

Ten Peaks Coffee Reports Results for Third Quarter and Year-to-Date

Expanded Margins Boost Nine-Month Gross Profit, Operating Income & Net Income

VANCOUVER, BC / ACCESSWIRE / November 9, 2016 / Ten Peaks Coffee Company Inc. ("Ten Peaks" or "the company") today reported financial results for the three and nine months ended September 30, 2016. The three-month period represents the third quarter of the company's 2016 fiscal year. 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"), the company's green coffee handling and storage subsidiary. SWDCC is a premium green coffee decaffeinator located in Burnaby, BC, which employs the proprietary SWISS WATER® Process to decaffeinate green coffee without the use of chemicals. It is the company's primary business, and the results reported here reflect SWDCC's operating performance.

Ten Peaks Coffee Company Inc. will hold a conference call to discuss its financial results for the three and nine months ended September 30, 2016 **today, November 9th at 9:00 am Pacific Time (12:00 pm Eastern Time)**. To participate, please dial 1-800-862-7924 (toll free) or 1-785-424-1047 (international) approximately five minutes before the call and provide the company name. A replay will be available through November 23rd at 1-877-481-4010 (toll free) or 1-919-882-2331 (international) passcode: 10147.

For the nine months ended September 30, 2016, Ten Peaks' gross profit, operating income and net income were all up over the same period last year, with margin expansions more than offsetting a decline in processing volumes. Nine-month revenue and EBITDA were down, largely due to lower volumes

<i>(In \$000s except per share amounts)</i> <i>(unaudited)</i>				
	3 months ended September 30, 2016	3 months ended September 30, 2015	9 months ended September 30, 2016	9 months ended September 30, 2015
Sales	20,752	20,454	59,478	62,241
Gross profit	3,219	3,563	8,835	8,148
Operating Income	1,330	2,110	3,490	3,121
EBITDA ⁽¹⁾	1,515	2,974	3,869	6,992
Net income (loss)	879	818	2,820	1,884
Cash Flow from Operating Activities ⁽³⁾	4,001	2,585	6,083	7,073
Per share⁽²⁾				
Net income (loss) - basic and diluted	0.10	0.10	0.31	0.26

1. EBITDA is calculated and defined in the section on 'Non-IFRS Financial Measures' below.
2. Per-share calculations are based on the weighted average number of shares outstanding during the period.
3. Excluding movements in non-cash working capital.

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 a rising coffee commodity price ("NYC"). 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%.

SWDCC's customers can also be categorized into two groups – coffee importers and roasters – by the nature of their business. 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 SWDCC in order to resell its 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 of green coffee than importers, as roasters tend to take delivery of green coffee shortly before roasting it. During the first nine months of 2016, volumes shipped to importers declined by 18%, while shipments to roasters were flat. This suggests that importers have been reducing their inventory as the NYC' has increased.

During Q3 2016, the NYC' averaged US\$1.46/lb, up by 19% compared to US\$1.23 in the same period last year. For the year-to-date, the NYC' averaged US\$1.31, compared to US\$1.36 in the first nine months of last year. The coffee price declined steadily throughout 2015, causing customers to add to their inventory positions as the price declined. Conversely, when the price rises like it did between March 1st and September 30th of this year, customers tend to delay ordering. In addition, as the NYC' increases, customers tend to operate with less inventory on hand in order to manage their working capital.

"The industry is experiencing a period of declining inventories in 2016 in direct contrast to 2015 when inventories were increasing," said Frank Dennis, President and CEO of Ten Peaks. "The New York C has increased from approximately \$1.20 in December 2015 to over \$1.50 in September. This run-up is coupled with increasing demands from large roasters for much longer payment terms when they buy coffee. In our estimation this environment is significantly stretching working capital requirements and the result is that we as most importers in our sphere are seeing softer volumes for 2016."

Revenue for Q3 2016 was \$20.8 million. This was up by 1% on a year-over-year basis, due to the higher NYC' during the period. For the year-to-date, revenues declined by 4% to \$59.5 million, primarily due to lower processing volumes. The negative impact of the lower volumes was partially offset by a stronger US dollar ("US\$"), as 70% of SWDCC's year-to-date sales were denominated in US currency. During the first nine months of 2016, the US\$ averaged \$1.32, up by 5% over the same period last year.

During the third quarter, process revenue (the amount SWDCC charges its customers for decaffeinating green coffee beans) declined by \$0.3 million, or 6%, due to lower volumes. Green revenue (the amount SWDCC charges its customers for the green coffee purchased for decaffeination) increased by \$0.6 million, or 4%, due to the NYC' being 19% higher on average compared to Q3 2015. Distribution revenue (the amount the company charges customers for shipping and handling), increased 6% despite the lower volumes, due to margin enhancement initiatives. For the year-to-date, process revenue remained flat, due to a strong US\$, revenue hedges and margin enhancement. Green revenue decreased by \$2.9 million, or 6%, due to lower sales volumes and a lower NYC'. Distribution revenue rose by 6% for the year-to-date, due to a stronger US\$ and margin enhancement initiatives.

Ten Peaks' recent financial results also reflect the company's adoption of hedge accounting effective January 1, 2016. The adoption of hedge accounting allows Ten Peaks to better align its accounting practice and results with the way the business is managed. Now, gains or losses associated with hedging instruments entered into to manage Ten Peaks' exposure to changes in the NYC' and the US / Canadian dollar exchange rate, are reflected on the statement of income directly in revenue and cost of sales. The adoption of hedge accounting reduces Ten Peaks' earnings volatility, and provides gross profit that reflects the costs/benefits of its risk management activities.

Cost of sales totaled \$17.5 million during Q3 2016, up by 4% compared to the same period in 2015. The increase primarily reflects the higher NYC', as well as increased depreciation on production equipment. For the year-to-date, 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 the company's Burnaby, BC decaffeination facility in Q1 2016. In addition, customer-specific hedges and

commodity hedges increased Ten Peak's 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 for the third quarter decreased by \$0.3 million, or 10%, 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 sales.

Sales and marketing expenses for the third quarter 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\$.

Administration expenses for Q3 and the year-to-date increased by 34% to \$1.2 million and by 4% to \$3.5 million, respectively, due to higher regulatory expenses and professional fees, and staff and staff-related expenses. Additionally, 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 in the same periods last year.

SWDCC enters into commodity futures and foreign exchange forward contracts to manage the effect of changes in the NYC' and US dollar exchange rates on the business. The company's hedging strategies have not changed with the adoption of hedge accounting. Now, however, the majority of unrealized gains/losses on derivative instruments are deferred on the balance sheet (for fair value hedges) or in other comprehensive income (for cash flow hedges) until the hedge transaction is realized. This will minimize the earnings volatility historically caused by the revaluation of derivatives instruments associated with SWDCC's risk management activities.

Overall, operating income was down by 37% to \$1.3 million for the third quarter and was up by 12% to \$3.5 million for the year-to-date.

Ten Peaks' Q3 net income increased by 8% to \$0.9 million, and its 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 the company's gross profit, operating income, and net income, compared to the same period last year.

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 inventory was bought, and the time it was sold.

EBITDA for the year-to-date totaled \$3.9 million, compared to \$7.0 million for the same period last year. As with the quarter, lower processing volumes and higher operating costs contributed to the year over year decline. 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 Ten Peaks was 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 inventory was bought, and the time it was sold. As these gains were not replicated this year, Ten Peaks' current EBITDA results are more reflective of its processing volumes rather than US\$ and NYC' market fluctuations.

Ten Peaks 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.

Outlook

During the first three quarters of this year, Ten Peaks' results were impacted by the rising coffee commodity price and slower than expected demand. Volumes for the fourth quarter are expected 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, management now expects SWDCC's total processing volumes for 2016 will be 2% to 4% below 2015 levels. Overall, earnings are expected to be higher than in 2015. This is largely due to the adoption of hedge accounting, which reduces volatility in the company's earnings. EBITDA is expected to be lower than in 2015.

"While our processing volumes are down this year, 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," said Dennis. "Additionally, we believe that more roasters and importers will convert to the 100% chemical free SWISS WATER® Process in 2017, as they become aware of the US FDA's decision to revoke a competitor's organic status due to the presence of methylene chloride on its organic coffees."

In anticipation of substantial growth in the medium term, Ten Peaks is building a new state-of-the-art production facility that will be completed in 2018. During the third quarter, a lease was finalized for a build-to-suit facility 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, Ten Peaks announced the completion of a \$15 million convertible debenture debt issue to finance the construction of its new production line. (See Convertible Debt Issuance, below, for more information.) With this financing complete, the company is now well-positioned to expand its capacity over the next two years.

Finally, management believes that Ten Peaks' strong cash flow generation, solid balance sheet and healthy liquidity will provide the financial flexibility needed to execute the planned initiatives to support the company's profitable growth.

Payment of Quarterly Dividend

On October 15, 2016, Ten Peaks paid an eligible quarterly dividend of \$0.0625 per share 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.

Non-IFRS Financial Measures

EBITDA

Management defines 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. EBITDA also reflects unrealized gains and losses on foreign exchange forward contracts.

Historically, management has 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 impacted by volatility in the NYC' and the US\$/C\$ exchange rate. With the adoption of hedge accounting, prior year comparisons are more difficult. As such, management believes that cash from operations before changes in working capital accounts is a more reliable measure of cash flows, year-over-year.

The reconciliation of net income to EBITDA is as follows:

EBITDA reconciliation
(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	-
EBITDA	\$ 1,515	\$ 2,974	\$ 3,869	\$ 6,992

Additional Information

A more detailed discussion of Ten Peaks' recent financial results and management's outlook can be found in the company's MD&A for the three and nine months ended September 30, 2016. This document, along with Ten Peaks' condensed consolidated interim financial statements, will be posted on SEDAR (www.sedar.com) and on the company's website (<http://www.tenpeakscoffee.ca>) on November 9, 2016.

Readers are cautioned that the summary information contained in this press release is not a suitable source of information for readers who are unfamiliar with Ten Peaks. This press release should be considered a precursor to, and not a substitute for, reading the financial statements and MD&A, which provide more detailed information related to the company's performance and future prospects.

Company Profile

Ten Peaks is a publicly traded 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. It also owns and operates Seaforth Supply Chain Solutions Inc. (Seaforth), a green coffee handling and storage business located in Metro Vancouver.

About SWDCC

SWDCC employs the proprietary SWISS WATER® Process to decaffeinate green coffee without the use of chemicals, leveraging science-based systems and controls to produce amazing coffee that is 99.9% caffeine free. The SWISS WATER® Process is a 100% chemical free water process for coffee decaffeination, as well as the world's only consumer-branded decaffeination process. It is certified organic by the Organic Crop Improvement Association.

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.

For more information, please contact:

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Forward-Looking Statements

Certain statements in this press release may constitute "forward-looking" statements which involve known and unknown risks, uncertainties and other factors which may cause the actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements. When used in this press release, such statements may include such words as "may", "will", "expect", "believe", "plan" and other similar terminology. These statements reflect management's current expectations regarding future events and operating performance, as well as management's current estimates, but which are based on numerous assumptions and may prove to be incorrect. These statements are neither promises nor guarantees, but involve known and unknown risks and uncertainties, including, but 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, and general economic conditions.

The forward-looking statements and financial outlook information contained herein are made as of the date of this press release and are expressly qualified in their entirety by this cautionary statement. Except to the extent required by applicable securities law, Ten Peaks Coffee Company Inc. undertakes no obligation to publicly update or revise any such statements to reflect any change in management's 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.

SOURCE: Ten Peaks Coffee Company Inc.