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## **Management's Discussion and Analysis**

*This Management's Discussion & Analysis ("MD&A") of Ten Peaks Coffee Company Inc. ("Ten Peaks" or the "Company"), dated as of November 7, 2016, provides a review of the financial results for the three and nine months ended September 30, 2016 relative to the comparable period of 2015. The three-month period represents the third quarter ("Q3") of our 2016 fiscal year. This MD&A should be read in conjunction with Ten Peaks' condensed consolidated interim financial statements for the period ended September 30, 2016, as well as the audited consolidated financial statements for the year ended December 31, 2015, which are available at [www.sedar.com](http://www.sedar.com).*

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

### **FORWARD-LOOKING STATEMENTS**

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

The forward-looking statements contained herein are also based on assumptions that we believe are current and reasonable, including but not limited to, assumptions regarding: (i) trends in certain market segments and the economic climate generally; (ii) the financial strength of our customers; (iii) customer behavior; (iv) the value of the Canadian dollar versus the US dollar; (v) the expected financial and operating performance of Ten Peaks going forward; and (vi) the expected level of dividends payable to shareholders. We cannot assure readers that actual results will be consistent with the statements contained in this MD&A. The forward-looking statements and financial outlook information contained herein are made as of the date of this MD&A and are expressly qualified in their entirety by this cautionary statement. Except to the extent required by applicable securities law, 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.

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**EXECUTIVE SUMMARY**

For the nine months ended September 30, 2016, our gross profit, operating income and net income were all up compared to the same period last year, with margin expansion more than offsetting a decline in our processing volumes.

Total processing volumes decreased by 4% for Q3 and by 6% for the year-to-date, compared to the same periods last year. In both periods, volumes were impacted by the rising coffee commodity price ("NY'C"). Shipments to national accounts rose by 7% in the third quarter, while shipments to specialty regional accounts declined by 27%. For the year-to-date, shipments to national accounts declined by 1% compared to 2015, and volumes for specialty regional accounts declined by 17%. Volumes shipped to importers declined by 18% during the first nine months of the year, while shipments to roasters were flat.

The coffee industry is experiencing a period of declining inventories this year, in direct contrast to 2015 when inventories were increasing. The NY'C' has increased 27% from an average of US\$1.20 in December 2015 to an average of US\$1.52 in September 2016. This run-up is coupled with increasing demands from large roasters for much longer payment terms when they buy their coffee. We believe that the combination of these two factors is stretching the working capital requirements for many importers, causing them to reduce orders and operate with lower inventories overall.

Revenue for Q3 2016 was \$20.8 million. This was up by 1% on a year-over-year basis, due to the run-up in the NY'C' during the period. For the year-to-date, our revenues declined by 4% to \$59.5 million, primarily due to our lower processing volumes.

Our gross profit for the quarter decreased by 10% to \$3.2 million. Lower process revenues from the lower volumes impacted our quarterly results. For the year-to-date, gross profit was up by 8% to \$8.8 million. Year-to-date growth was driven by expanded margins on our sales and a stronger US dollar ("US\$").

With the adoption of hedge accounting on January 1, 2016, gains or losses associated with hedging instruments entered into to manage our exposure to the NY'C' and to the US\$ exchange rate are reflected on our statement of income directly in revenue and cost of sales.

Overall, operating income was down by 37% to \$1.3 million for the quarter and up by 12% to \$3.5 million for the year-to-date. Our Q3 net income increased by 8% to \$0.9 million, and our year-to-date net income grew by 50% to \$2.8 million over last year. For the year-to-date, healthy margins on sales and a strong US\$ drove up our gross profit, operating income, and net income, compared to the same period last year.

EBITDA for the third quarter and year-to-date were down, compared to the same periods in 2015. In both periods, lower volumes and higher selling and administrative costs resulted in lower EBITDA. In 2015, our results were also boosted by significant gains on commodity hedges owing to a rapidly declining NY'C', as well as gains on our green coffee sales, which related to a rising US\$. As these gains were not replicated this year, our 2016 EBITDA is more reflective of our processing volumes rather than US\$ and NY'C' market fluctuations.

We generated \$6.1 million in cash from operations before changes in working capital accounts during the first nine months of this year, compared to \$7.1 million for the same period in 2015.

In Q3 2016, the United States Food and Drug Administration ("US FDA") released a significant ruling which we believe will positively impact our business going forward. In July, the US FDA made public its decision to revoke a competitor's organic status due to the presence of methylene chloride on its organic coffees. Although the hearing has not yet taken place, we expect to see this ruling translate into increased orders for the coming periods. (See 'Outlook' for more information).

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**BUSINESS OVERVIEW**

Ten Peaks is a leading specialty coffee company doing business through two wholly owned subsidiaries, Swiss Water Decaffeinated Coffee Company, Inc. (“SWDCC”) and Seaforth Supply Chain Solutions Inc. (“Seaforth”). SWDCC is a premium green coffee decaffeinator located in Burnaby, BC. SWDCC employs the proprietary SWISS WATER® Process to decaffeinate green coffee without the use of chemicals, leveraging science-based systems and controls to produce coffee that is 99.9% caffeine free. We believe that the SWISS WATER® Process is the world’s only 100% chemical free water process for third-party coffee decaffeination. It is certified organic by the Organic Crop Improvement Association, and is also the world’s only consumer-branded decaffeination process. This is our primary business, and the financial results of Ten Peaks are dependent upon the results of SWDCC.

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

As at September 30, 2016, the condensed consolidated interim financial statements of Ten Peaks included the accounts of Ten Peaks; our wholly owned subsidiaries SWDCC and Seaforth; and two wholly owned subsidiaries of SWDCC, Swiss Water Decaffeinated Coffee Company USA, Inc., and Swiss Water Process Marketing Services Inc. Inter-company accounts and transactions have been eliminated on consolidation.

Ten Peaks’ shares trade on the Toronto Stock Exchange under the symbol ‘TPK’. As at the date of this report, 9,038,862 shares were issued and outstanding.

**Swiss Water Decaffeinated Coffee Company’s Business**

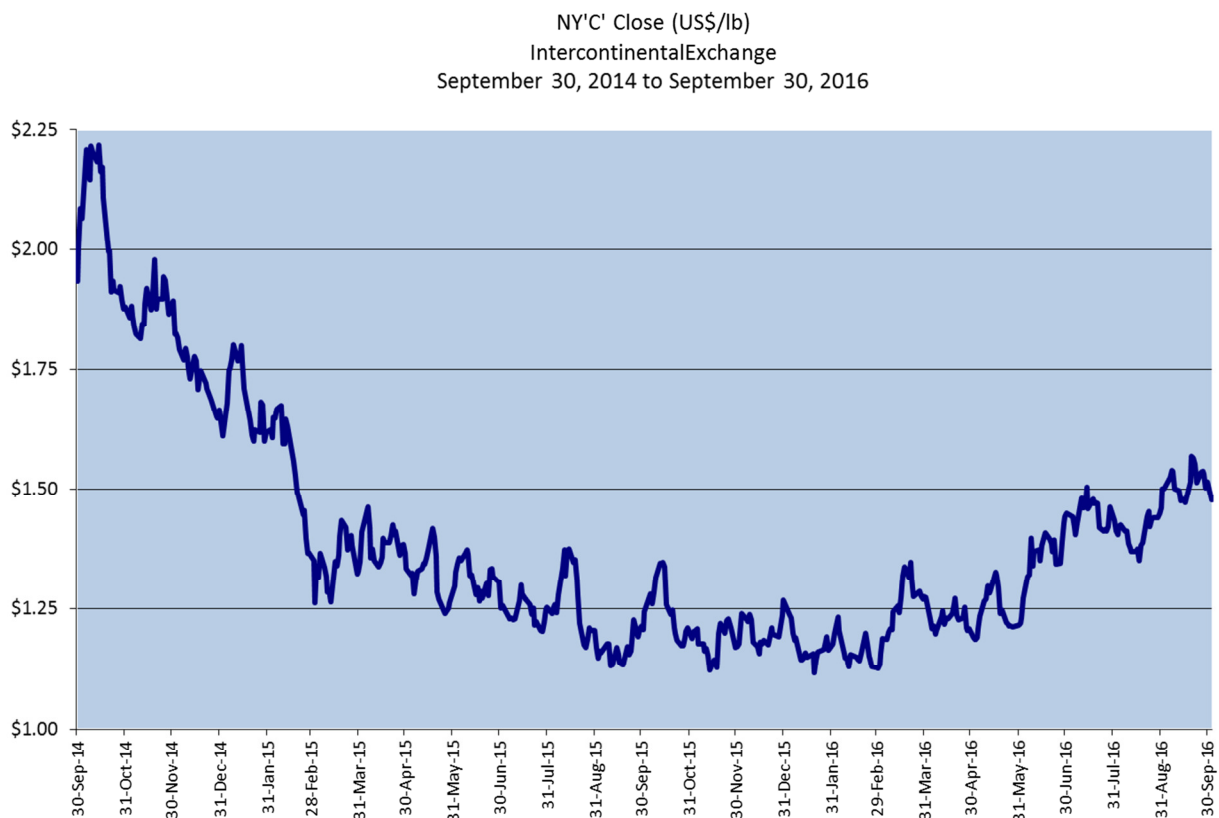
We carry an inventory of premium-grade Arabica coffees that we purchase from the specialty green coffee trade, decaffeinate and then sell to our customers (our “regular” or “non-toll” business). Revenue from our regular business includes both processing revenue and green coffee cost recovery revenue.

We also decaffeinate coffee owned by our customers for a processing fee under toll arrangements (our “toll” business). The value of the coffee processed under toll arrangements does not form part of our inventory, our revenue or our cost of sales. Revenue from toll arrangements consists entirely of processing revenue. For the first nine months of the year, approximately 17% 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.

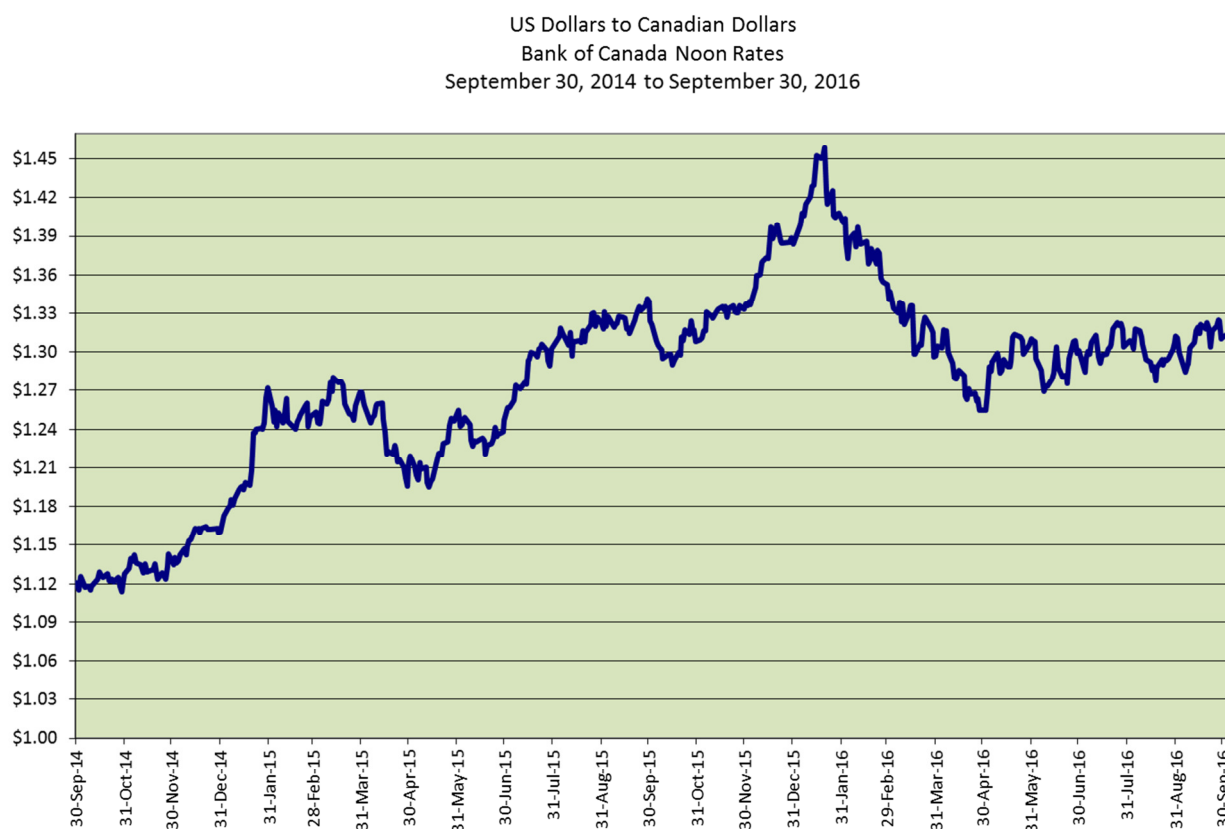
The chart below shows the movement in the NY'C' since September 30, 2014:



The NY'C' averaged US\$1.46/lb in Q3 2016, up by 19% compared to US\$1.23 in the same period last year. For the year-to-date, the NY'C' averaged US\$1.31, compared to US\$1.36 in the first nine months of last year. This reflects the overall decline in the coffee commodity price that we saw last year, compared to a rising trend in 2016. As is shown in the chart above, the NY'C' declined throughout 2015, falling from \$US1.61/lb at January 1st to US1.27/lb at the end of the year. Typically, during long periods of downward movement in the coffee price, customers with the ability to do so will increase their inventory position and stockpile green coffee at favorable prices. Conversely, customers will often delay ordering in periods when the NY'C' trends upward, as it did between March 1<sup>st</sup> and September 30<sup>th</sup> of this year. In addition, as the NY'C' increases, customers tend to operate with less inventory on hand in order to manage their working capital.

Coffee is traded in 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\$/C\$ exchange rates.

The chart below illustrates the US\$/C\$ exchange rates since September 30, 2014:



The US\$ averaged \$1.31 in Q3 2016, which is relatively unchanged from Q3 2015. During the nine months ending September 30, 2016, the US\$ averaged \$1.32, an increase of 5% over the same period last year. For the year-to-date, the stronger US\$ contributed to an increase in our revenues, as 70% of our sales for the year were generated in US dollars.

### ADOPTION OF HEDGE ACCOUNTING

We have adopted the hedge accounting provisions of IFRS 9 because it is better aligned with our existing hedging strategies. The adoption of hedge accounting will reduce the volatility in our financial results, by better matching our accounting practices to our existing hedging practices. We have **not** changed our risk management strategies with the adoption of hedge accounting. The economic impact of our hedges is unchanged, even though the accounting for these derivative instruments has changed.

We enter into three types of hedges:

- 1) Commodity price risk hedges on our coffee purchase commitments and inventory (“commodity hedges”);
- 2) Currency risk hedges on future US\$ process revenues (“revenue hedges”); and
- 3) Customer specific currency risk hedges for coffee sales in C\$ (“customer specific hedges”).

Each type of hedge is discussed below.

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*Commodity Hedges:*

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

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

*Revenue Hedges:*

We enter into forward contracts to sell US\$ at future dates to hedge the foreign exchange cash flow variability of expected US\$ processing fee revenue up to 36 months in advance. The hedged processing revenue includes both processing fee revenue from tolling arrangements (processing of customer-owned coffee) as well as the US\$ processing fee layer of inventory sales agreements. This enables us to more reliably predict how much Canadian currency we will receive for our US\$ process revenue sales. Cash flows in the immediate 12-month period are hedged at a higher percentage of expected future revenues than those farther out, reflecting greater uncertainty in the 13 to 36-month period.

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

*Customer Specific Hedges:*

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

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

**OPERATING RESULTS***Sales and Processing Volumes*

Our total processing volumes decreased by 4% for the third quarter and by 6% for the year-to-date, compared to the same periods last year. Shipments to national accounts rose by 7% in the third quarter, while shipments to specialty regional accounts declined by 27%. For the year-to-date, shipments to national accounts declined by 1% compared to 2015, and volumes for specialty regional accounts declined by 17%.

We can also categorize our customers by the nature of their business (either coffee importer or roasters). Coffee importers act like grocery stores to roasters, sourcing and importing green coffee from various origins and carrying a selection of different origins and quality levels for roasters to choose from. Importers buy from us in order to resell our coffees to roasters when and where they need it. Roasters are in the business of roasting and packaging coffee for sale to consumers in their own coffee shops, or for home or office use. Roasters either buy directly from SWDCC, or they buy from an importer. They generally carry lower inventories, as roasters tend to take delivery of green coffee shortly before roasting it. Volumes shipped to importers have declined by 18% in the year-to-date, while shipments to roasters are flat year-over-year. This suggests that importers have been reducing their inventory as the NY'C' has increased and as accounts payable terms of large roasters have extended (see 'Liquidity and Capital Resources - Accounts Receivable' below for further discussion of payment terms).

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. "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		3 months ended		9 months ended		9 months ended	
	September 30, 2016		September 30, 2015		September 30, 2016		September 30, 2015	
Process revenue	\$	5,137	\$	5,455	\$	14,959	\$	15,034
Green revenue	\$	14,475	\$	13,919		41,377		44,229
Distribution revenue	\$	1,140	\$	1,080		3,142		2,978
Total	\$	20,752	\$	20,454	\$	59,478	\$	62,241

Our third quarter sales totaled \$20.8 million, an increase of \$0.3 million, or 1%, over the same quarter last year. Process revenue declined by \$0.3 million, or 6%, due to lower volumes. Green revenue increased by \$0.6 million, or 4%, due to the NY'C' being 19% higher on average compared to Q3 2015. Distribution revenue (the amount we charge customers for shipping and handling), increased 6% despite the lower volumes, due to margin enhancement initiatives.

For the year-to-date, our revenue totaled \$59.5 million, down by \$2.8 million, or 4%, over the same period last year. Process revenue remained flat due to a strong US\$, revenue hedges and margin enhancement on our sales. Green revenue decreased by \$2.9 million, or 6%, due to lower sales volumes and a lower NY'C'. The average NY'C' was down by 4% during the first nine months of this year, compared to the same period in 2015. Distribution revenue rose by \$0.2 million, or 6%, for the year-to-date, due to a stronger US\$ and margin enhancement initiatives.

#### *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.

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During the third quarter, our cost of sales totaled \$17.5 million, up by 4% compared to the same period in 2015. The increase primarily reflects the higher NY'C', as well as increased depreciation on production equipment. For the year-to-date, our cost of sales declined by 6% to \$50.6 million, reflecting lower green coffee costs, partially offset by higher depreciation on production equipment following the capacity expansion at our Burnaby, BC facility in Q1 2016. In addition, customer-specific hedges and commodity hedges increased our cost of sales by \$0.9 million in Q3 2016 and by \$0.8 million for the year-to-date. No hedge accounting adjustments were made to cost of sales last year.

#### *Gross Profit*

Our gross profit decreased by \$0.3 million, or 10%, in the third quarter to \$3.2 million. Revenue increases were more than offset by higher cost of sales. For the year-to-date, gross profit grew by \$0.7 million, or 8%, which reflects improved margins on our sales.

#### *Sales and Marketing Expenses*

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

Third quarter sales and marketing expenses were \$0.7 million, up by \$0.1 million, or 25%, compared to Q3 2015. Nine-month sales and marketing expenses totaled \$1.7 million, up by \$0.2 million, or 11%, over the same period last year. In both periods, the increase was related to brand-building initiatives, as well as a stronger US\$.

#### *Occupancy Expenses*

Occupancy expenses include the cost of renting offices for sales, marketing and administrative use. Occupancy costs were unchanged compared to the same periods in 2015.

#### *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 increased by 34% to \$1.2 million for the third quarter of 2016, compared to \$0.9 million for the same period last year. The increase was due to higher regulatory expenses and professional fees, and staff and staff-related expenses.

Administration expenses for the year-to-date increased by 4% to \$3.5 million, also owing to higher regulatory expenses and professional fees, and staff and staff-related expenses.

Administration expenses for the year-to-date includes \$0.1 million in one-time costs for professional fees and strategic initiatives. There were no one-time costs last year.

#### *Finance Income / Expenses*

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



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We had no finance expense during Q3 2016 or for the year-to-date, as we paid off our LIBOR loans part way through the third quarter of last year. Finance income for the quarter and year-to-date rose in tandem with the increase in our cash balances.

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

With the adoption of hedge accounting “gains/losses on derivative financial instruments” reflects only the change in fair value of undesignated revenue hedges. By comparison, prior year gains/losses on derivative instruments include all realized and unrealized gains/losses on revenue and customer-specific hedges, as well as commodity hedges.

For the three and nine months ended September 30, 2016, we recorded losses on derivative financial instruments of \$0.1 million and \$0.2 million respectively, compared to a loss of \$0.8 million and a gain of \$0.1 million in the same periods of 2015.

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

For the third quarter and the year-to-date, we recorded \$0.2 million and \$0.4 million in gains on our risk management activities. This primarily reflects gains recognized when coffee futures are rolled from one contract period to the next. In the prior year, such gains and losses are included in the gains/losses on derivative financial instruments.

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

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

During the third quarter, we recorded foreign exchange losses of \$0.2 million, which is unchanged from the same period last year. For the year-to-date, we recorded no gain or loss on foreign exchange, compared to a loss of \$0.7 million last year. The loss in the third quarter and first nine months of last year reflects conversion losses on our US\$ LIBOR loan, which was paid off entirely by the end of 2015.

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

In the third quarter, we recorded income before taxes of \$1.3 million, compared to income of \$1.1 million for the same period in 2015. Deferred income taxes reduced our net income by \$0.4 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 \$0.9 million for the quarter, compared to net income of \$0.8 million for the same period in 2015.

For the year-to-date, our income before taxes was \$3.8 million, compared to \$2.5 million for the same period last year. Our nine-month net income was reduced by deferred income taxes of \$1.0 million. As a result, we recorded net income of \$2.8 million this year, compared to \$1.9 million for the same period last year.

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*Basic and Diluted Earnings per Share*

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

For the quarter ended September 30, 2016, basic and diluted earnings per share were both \$0.10, unchanged from Q3 2015. In the third quarter of 2016, the basic and diluted weighted average number of shares outstanding were 9,016,313 and 9,102,422, compared to 8,264,990 and 8,411,255, respectively, in Q3 2015.

For the nine months ended September 30, 2016, basic and diluted earnings per share were \$0.31, up from \$0.26 during the same period in 2015. For the year-to-date, the basic and diluted weighted average number of shares outstanding were 9,013,160 and 9,107,275, compared to 7,250,667 and 7,386,854, respectively, last year.

*Other Comprehensive Income*

Gains or losses on our revenue hedges that will mature in future periods are recorded in other comprehensive income, net of income tax expense. Other comprehensive income net of tax for the year-to-date was \$1.2 million. There was no other comprehensive income in 2015, as it was prior to the adoption of hedge accounting.

**Non-IFRS Measures***EBITDA*

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

We define EBITDA as net income before interest, depreciation, amortization, impairments, share-based compensation, gains/losses on foreign exchange, gains/losses on disposal of capital equipment, one-time costs, and provision for income taxes. Our definition of EBITDA also reflects unrealized gains and losses on foreign exchange forward contracts.

Historically, we have used 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. However, it is affected by volatility in the NY'C' and the US\$/C\$ exchange rate. With the adoption of hedge accounting, prior year comparisons are more difficult. As such, we believe that cash from operations before changes in non-cash working capital accounts is a more reliable measure of year-over-year cash flows.

The reconciliation of net income to EBITDA is as follows:

(In \$000s)  
(unaudited)

	3 months ended September 30, 2016	3 months ended September 30, 2015	9 months ended September 30, 2016	9 months ended September 30, 2015
Income for the period	\$ 879	\$ 818	\$ 2,820	\$ 1,884
Income taxes	396	243	1,002	590
Income before tax	1,275	1,061	3,822	2,474
Finance (income) expense	(50)	(15)	(188)	24
Depreciation & amortization	526	323	1,458	1,103
Unrealized (gain) loss on foreign exchange forward contracts	(519)	1,346	(1,147)	2,171
(Gain) loss on foreign exchange	202	231	(24)	678
Share-based compensation	81	28	(147)	542
One-time costs	-	-	95	-
<b>EBITDA</b>	<b>\$ 1,515</b>	<b>\$ 2,974</b>	<b>\$ 3,869</b>	<b>\$ 6,992</b>

EBITDA for the three months ended September 30, 2016 was \$1.5 million, down by 49% from \$3.0 million in Q3 2015. Lower gross profit and higher selling and administrative expenses drove the decline. In addition, EBITDA for Q3 2015 included \$0.4 million in gains on green coffee sales, owing to a strengthening US\$ between the time we bought inventory, and the time we sold it.

EBITDA for the year-to-date totaled \$3.9 million, compared to \$7.0 million for the same period last year. Last year, gains of \$0.5 million on commodity futures contracts for coffee to be sold in future periods (purchase commitments and inventory on hand) were included in EBITDA, as we were not using hedge accounting. In addition, EBITDA for the nine months ended September 30, 2015 included \$1.5 million in gains on green coffee sales owing to the strengthening US\$ between the time we bought inventory, and the time we sold it. Lower processing volumes and higher operating costs comprise the balance of the year-over-year decline.

### Quarterly Information / Seasonality

The following table summarizes results for each of the eight most recently completed fiscal quarters. For comparative purposes, we have also provided the averages for both the previous 12-quarter and 8-quarter periods:

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

	12 Quarter Average	8 Quarter Average	Q3 2016	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015	Q4 2014
Sales	18,758	20,322	20,752	18,074	20,653	21,401	20,454	20,242	21,547	19,456
Gross profit	2,789	2,922	3,219	2,601	3,017	3,166	3,563	1,986	2,602	3,221
Operating Income	1,151	1,093	1,330	999	1,162	753	2,110	198	814	1,375
EBITDA <sup>(1)</sup>	1,681	1,876	1,515	1,000	1,358	1,043	2,974	967	3,043	3,109
Net income (loss)	633	727	879	758	1,188	(572)	818	311	758	1,672
Cash Flow from Operating Activities <sup>(2)</sup>	1,953	2,325	4,001	632	1,449	2,401	2,585	1,631	2,795	3,102
<b>Per share<sup>(3)</sup></b>										
Net income (loss) - basic and diluted	0.08	0.09	0.10	0.08	0.13	(0.06)	0.10	0.05	0.11	0.25

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

(2) Excluding movements in non-cash working capital

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

### Liquidity and Capital Resources

#### Cash Flow from Operations

For the nine months ended September 30, 2016, we generated \$6.1 million in cash from operations before changes in non-cash working capital, compared to \$7.1 million in 2015.

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Changes in non-cash working capital accounts used \$3.2 million of cash for the year-to-date, compared to cash used of \$6.1 million for the same period in 2015. Overall, our net cash generated from operations after changes in non-cash working capital was \$3.1 million for 2016, compared to \$0.9 million last year.

#### *Investing Activities*

Capital expenditures for the year-to-date were \$4.3 million, compared to \$0.8 million in the same period last year. This year, our capital costs included investments in support of our expansion plans, as well as capacity upgrades to our current facility to accommodate increased forecasted demand (see the 'Outlook' section below for more information).

#### *Financing Activities*

During the nine months ended September 30, 2016, we paid \$1.7 million in dividends to shareholders, up from \$1.3 million during the same period last year. The change was due to the increased number of shares outstanding, which rose following the equity offering we completed during the third quarter of 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\$6.0 million foreign exchange and commodity futures contract facility. This allows us to enter into spot, forward and other foreign exchange rate transactions with our bank with a maximum term of 36 months.

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

We have certain bank covenants which relate to the maintenance of specified financial ratios and we were in compliance with all covenants as at September 30, 2016.

#### *Inventory*

Our inventory decreased 29% by volume and 18% by value between December 31, 2015 and September 30, 2016. Inventory was higher at the end of last year as we prepared for a month-long shut down of one production line in Q1 2016.

With the adoption of hedge accounting, gains/losses on derivative instruments for coffee to be sold in future periods are now recorded in inventory. The hedge accounting component of inventory as at September 30, 2016 was \$0.9 million, reflecting the run-up of the NY'C' in the period.

#### *Accounts Receivable*

Our accounts receivable have increased \$4.1 million or 57% between December 31, 2015 and September 30, 2016. This reflects a significant new trend in the coffee industry in which large coffee roasters are demanding longer accounts payable terms from their suppliers. As a result, we have extended payment terms to a number of our larger customers, such that our days sales outstanding has increased to 51 days from 31 days at the end of 2015. We expect this trend to continue, and as such we will have more cash

invested in working capital. This trend is also impacting our customers, and we believe it has contributed to reduced orders from importers in 2016 as the industry adapts to these new payment terms.

### *Contractual Obligations*

The following table sets forth our contractual obligations and commitments as at September 30, 2016:

*(In \$000s)*

*(unaudited)*

	<b>Total</b>	<b>Less than 1 year</b>	<b>1-3 Years</b>	<b>4-5 Years</b>	<b>Over 5 Years</b>
Leases <sup>(1)</sup>	\$ 14,410	\$ 1,033	\$ 3,793	\$ 3,165	\$ 6,419
Purchase obligations <sup>(2)</sup>	28,501	28,444	57	-	-
<b>Total contractual obligations</b>	<b>\$ 42,911</b>	<b>\$ 29,477</b>	<b>\$ 3,850</b>	<b>\$ 3,165</b>	<b>\$ 6,419</b>

(1) Minimum obligations for our facilities leases.

(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.

Seaforth leases a warehouse for its primary operations; this lease expires on June 30, 2019. In addition, Seaforth has a short-term lease on a small facility that expires October 31, 2016.

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

In Q3 2016, SWDCC signed a lease agreement for a build-to-suit production facility. The lease has an initial term of five years, and can be renewed at SWDCC's option in five-year increments up to a total of 30 years. The lease will commence the earlier of the date of opening of the SWDCC business in any part of the premises, and the date of expiry of the fixturing period, which is estimated to be December 1, 2017. Under the lease, SWDCC has multiple options to buy-out the lease starting at the end of the second five-year term. The buy-out value will be equal to the fair market value of the property as determined by an appraisal process, subject to specified maximum and minimum values.

The lease also includes a construction management agreement for the construction of the highly specialized building to house the production plant. The landlord will finance this portion of the building, with loan payments commencing on the earlier of substantial completion of construction and January 1, 2019. The loan is repayable in equal monthly installments over 15 years, and can be prepaid without penalty at any time.

### **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 Ten Peaks Director Roland Veit. In addition, 2015 amounts include sales and purchases from former Director Alton McEwen<sup>1</sup>.

The following tables summarize related party sales and purchases during the three and nine-month periods ending September 30, 2016:

(In \$000s)

(unaudited)

	3 months ended		3 months ended		9 months ended		9 months ended	
	September 30, 2016		September 30, 2015		September 30, 2016		September 30, 2015	
Sales - Roland Veit	\$	215	\$	232	\$	374	\$	923
Sales - Alton McEwen		-		64		-		959
Total	\$	215	\$	297	\$	374	\$	1,882

(In \$000s)

(unaudited)

	3 months ended		3 months ended		9 months ended		9 months ended	
	September 30, 2016		September 30, 2015		September 30, 2016		September 30, 2015	
Purchases - Roland Veit	\$	901	\$	1,136		3,243		3,049
Purchases - Alton McEwen	\$	-		23		-		322
Total	\$	901	\$	1,158	\$	3,243	\$	3,371

All transactions were in the normal course of operations and were measured at the fair value of the consideration received or receivable, which was established and agreed to by the related parties. As at September 30, 2016, our accounts receivable balances with these companies were \$0.1 million (December 31, 2015 – \$0.2 million) and our accounts payable balances with these companies were \$0.1 million (December 31, 2015 - \$0.6 million).

### OUTLOOK

Our results for the first nine months of this year were impacted by the rising coffee commodity price and slower than expected demand. As discussed above, the higher NY'C' and the adoption of new payment terms by a number of larger roasters is impacting the ability of importers to carry as much inventory, and has resulted in reduced demand from this segment of our customers.

At this time, we expect volumes for the fourth quarter to be higher compared to Q4 2015. Nevertheless, the overall increase is not expected to be sufficient to fully offset the lower volumes recorded earlier in the year. Accordingly, we are now expecting our total processing volumes for 2016 will be 2% to 4% below 2015 levels. Overall, we expect our earnings to be higher than in 2015, largely due to the adoption of hedge accounting which reduces volatility in our earnings. At the same time, EBITDA will be lower than in 2015. Certain factors that contributed to our EBITDA last year, including gains on commodity futures, and foreign exchange gains on the sale of green coffee, are not expected to be replicated this year.

<sup>1</sup> 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.

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Looking ahead, we remain confident that the growth trends we see in the marketplace, such as larger food service companies improving the quality of their ingredients in response to consumer demand, will continue to benefit our business.

In addition, we believe that more roasters and importers will convert to the 100% chemical free SWISS WATER® Process in 2017. As noted earlier, on July 1, 2016 the US FDA made public a decision to revoke a competitor's organic status after it found methylene chloride, which is prohibited for use in organic agriculture, on its decaffeinated organic coffee. We anticipate that this will have a significant ripple effect throughout the industry, and result in additional customer conversions to the SWISS WATER® Process.

Our unbending commitment to 100% chemical free processing, and to preserving the unique quality of fine coffees through the decaffeination process, are already well recognized, valued and respected by the coffee trade and our customers. Accordingly, we believe our reputation for excellence will continue to drive incremental growth in SWDCC's decaffeination business in 2017 and beyond.

In anticipation of substantial growth in the medium term, we are building a new state-of-the-art production facility to be completed in 2018. During the third quarter, we finalized a lease for a build-to-suit facility to be located in Delta, BC. The facility's processing area will accommodate up to two production lines, and the 100,000 square foot building will also include offices, a state-of-the-art lab, and a coffee warehouse. The site is large enough to accommodate additional growth in the future. The new plant is expected to be operational in mid to late 2018. It will be leased to SWDCC for an initial term of five years, and will include multiple renewal periods, as well as multiple options to purchase the land and building at specified future dates. As this will be a purpose-built facility, the lease will be accounted for as a financing lease.

In October, we announced the completion of a \$15 million convertible debenture debt issue to finance the construction of our new production line. With this financing complete, we are now well-positioned to expand our capacity over the next two years.

## **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 decaffeimators, 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).

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## CRITICAL ACCOUNTING ESTIMATES

Information on our critical accounting estimates is disclosed in our 2015 annual MD&A. There have been no material changes to our critical accounting estimates from what was disclosed at that time.

## CHANGES IN ACCOUNTING STANDARDS

We have early adopted the new accounting standard *IFRS 9 – Financial Instruments* with a date of initial application of January 1, 2016. This new financial instruments standard replaces IAS 39 for classification and measurement of financial assets and liabilities, and provides new standards for hedge accounting. We have implemented hedge accounting concurrent with the implementation of IFRS 9. Under hedge accounting, the effective portion of our gains and losses on derivative instruments for designated hedges are now included in our revenues and cost of sales in the period in which the hedged item (revenue or inventory, for example) is recognized in our income statement. The gains and losses from the ineffective portion of the hedging instruments continue to be reported under gains and losses on derivative instruments. In addition, gains and losses on designated hedges for sales that will occur in future periods are now held on the balance sheet, such that gains and losses on derivatives are now better matched to the hedged instruments. Refer to note 3 of our interim unaudited condensed consolidated financial statements for the third quarter of 2016 for additional information.

The following standards became effective for annual periods beginning on or after January 1, 2016, with earlier application permitted.

- *IFRS 9*: As noted above, we have early adopted all of the requirements of IFRS 9 Financial Instruments (2014) as of January 1, 2016.
- *IFRSs (Amendment): The annual improvements to IFRSs 2012-2014*.
- *Investment Entities (Amendments to IFRS 10: Consolidated Financial Instruments, IFRS 12: Disclosures of Interests in other entities, and IAS 28: Investments in Associates and Joint Ventures)* to address issues that have arisen in the context of applying the consolidation exception for investment entities, which will become effective for annual periods beginning on or after January 1, 2016.
- *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.
- *IAS 1 (Amendments)*: clarification to address perceived impediments to preparers exercising their judgment in presenting their financial reports. The amendment will be effective for annual periods beginning on or after January 1, 2016.
- *IAS 16 and 38 (Amendments)*: clarification of Acceptable Methods of Depreciation and Amortization, applicable to annual periods beginning on or after January 1, 2016.

We have adopted these amended standards and interpretations, and we assessed that there was no impact on our condensed consolidated interim financial statements, other than the application of IFRS 9 – *Financial Instruments*, which is detailed above.



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

As management, we maintain disclosure controls and procedures designed to provide reasonable assurance that information required to be disclosed in our annual filings, interim filings and other reports filed or submitted under securities legislation are recorded, processed, summarized, and reported within the required time periods. The Chief Executive Officer (“CEO”) and the Chief Financial Officer (“CFO”), after evaluating the effectiveness of our disclosure controls and procedures as of September 30, 2016, have concluded that disclosure controls and procedures, as of such date, were effective to provide reasonable assurance that information required to be disclosed by us that we file or submit, is (i) recorded, processed, summarized and reported within the time periods as required, and (ii) accumulated and made known to management, including our CEO and CFO, to allow timely decisions regarding required disclosure.

Management is responsible for establishing and maintaining adequate internal controls over financial reporting (“ICFR”) to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Under the supervision and with the participation of management, including the CEO and CFO, we conducted an evaluation of the design and effectiveness of our ICFR as of September 30, 2016, based on the updated framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO 2013”). Based on this evaluation, we have concluded that, as of September 30, 2016, Ten Peaks maintained effective ICFR.

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

There were no changes in our ICFR that occurred during the period beginning on July 1, 2016 and ended on September 30, 2016 that have materially affected, or are reasonably likely to materially affect, Ten Peaks’ ICFR.

**SUBSEQUENT EVENTS***Payment of Dividend*

Ten Peaks paid an eligible dividend of \$0.0625 per share on October 15, 2016 to shareholders of record on September 30, 2016.

*Convertible Debt Issuance*

In October 2016, Ten Peaks raised gross proceeds of \$15 million by way of private placement of an unsecured convertible debenture. The convertible debenture bears interest at a rate of 6.85% over its 7-year term and is convertible into Common Shares of the Company at a conversion price of \$8.25 per Common Share. Under the terms of the agreement, Ten Peaks will have the option to pay interest-in-kind for the first two years. If elected, this option will increase the principal sum by the interest owing. The convertible debenture also contains a net share settlement feature that allows Ten Peaks, upon conversion, to elect to pay cash equal to the face value of the convertible debenture and to issue Common Shares equal to the excess value of the underlying equity above the face value of the convertible debenture. If the net share settlement option is elected, it will result in fewer Common Shares being issued by Ten Peaks.