resold in Canadian dollars. 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 affect through growth initiatives and operational cost controls.

The reconciliation of net income to EBITDA is as follows:

(In $000s) (unaudited)	3 months ended June 30, 2015	3 months ended June 30, 2014	6 months ended June 30, 2015	6 months ended June 30, 2014
Income for the period	$ 311	$ 1,820	$ 1,068	$ 1,147
Income taxes	105	722	347	470
Income before tax	416	2,542	1,415	1,617
Finance income	(19)	(21)	(65)	(35)
Finance expenses	44	56	103	89
Depreciation & amortization	386	371	780	729
Unrealized (gain) loss on foreign exchange forward contracts	(309)	(359)	825	(14)
Loss (gain) on foreign exchange	97	(161)	446	33
Share-based compensation	352	71	513	203
EBITDA	$ 967	$ 2,499	$ 4,017	$ 2,622

EBITDA for the second quarter was $1.0 million, compared to $2.5 million in Q2 2014. EBITDA for the first half of this year totaled $4.0 million, compared to $2.6 million for the same period last year. The increase for the six-month period reflects higher sales volumes and gains on commodity futures contracts, partially offset by increased cost of sales and operating costs.

QUARTERLY INFORMATION / SEASONALITY

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

(In $000s except per share amounts) (unaudited)

	Q2 2015	Q1 2015	Q4 2014	Q3 2014	Q2 2014	Q1 2014	Q4 2013	Q3 2013
Sales	20,242	21,547	19,456	17,244	15,998	13,482	15,794	13,217
Gross profit	1,986	2,602	3,221	2,588	3,437	2,116	1,949	1,354
EBITDA(1)	967	3,043	3,109	1,342	2,499	123	1,201	1,067
Net income	311	758	1,672	199	1,920	(673)	343	561
Per share(2)								
EBITDA(1) - basic and diluted	0.14	0.45	0.47	0.20	0.37	0.02	0.18	0.16
Net income - basic and diluted	0.05	0.11	0.25	0.03	0.27	(0.10)	0.05	0.08

(1) EBITDA is defined in the section on 'Non-IFRS Measures' along with details of its calculation.
(2) Per-share calculations are based on the weighted average number of shares outstanding during the period.

There is 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 six months ended June 30, 2015, we generated $4.5 million in cash from operations before changes in non-cash working capital, compared to $1.6 million in 2014.

Changes in non-cash working capital accounts used $1.2 million in the first half of this year, compared to $4.5 million last year. Lower accounts receivable generated $0.4 million, while increases in inventory used $1.7 million for working capital.

Overall, cash generated from operating activities was $3.3 million for the six months ended June 30, 2015, compared to cash used of $3.0 million during the same period last year.

Investing Activities

First half capital expenditures were $0.6 million, compared to $0.4 million in the same period last year. Purchases of capital equipment vary from year to year, based on the needs of the business. This year's capital costs include investments in preliminary engineering in support of our expansion plans (see the 'Outlook' section below for more information).

Financing Activities

During the six months ended June 30, 2015, we paid $0.8 million in dividends to shareholders, which was unchanged from the same period last year.

Our bank debt (when converted to Canadian dollars) increased in 2015, reflecting the appreciation of the US$, partially offset by a reduction in our US$ debt outstanding in the period. We use US$ denominated LIBOR loans when possible to reduce our interest expense. As a result, the amount owing increased when converted to Canadian dollars on June 30, 2015. As at June 30, 2015, our net debt (bank indebtedness less cash on hand) was $5.6 million. This represents a decrease of $1.3 million since January 1, 2015.

Credit Facilities and Liquidity

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

In addition, we have a US$4.0 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 June 30, 2015.

Inventory

The quantity of inventory we held during the first half of the year increased by 22% over December 31, 2014, which is consistent with the growth in processing volumes we recorded for the period. The value of inventory increased by 12% to $15.7 million for the same period, which reflects the increase in total lbs held and the appreciation of the US$, partially offset by a lower NY'C'.

Contractual Obligations

The following table sets forth our contractual obligations and commitments as at June 30, 2015:

(In $000s) (unaudited)	Total	Less than 1 year	1-3 Years	4-5 Years	Over 5 Years
Operating leases(1)	$ 3,654	$ 1,008	$ 2,646	$ -	$ -
Purchase obligations(2)	32,204	31,583	621	-	-
Total contractual obligations	$ 35,858	$ 32,591	$ 3,267	$ -	$ -

(1) Minimum obligations for our facilities for the current lease terms.
(2) Represents outstanding coffee and natural gas purchase 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.

In Q1 2015, Seaforth consolidated its operations into a single warehouse facility, the lease for which expires on June 30, 2019. During the quarter, a lease for a separate facility was terminated effective May 31, 2015.

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

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, Roland Veit and Alton McEwen[1]. For Q2 2015, sales to and purchases from a company controlled by Mr. Veit were $0.4 million (June 30, 2014 - $0.2 million) and $1.1 million (June 30, 2014 - $0.4 million), respectively. For Q2 2015, sales to and purchases from a company affiliated with Mr. McEwen were

[1] Mr. McEwen was a director and officer of a company that SWDCC does business with.
He retired from the Board of Directors at Ten Peaks' Annual General Meeting of shareholders in June 2015.

$0.6 million (June 30, 2014 - $0.2 million) and nil (June 30, 2014 - $0.1 million), respectively. For the six months ended June 30, 2015, sales to and purchase from a company controlled by Mr. Veit were $0.7 million (June 30, 2014 - $0.4 million), and $1.9 million (June 30, 2014 - $0.7 million), respectively. For the six months ended June 30, 2015, sales to and purchases from a company affiliated with Mr. McEwen were $0.9 million (June 30, 2014 - $0.5 million), and $0.3 million (June 30, 2014 - $0.5 million), respectively.

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 June 30, 2015, our accounts receivable balances with these companies were $20 thousand (December 31, 2014 – $0.2 million) and our accounts payable balances with these companies were $0.5 million (December 31, 2014 - $0.2 million).

OUTLOOK

We expect our annual consolidated volumes to increase by about 10% to 14% over 2014, owing to steadily rising demand for our premium quality coffees.

SWDCC has recorded strong gains in processing volumes for each of the past four years. The growth is related to several factors, including a significant investment of resources to ensure that our proprietary, 100% chemical-free SWISS WATER® Process completely preserves the distinct taste and characteristics of premium coffees, while removing 99.9% of the caffeine. Our unique ability to produce “amazing coffee without caffeine” has positioned SWDCC to capitalize on increased global demand for fine coffees, as well as to serve the rapidly growing “super premium” or “third wave” coffee market. In addition to providing excellent decaffeinated coffees that are virtually indistinguishable from their caffeinated counterparts, SWDCC offers an exceptional range of service programs which focus on adding real value to our customers’ businesses. As a result, we have consistently won new accounts, while steadily increasing volumes delivered to our existing customers.

The steady growth in our processing volumes over the past few years makes it necessary to invest in additional production capacity in order to ensure that we can continue to meet demand for our coffees. Accordingly, in the second quarter of 2015, we began work on expanding the production capacity at SWDCC’s current decaffeination facility in Burnaby, BC. This initiative was announced in May 2015, and is expected to be completed in the first quarter of 2016.

During the second quarter, we also completed the preliminary engineering for a new facility, including a new decaffeination production line. We expect to begin construction of the new facility (at a new location) within the next nine months. Construction is expected to take approximately 18 months.

Both of these initiatives are expected to be financed in part by an equity offering which we completed after quarter end, with estimated net proceeds of $16.3 million (see ‘Subsequent Events’ below). In addition, we anticipate funding the new facility and production line with long-term debt, as well as with cash from operations. In the near term (before construction of the new facility begins), we will use part of the proceeds to reduce our debt.

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 decaffeinators, competition from new entrants with alternate processing methods or agricultural technologies, environmental and regulatory risks, terms of credit agreements, commodity futures losses, ability to maintain organic certification, adequacy of insurance, 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 lease also provides for an additional 5-year renewal term (to 2028), subject to the express approval of the landlord. Any plans to relocate the production equipment would result in significant capital expenditures and the payment of the asset retirement obligation (currently recorded as a long-term liability on our financial statements).

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 six-month period ended June 30, 2015.

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 June 30, 2015, we had futures contracts to buy 1.2 million lbs of green coffee with a notional value of US$1.6 million, and contracts to sell 4.8 million lbs of green coffee with a notional value of US$6.4 million (December 31, 2014 – buy 2.0 million lbs with a notional value of US$3.3 million, and sell 4.2 million lbs with a notional value of US$6.9 million), with the furthest contract maturing in March 2016. The net notional value of the contracts outstanding at June 30, 2015 was approximately US$4.8 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 June 30, 2015	3 months ended June 30, 2014	6 months ended June 30, 2015	6 months ended June 30, 2014
Realized (gain) loss	$ (1,073)	$ 1,814	$ (2,026)	$ 2,280
Unrealized (gain) loss	866	(1,712)	310	(906)
	$ (207)	$ 102	$ (1,716)	$ 1,374

At June 30, 2015, the net derivative assets related to these contracts was $1.1 million (December 31, 2014: $0.9 million) and was comprised of derivatives on account, including margin. We estimated a 1 percent change in the mark-to-market rate applied to the futures contracts as at June 30, 2015 would have resulted in an estimated $60,000 change in income before taxes.

Foreign Currency Risk

We realize a significant portion 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 June 30, 2015, we had forward currency contracts to buy US$8.3 million and sell US$20.5 million (December 31, 2014: buy US$4.5 million and sell US$18.3 million) from July 2015 through to June 2017 at various Canadian exchange rates ranging from $1.0492 to $1.2812. The net notional value of the contracts outstanding at June 30, 2015 was approximately US$12.2 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 June 30, 2015	3 months ended June 30, 2014	6 months ended June 30, 2015	6 months ended June 30, 2014
Realized loss	$ 176	$ 52	$ 3	$ 8
Unrealized (gain) loss	(309)	(359)	825	(14)
	$ (133)	$ (307)	$ 828	$ (6)

At June 30, 2015, the net derivative liabilities related to these contracts was $1.6 million (December 31, 2014: liabilities of $0.8 million). We estimates a 100 basis point change in the US$ exchange rate relative to the Canadian dollar under forward foreign exchange contracts would have resulted in an estimated $112,000 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. Following is a discussion of certain estimates that were critical accounting estimates in the current or prior period.

Inventories

In estimating the net realizable value of inventories, we take into account the most reliable evidence available at the times the estimates are made. Ten Peaks' core business is subject to volatility in the coffee commodity price which fluctuates in response to fundamental commodity factors that affect supply, such as weather and political policies in major coffee-producing countries, and demand, such as the economic growth of major coffee-consuming countries.

In Q2 2015, we decreased our provision for inventory by $29,000 to reflect adjustments to estimated net realizable value. Our provision as at June 30, 2015 is $13 thousand (December 31, 2014 - $42 thousand). In any given year, the estimated provision reflects the current value of the NY'C' even though we have offsetting coffee hedges that would mitigate the cash flow impact of having to sell coffee at the current market price. The replacement differential is also taken into account by origin and quality of coffee for each type of coffee in our inventory, as are costs to convert raw goods to finished goods. The provision is based on the downside risk for each type and quality of coffee, and does not take into account the fact that we may be able to sell certain coffees in our inventory at a higher market price than book value.

CHANGES IN ACCOUNTING STANDARDS

The following amendments to accounting standards and interpretations have been issued and became effective on January 1, 2015:

- *IFRS 7 (Amendment):* Outlines the disclosures when applying IFRS 9, the new financial instruments standard, which will become effective for annual periods beginning on or after January 1, 2015.
- *IFRSs (Amendment):* The Annual Improvements to IFRSs 2010-2012 and 2011-2013 become effective for annual periods beginning on or after July 1, 2014.

We have adopted these amended standards and interpretations, and we assessed that there was no impact 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 June 30, 2015, 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 June 30, 2015, based on the original framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO 1992"). Based on this evaluation, we have concluded that, as of June 30, 2015, 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 April 1, 2015 and ended on June 30, 2015 that have materially affected, or are reasonably likely to materially affect, Ten Peaks' ICFR.

In 2013, the Committee of Sponsoring Organizations of the Treadway Commission released an updated framework of internal control ("COSO 2013"). The new framework lists 17 principles (previously listed as fundamental concepts under the original framework) which are organized into five components. COSO 2013 provides additional guidance with respect to risk assessment, requires consideration of how outsourced service providers are monitored, and includes IT considerations in 14 of the 17 principles. We are currently updating our control framework to COSO 2013, with a view to having this completed by the end of 2015.

SUBSEQUENT EVENTS

Equity Issue

On July 6, 2015, we announced that we had entered into an agreement with a syndicate of underwriters led by Cormark Securities Inc., and including CIBC World Markets Inc. and PI Financial Corp., pursuant to which they agreed to purchase, on a bought deal basis, 2,000,000 common shares at a price of $8.80 per share (the "Offering"), for aggregate gross proceeds of approximately $17,600,000. The Offering closed on July 28, 2015. We also agreed to grant to the underwriters an option to purchase up to an additional 300,000 common shares from the treasury at the offering price exercisable at any time, in whole or in part, until the date that is 30 days following the closing of the Offering. The net proceeds of the Offering are expected to be used for growth opportunities including a plant expansion and/or construction of a new facility and general working capital.

Payment of Dividend

Ten Peaks paid an eligible dividend of $0.0625 per share on July 15, 2015 to shareholders of record on June 30, 2015.

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	June 30 2015	December 31 2014
Assets			
Current assets			
Inventories	5	$ 15,699	$ 13,986
Accounts receivable	6	7,070	7,514
Prepaid expenses and other receivables		400	315
Derivative assets	7	1,105	911
Cash		2,506	898
Total current assets		26,780	23,624
Non-current assets			
Plant and equipment	8	11,726	11,839
Intangible assets	9	2,078	2,206
Deferred tax assets		484	424
Total non-current assets		14,288	14,469
Total assets		$ 41,068	$ 38,093
Liabilities and shareholders' equity			
Current liabilities			
Bank indebtedness	12	$ 8,108	$ 7,773
Accounts payable		3,896	2,764
Accrued liabilities		922	1,339
Dividend payable		421	421
Derivative liabilities	7	1,144	493
Current Portion of Other Liabilities	10	654	250
Total current liabilities		15,145	13,040
Non-current liabilities			
Derivative liabilities	7	488	313
Deferred tax liabilities		408	-
Other liabilities	10	127	33
Asset retirement obligation		692	745
Total non-current liabilities		1,715	1,091
Total liabilities		16,860	14,131
Shareholders' equity			
Share capital	11	24,770	24,770
Share-based compensation reserve		95	75
Deficit		(657)	(883)
Total equity		24,208	23,962
Total liabilities and shareholders' equity		$ 41,068	$ 38,093

Commitments (note 19)

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)

	Note	3 months ended June 30, 2015	3 months ended June 30, 2014	6 months ended June 30, 2015	6 months ended June 30, 2014
Revenue		$ 20,242	$ 15,998	$ 41,788	$ 29,480
Cost of sales		(18,256)	(12,561)	(37,202)	(23,927)
Gross profit		1,986	3,437	4,586	5,553
Sales and marketing expenses		(423)	(367)	(1,034)	(708)
Occupancy expenses		(35)	(24)	(69)	(43)
Administration expenses		(1,330)	(835)	(2,472)	(1,730)
Finance income		19	21	65	35
Finance expenses		(44)	(56)	(103)	(89)
Realized gain (loss) on derivative financial instruments		897	(1,866)	2,023	(2,288)
Unrealized (loss) gain on derivative financial instruments		(557)	2,071	(1,135)	920
(Loss) gain on foreign exchange		(97)	161	(446)	(33)
Income before tax		416	2,542	1,415	1,617
Income tax expense		(105)	(722)	(347)	(470)
Net income and comprehensive income for the period		$ 311	$ 1,820	$ 1,068	$ 1,147
Attributable to shareholders		311	1,820	1,068	1,147
Total comprehensive income attributable to shareholders		$ 311	$ 1,820	$ 1,068	$ 1,147
Earnings per share					
Basic and Diluted (per share)	17	$ 0.05	$ 0.27	$ 0.16	$ 0.17

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		
	Shares	Amount	reserve	Deficit	Total equity
Balance at December 31, 2013	6,675,254	$ 24,631	$ 106	$ (2,228)	$ 22,509
Share-based compensation	-	-	41	-	41
Dividends (Note 15)	-	-	-	(834)	(834)
Net income and comprehensive income	-	-	-	1,147	1,147
Balance at June 30, 2014	6,675,254	$ 24,631	$ 147	$ (1,915)	$ 22,863
Shares issued for restricted share units	59,845	139	(139)	-	-
Share-based compensation	-	-	67	-	67
Dividends (Note 15)	-	-	-	(838)	(838)
Net income and comprehensive income	-	-	-	1,870	1,870
Balance at December 31, 2014	6,735,099	$ 24,770	$ 75	$ (883)	$ 23,962
Shares issued for restricted share units	-	-	-	-	-
Share-based compensation	-	-	20	-	20
Dividends (Note 15)	-	-	-	(842)	(842)
Net income and comprehensive income	-	-	-	1,068	1,068
Balance at June 30, 2015	6,735,099	$ 24,770	$ 95	$ (657)	$ 24,208

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	6 months ended June 30, 2015	6 months ended June 30, 2014
Cash flows from operating activities		
Net income for the period	$ 1,068	$ 1,147
Items not affecting cash		
Depreciation and amortization	780	729
Unrealized loss (gain) on derivative financial instruments	1,135	(920)
Share-based compensation	513	203
Foreign exchange gain on cash held	(72)	(3)
Foreign exchange loss (gain) on debt	621	(81)
Income taxes recognized in profit and loss	347	470
Interest income recognized in profit and loss	(65)	(35)
Interest expense recognized in profit and loss	103	89
	4,430	1,599
Movements in working capital:		
Accounts receivable	444	(1,084)
Inventory	(1,713)	(4,165)
Prepaid expenses	(87)	(198)
Accounts payable and accrued liabilities	671	1,098
Derivative assets at fair value through profit or loss	(194)	(1,110)
Derivative liabilities at fair value through profit or loss	(311)	972
Change in non-cash working capital relating to operating activities	(1,190)	(4,487)
Cash (used in) generated from operations	3,240	(2,888)
Interest received	65	35
Interest paid	(40)	(89)
Income taxes paid	-	(20)
Net cash (used in) generated from operating activities	3,265	(2,962)
Cash flows from investing activities		
Additions to plant and equipment	(601)	(404)
Net cash used in investing activities	(601)	(404)
Cash flows from financing activities		
Dividends paid	(842)	(834)
Proceeds from bank indebtedness	-	2,559
Repayments of bank indebtedness	(286)	-
Net cash generated from (used in) financing activities	(1,128)	1,725
Effects of foreign exchange rate changes on cash held	72	3
Net increase in cash	**1,608**	**(1,638)**
Cash, beginning of period	**898**	**2,594**
Cash, end of period	$ 2,506	$ 956

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 decaffeinates and offers for sale to coffee importers, coffee roasters and other customers (classified as its “regular” or “non-toll” business). In addition, SWDCC decaffeinates 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 six months ended June 30, 2015 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, 2014 and the condensed consolidated interim financial statements for the period ended March 31, 2015.

These condensed consolidated interim 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, 2015, with earlier application permitted. The adoption of these standards by the Company in 2015 did not have a material impact on its consolidated financial statements.

- *IFRS 7 (Amendment):* Outlines the disclosures when applying IFRS 9, the new financial instruments standard, which will become effective for annual periods beginning on or after January 1, 2015.
- *IFRSs (Amendment):* The Annual Improvements to IFRSs 2010-2012 and 2011-2013 become effective for annual periods beginning on or after July 1, 2014.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Other than as noted below, the principal accounting policies adopted in the preparation of these condensed consolidated interim financial statements are consistent with the consolidated financial statements for the year ended December 31, 2014.

3.1 Application of new and revised IFRSs

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

- *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, which will become effective for annual periods beginning on or after January 1, 2016.

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

- *IFRS 9:* New financial instruments standard that replaces IAS 39 for classification and measurement of financial assets and liabilities, and provides new standards for hedge accounting. This standard will become effective for annual periods beginning on or after January 1, 2018.
- *IFRS 11 (Amendment):* Amends the standard to require an acquirer of an interest in a joint operation in which the activity constitutes a business. The amendment will be effective for annual periods beginning on or after January 1, 2016.
- *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. This standard's effective date has been deferred to an entity's first annual IFRS financial statements for a period beginning on or after January 1, 2018.
- *IAS 16 and 28 (Amendments):* Clarification of Acceptable Methods of Depreciation and Amortization, applicable to annual periods beginning on or after January 1, 2016.
- *IAS 18 and IFRS 10 (Amendment):* Clarification the treatment of the sale or contribution of assets from an investor to its associate or joint venture. Applicable to annual periods beginning on or after January 1, 2016.
- *IFRSs (Amendment):* The Annual Improvements to IFRSs 2012-2014 become effective for annual periods beginning on or after July 1, 2016.

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

4. 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.

5. INVENTORIES

	June 30, 2015	December 31, 2014
Raw materials	$ 10,560	$ 8,518
Finished goods	4,776	5,195
Carbon	322	271
Packaging	53	44
Inventory provision	(13)	(42)
	$ 15,699	$ 13,986

For the three and six months ended June 30, 2015, the cost of inventories recognized as an expense was $17.1 million (2014: $12 million) and $35.1 million (2014: $22.2 million) respectively. The inventory provision decreased by $29,000 (2014: decreased $10,000), reflecting an adjustment to estimated net realizable value.

6. ACCOUNTS RECEIVABLE

	June 30, 2015	December 31, 2014
Accounts receivable	$ 7,070	$ 7,514

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 June 30, 2015 (December 31, 2014: nil).

7. DERIVATIVE FINANCIAL INSTRUMENTS

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

	June 30, 2015	December 31, 2014
Coffee futures contracts, net	$ 1,105	$ 911
US Dollar forward contracts, current	(1,144)	(493)
US Dollar forward contracts, long-term	(488)	(313)
Net fair value of derivatives	$ (527)	$ 105

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

8. PLANT AND EQUIPMENT

	Machinery and equipment	Leasehold improvements	Computer	Furniture and fixtures	Construction in progress	Total
Cost						
Balance January 1, 2015	$ 28,208	$ 5,007	$ 873	$ 270	$ 175	$ 34,533
Additions	-	-	-	4	597	601
Disposals	-	-	-	-	-	-
Write-downs	-	(55)	-	-	-	(55)
Transfers	-	-	-	-	(8)	(8)
Balance June 30, 2015	$ 28,208	$ 4,952	$ 873	$ 274	$ 764	$ 35,071
Depreciation						
Balance January 1, 2015	$ (19,372)	$ (2,611)	$ (563)	$ (148)	$ -	$ (22,694)
Depreciation	(463)	(140)	(41)	(7)	-	(651)
Balance June 30, 2015	$ (19,835)	$ (2,751)	$ (604)	$ (155)	$ -	$ (23,345)
Carrying amount June 30, 2015	$ 8,373	$ 2,201	$ 269	$ 119	$ 764	$ 11,726
Cost						
Balance January 1, 2014	$ 27,967	$ 4,868	$ 576	$ 261	$ 259	$ 33,931
Additions	139	35	7	9	412	602
Disposals	-	-	-	-	-	-
Transfers	102	105	290	-	(496)	-
Balance December 31, 2014	$ 28,208	$ 5,007	$ 873	$ 270	$ 175	$ 34,533
Depreciation						
Balance January 1, 2014	$ (18,477)	$ (2,316)	$ (503)	$ (127)	$ -	$ (21,423)
Depreciation	(895)	(295)	(60)	(21)	-	(1,271)
Disposals	18,451	-	502	107	-	19,060
Balance December 31, 2014	$ (19,372)	$ (2,611)	$ (563)	$ (148)	$ -	$ (22,694)
Carrying amount December 31, 2014	$ 8,836	$ 2,396	$ 310	$ 122	$ 175	$ 11,839

For the three months ended June 30, 2015, depreciation expense of $314,000 (2014: $287,000) has been charged to cost of sales and $16,000 (2014: $20,000) was included in administrative expenses.

For the six months ended June 30, 2015, depreciation expense of $617,000 (2014: $566,000) has been charged to cost of sales and $34,000 (2014: $34,000) was included in administrative expenses.

The Company has reduced the value of its asset retirement obligation and related leasehold improvement by approximately $55 thousand to reflect new information received.

Other than noted above, there was no other impairment loss recognized for the six months ended June 30, 2015 or June 30, 2014.

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

9. INTANGIBLE ASSETS

	PPT	Brand	Total
Cost			
Balance January 1, 2015	$ 3,246	$ 1,000	$ 4,246
Balance June 30, 2015	$ 3,246	$ 1,000	$ 4,246
Amortization			
Balance January 1, 2015	$ (1,200)	$ (840)	$ (2,040)
Amortization	(120)	(9)	(129)
Balance June 30, 2015	$ (1,320)	$ (849)	$ (2,169)
Carrying amount June 30, 2015	$ 1,926	$ 152	$ 2,078
Cost			
Balance January 1, 2014	$ 3,246	$ 1,000	$ 4,246
Balance December 31, 2014	$ 3,246	$ 1,000	$ 4,246
Amortization			
Balance January 1, 2014	$ (960)	$ (821)	$ (1,781)
Amortization	(240)	(19)	(259)
Balance December 31, 2014	$ (1,200)	$ (840)	$ (2,040)
Carrying amount December 31, 2014	$ 2,046	$ 160	$ 2,206

For the three months ended June 30, 2015, amortization expense of $60,000 (2014: $60,000) relating to the proprietary process technology ("PPT") has been charged to cost of sales and amortization expense of $4,000 (2014: $4,000) relating to the Brand was included in administrative expenses.

For the six months ended June 30, 2015, amortization expense of $120,000 (2014: $120,000) relating to the proprietary process technology ("PPT") has been charged to cost of sales and amortization expense of $9,000 (2014: $9,000) relating to the Brand was included in administrative expenses.

There was no impairment loss recognized for the six months ended June 30, 2015 or June 30, 2014.

10. 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.

	June 30, 2015	December 31, 2014
Current portion	$ 654	$ 250
Long term	127	33
Total other liabilities	$ 781	$ 283

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

11. SHARE CAPITAL

Restricted share units ("RSUs")

The movement in RSUs as at June 30, 2015 is as follows:

	Number of RSUs at		Volume-based Weighted average share price	Remaining vesting period (years)	Performance based
Balance at January 1, 2014	195,340	$	3.34	2.16	
RSUs issued for dividends	10,942	$	4.02	1.21	No
RSUs forfeited	(1,725)	$	4.98	-	No
RSUs cash-settled	(50,670)	$	5.02	-	No
RSUs exercised	(59,845)	$	5.02	-	No
Balance at December 31, 2014	94,042	$	4.39	1.29	
RSUs granted	48,800	$	4.67	2.65	No
RSUs issued for dividends	2,559	$	5.82	1.44	No
Balance at June 30, 2015	145,401	$	9.27	1.42	

Deferred share units ("DSUs")

The issuance of DSUs as at June 30, 2015 is as follows:

	Number of DSUs at		Weighted average share price	Performance based
Balance at January 1, 2014	29,763	$	3.40	No
DSUs issued	13,809	$	4.09	No
Balance at December 31, 2014	43,572	$	4.68	No
DSUs issued	8,822	$	5.00	No
Balance at June 30, 2015	52,394	$	9.40	

12. BANK INDEBTEDNESS

		June 30, 2015		December 31, 2014
Revolving operating line of credit	$	8,108	$	7,541
Swing line		-		232
	$	8,108	$	7,773

The Company had the following credit facilities as at June 30, 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 dollar ("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$4.0 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 24 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 June 30, 2015, the Company was in compliance with its debt covenants.

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

13. EMPLOYEE BENEFITS EXPENSES

Expenses recognized for employee benefits are detailed below:

	3 months ended June 30, 2015	3 months ended June 30, 2014	6 months ended June 30, 2015	6 months ended June 30, 2014
Short-term benefits	$ 1,731	$ 1,378	$ 3,148	$ 2,710
Long-term benefits	350	71	513	203
Post-employment benefits	194	179	352	340
Total employee benefits expenses	$ 2,275	$ 1,628	$ 4,013	$ 3,253

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 six months ended June 30, 2015, the total expense recognized in the statement of income and comprehensive income of $0.2 million (2014: $0.2 million) and $0.4 million (2014: $0.3 million) respectively, represented contributions paid to RRSPs, IRAs, CPP and EI by the Company at rates specified in the rules of the plans.

14. 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 June 30, 2015	3 months ended June 30, 2014	6 months ended June 30, 2015	6 months ended June 30, 2014
Short-term benefits	$ 388	$ 313	$ 713	$ 618
Long-term benefits	341	63	495	185
Post-employment benefits	42	27	60	50
Total	$ 771	$ 403	$ 1,268	$ 853

Trading transactions

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

	3 months ended June 30, 2015	3 months ended June 30, 2014	6 months ended June 30, 2015	6 months ended June 30, 2014
Sales	$ 969	$ 357	$ 1,585	$ 900
Purchase of raw materials	$ 1,148	$ 509	$ 2,212	$ 1,209

	June 30, 2015	December 31, 2014
Accounts receivable	$ 29	$ 159
Accounts payable	$ 502	$ 207

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.

15. DIVIDENDS

For the six months ended June 30, 2015, the Company declared quarterly eligible dividends to shareholders totaling $0.8 million or $0.125 per share (2014: $0.8 million).

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

16. 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:

Revenue from External Customers

	3 months ended June 30, 2015	3 months ended June 30, 2014	6 months ended June 30, 2015	6 months ended June 30, 2014
Canada	$ 8,131	$ 7,723	$ 16,196	$ 14,358
United States	9,683	6,355	20,367	12,150
Other	2,428	1,920	5,225	2,972
	$ 20,242	$ 15,998	$ 41,788	$ 29,480

Non-Current Assets

	June 30, 2015	Dec 31, 2014
Canada	$ 13,752	$ 13,995
United States	$ 52	$ 49
	$ 13,804	$ 14,044

17. BASIC AND DILUTED EARNINGS PER SHARE

	3 months ended June 30, 2015	3 months ended June 30, 2014	6 months ended June 30, 2015	6 months ended June 30, 2014
Profit attributable to shareholders (basic)	$ 311	$ 1,820	$ 1,068	$ 1,147
Weighted average number of shares (basic)	6,735,099	6,675,254	6,735,099	6,675,254
Basic and diluted EPS	$ 0.05	$ 0.27	$ 0.16	$ 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:

	June 30, 2015	June 30, 2014
Weighted average number of RSUs granted	131,065	201,975

18. 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.

18.1 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 fix the input cost of green coffee. As at June 30, 2015, the Company had futures contracts to buy 1.2 million lbs of green coffee with a notional value of US$1.6 million, and contracts to sell 4.8 million lbs of green coffee with a notional value of US$6.4 million (December 31, 2014 – buy 2.0 million lbs with a notional value of US$3.3 million, and sell 4.2 million lbs with a notional value of US$6.9 million), with the furthest contract maturing in March 2016. The net notional value of the contracts outstanding at June 30, 2015 was approximately US$4.8 million.

(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 coffee futures contracts recognized in the statement of income and comprehensive income:

	3 months ended June 30, 2015	3 months ended June 30, 2014	6 months ended June 30, 2015	6 months ended June 30, 2014
Realized (gain) loss	$ (1,073)	$ 1,814	$ (2,026)	$ 2,280
Unrealized (gain) loss	866	(1,712)	310	(906)
	$ (207)	$ 102	$ (1,716)	$ 1,374

At June 30, 2015, the net derivative assets related to these contracts was $1.1 million (December 31, 2014: $0.9 million) and was comprised of derivatives on account, including margin.

The Company estimated a 1 percent change in the mark-to-market rate applied to the futures contracts as at June 30, 2015 would have resulted in an estimated $60,000 change in income before taxes.

18.2 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 June 30, 2015, the Company had forward currency contracts to buy US$8.3 million and sell US$20.5 million (December 31, 2014: buy US$4.5 million and sell US$18.3 million) from July 2015 through to June 2017 at various Canadian exchange rates ranging from $1.0492 to $1.2812. The net notional value of the contracts outstanding at June 30, 2015 was approximately US$12.2 million.

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 June 30, 2015	3 months ended June 30, 2014	6 months ended June 30, 2015	6 months ended June 30, 2014
Realized loss	$ 176	$ 52	$ 3	$ 8
Unrealized (gain) loss	(309)	(359)	825	(14)
	$ (133)	$ (307)	$ 828	$ (6)

At June 30, 2015, the net derivative liabilities related to these contracts was $1.6 million (December 31, 2014: liabilities of $0.8 million). The Company estimates a 100 basis point change in the US$ exchange rate relative to the Canadian dollar under forward foreign exchange contracts would have resulted in an estimated $112,000 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$:

	June 30 2015	December 31 2014
Bank indebtedness	$ (5,092)	$ (6,456)
Accounts receivable	4,463	6,013
Derivative instruments	886	786
Accounts payable and accrued liabilities	(2,990)	(1,985)
Net US dollar exposure	$ (2,733)	$ (1,642)

At June 30, 2015, 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 $27,000 change in income before taxes.

18.3 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 June 30, 2015 on its outstanding borrowings was 2.56% (2014: 2.51%). The Company estimated that a 100 basis point fluctuation in interest rates would have resulted in an estimated $39,000 change in the interest expense.

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

18.4 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 June 30, 2015, revenues from three major customers of $14.9 million (2014: $10.6 million) represented 36% (2014: 36%) of total revenues for the period. These customers represented 24% of total accounts receivable as at June 30, 2015 (June 30, 2014: 17%; December 31, 2014: 28%).

The Company had 24% of its accounts receivable past due as at June 30, 2015 (December 31, 2014: 37%).
Of the accounts receivable past due, 97% are 1-30 days past due and 3% 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.

18.5 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.

18.6 Fair value of financial instruments

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

	June 30 2015	Level 1	Level 2	Level 3
Financial assets at FVTPL				
Derivative assets	$ 1,105	$ 1,105	$ -	$ -
	$ 1,105	$ -	$ -	$ -
Financial liabilities at FVTPL				
Derivative liabilities	$ 1,631	$ -	$ 1,631	$ -
Other liabilities	$ 781	$ -	$ 781	$ -
	$ 2,412	$ -	$ 2,412	$ -

	December 31 2014	Level 1	Level 2	Level 3
Financial assets at FVTPL				
Derivative assets	$ 911	$ 911	$ -	$ -
	$ 911	$ 911	$ -	$ -
Financial liabilities at FVTPL				
Derivative iabilities	$ 806	$ -	$ 806	$ -
Other liabilities	$ 283	$ -	$ 283	$ -
	$ 1,089	$ -	$ 1,089	$ -

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

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

19. COMMITMENTS

19.1 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.

In Q1 2015, Seaforth consolidated its operations into a single warehouse facility, the lease for which expires on June 30, 2019. During the quarter, a lease for a separate facility was terminated effective May 31, 2015.

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 June 30, 2015 is as follows:

Minimum lease payments due:		
No later than 1 year	$	1,008
Later than 1 year and no later than 5 years		2,646
Later than 5 years		-
	$	3,654

19.2 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 June 30, 2015, these contracts related to the purchase of green coffee in the amount of $32 million, and natural gas purchase commitments in the amount of $0.2 million, all of which will become payable within 12 months from the financial statements date.

20. SUBSEQUENT EVENTS

The condensed consolidated interim financial statements for the three and six months ended June 30, 2015 were approved for issuance on August 5, 2015. There were no significant non-adjusting events that occurred between the reporting date and the date of authorization other than as noted below.

On July 6, 2015, the Company announced that it had entered into an agreement with a syndicate of underwriters led by Cormark Securities Inc., and including CIBC World Markets Inc. and PI Financial Corp., pursuant to which they agreed to purchase, on a bought deal basis, 2,000,000 common shares at a price of $8.80 per share (the "Offering"), for aggregate gross proceeds of approximately $17,600,000. The Offering closed on July 28, 2015. The Company also agreed to grant to the underwriters an option to purchase up to an additional 300,000 common shares at the offering price exercisable at any time, in whole or in part, until the date that is 30 days following the closing of the Offering. The net proceeds of the Offering are expected to be used for growth opportunities including a plant expansion and/or construction of a new facility and general working capital.

On July 15, 2015, the Company paid an eligible dividend in the amount of $0.4 million ($0.0625 per share) to shareholders of record on June 30, 2015.

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