TEN PEAKS COFFEE COMPANY INC.

2014 ANNUAL REPORT

#we know coffee

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.

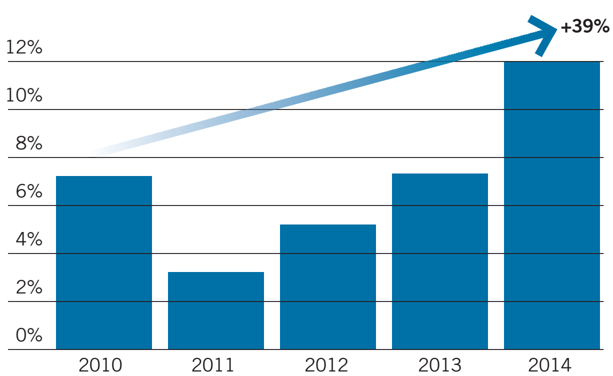
Additionally, the SWISS WATER® Process is the world's only branded decaffeination process and enjoys substantial recognition in the specialty coffee trade and with consumers.

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.

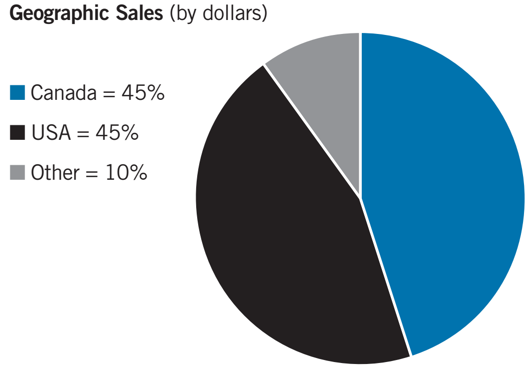
ABOUT SEAFORTH

Seaforth provides a complete range of green coffee 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's warehouse and handling operation is certified organic by Ecocert Canada.

Annual Volume Growth (as a percentage)



Geographic Sales (by dollars)



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TO OUR SHAREHOLDERS,

2014 was exceptional by any measure. All year, we steadily grew our share of the specialty coffee market, winning new accounts, increasing our shipments to existing customers and steadily expanding our global reach. As a result, our financial performance was excellent, with processing volumes up by 12%, gross profit increasing by 83% and our EBITDA and net income growing by 68% and 82%, respectively.

Notably, 2014 was the fifth consecutive year we've grown our volumes, which are now 39% higher than they were in 2009. Even more impressively, we achieved these gains despite the relatively stagnant growth of the global decaffeinated coffee market.

So, what's driving our consistent volume growth? We believe our success is the function of several factors. A dedicated, focused team of people who have spent many years (if not decades) immersed in the specialty coffee industry. A proprietary, chemical free decaffeination technology, meticulously developed in-house over the past 27 years. A complete, needs-based customer service program. A multi-faceted marketing program which leverages key insights gained through ongoing investment in independent consumer research. And, underlying it all, a genuine, company-wide desire to consistently produce and deliver amazing coffee without caffeine.

Put simply: We Know Coffee.

We Know How to Buy Coffee

If our end goal is to produce the world's finest coffee without caffeine, it's clear that the only way to get there is by starting with the world's finest green coffee beans. To ensure we do that, our coffee-buying team works closely with established, reputable coffee importers who have forged the relationships and the knowledge required to reliably deliver superior green coffee. We also constantly conduct our own evaluation of available coffees, both at home, in our state-of-the-art cupping (or tasting) lab and by visiting coffee farms and mills abroad.

To some extent, premium quality coffee can be recognized by its physical characteristics. Beans that are not too brittle or flexible, that are free from visible defects and that are relatively uniform in size and shape. A much more important indicator of exceptional quality, though, is how the coffee tastes. A great coffee from Guatemala, for example, should having tasting notes that are clean, lemony and sweet, with a hint of graham cracker. In comparison, a "washed"[1] coffee from Ethiopia should be floral with a tea-like mouthfeel and a hint of spice in the finish.

Including three Licensed Q Graders[2], our quality buying team has the specialized knowledge and experience required to identify the subtleties which signify truly exceptional coffee. They also stay current with market conditions and the prevailing tastes of our roasters and customers (which have become increasingly sophisticated in recent years). As a result, they're well-positioned to help us meet a key corporate objective: selecting and purchasing delicious, premium coffees that deliver on our promise to provide amazing coffees without caffeine.

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[1] In the "washed" coffee process, the coffee bean is removed from the coffee cherry, fermented to remove the mucilage (or sticky layer that surrounds the bean), and then dried.

[2] Licensed Q Grader: a highly trained and calibrated coffee expert who is certified to professionally grade coffee using SCAA cupping protocols.

We Know How to Decaffeinate Coffee (Without Sacrificing Taste)

While a large percentage of the world's coffee decaffeinators use methylene chloride or ethyl acetate to strip caffeine from green coffee beans, the SWISS WATER® Process relies on water from the Coastal Mountains of British Columbia, osmosis and the unique properties of carbon to gently decaffeinate green coffee.

It's a natural decaffeination method that, on that face of it, doesn't seem to have changed much since 1988 when it was first introduced to the market. In reality, however, the SWISS WATER® Process has been completely renewed over the past three decades, as scientific advancements and the painstaking work of our engineering and operations teams have been incorporated, modified and then amended again.

One person behind the ongoing development of our proprietary decaffeination technology is Kurt Dyck, our principal engineer and one of the world's leading activated carbon experts. Kurt has played a pivotal role in the evolution of the SWISS WATER® Process, making hundreds of subtle alterations to our methods, our equipment and our assumptions that, together, have had a major, measurable effect on the overall quality of our coffees.

Kurt also led the creation and refinement of our in-house carbon regeneration process – a capability that distinguishes SWDCC from every other decaffeinator, while delivering two critical benefits. First, it means we can be confident that the carbon employed in the SWISS WATER® Process always meets the high level of quality required to optimize its selection of caffeine molecules. Second, it means we can guarantee that our carbon never comes into contact with any chemicals – a crucial point both in earning organic certification and, consequently, the business of numerous organic coffee roaster-retailers.

Our adoption of Six Sigma methodologies about seven years ago has brought us even closer to systemic perfection. This disciplined, data-driven approach for process improvement has dramatically reduced variations within our process, improving the colour of the decaffeinated green coffee beans for easier roasting, and increasing freshness. Most importantly, it has improved flavour in the cup, by amplifying our carbon's ability to adsorb caffeine molecules while retaining the compounds that give each coffee its distinct flavour.

In fact, while our work to improve the SWISS WATER® Process will never stop, we can now proudly say that we produce premium decaffeinated coffee that is virtually indistinguishable from its caffeinated counterpart.

We Know How to Complement Coffee (To Help Our Customers Succeed)

While our ability to produce amazing coffee without caffeine is clearly at the heart of our business, we also work hard to provide our customers with supplementary services that make their lives easier, while helping their businesses to thrive.

One way we do that is by offering responsive, knowledgeable service at every touch point. That means that whether a potential customer calls to enquire about how to send their coffee to us for decaffeination, or a long-time account contacts us to change an order, they always receive all the help they need, right away.

Stumptown Coffee Roasters

Blog Post: SWISS WATER® has undergone huge quality improvements recently and our new Trapper Creek Decaf maintains flavor and origin characteristics in a way we've never been able to before. This is hands down the best decaf we've ever tasted and we're very excited to share it with you.

On a broader scale, we provide our large customers with Vendor Managed Inventories, or VMI. With VMI, we become a key part of our customer's supply chain, sourcing premium green coffees that meet their specifications, approving coffee on their behalf and then providing finished inventory when and where they need it.

We also help enhance our customers' businesses by holding our own inventories of high-quality decaffeinated coffees in various warehouses located close to their roasteries and by offering small batch toll decaffeination for our smaller customers.

Every day, our team consistently achieves an often intangible, yet always essential, goal. It delivers helpful, needs-based services that add real value to our customers' businesses, while effectively strengthening our own.

We Know How to Transport Coffee (Anywhere in the World)

Another highly valued service we offer is managing the logistics associated with shipping decaffeinated green coffee beans from our facility in Burnaby, BC to customer locations around the world.

A decade ago, this was a relatively easy task as the majority of our coffees were shipped within Canada or to the U.S. As we've steadily extended our market reach into Europe, Asia and South America, however, exporting our coffees has become an increasingly complex task.

That's because every new market we enter has its own procedures, duties, paperwork and culture. And, customs clearance requirements in many jurisdictions have become more cumbersome. Consequently, our logistics team is constantly learning new processes, forging new connections and even – as the first company ever to ship decaffeinated green coffee beans to one particular country – pioneering import protocols.

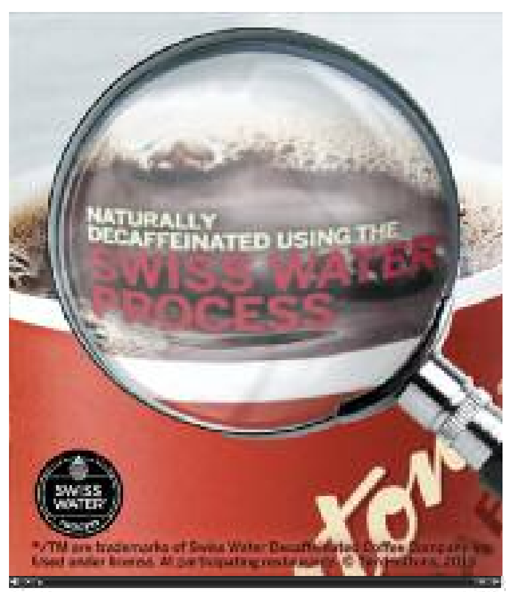
Happily, while it's frequently been difficult, painstaking work, deciphering how to ship our coffees to new markets has been well worth the effort. SWISS WATER® Process decaffeinated coffees are now available in 25 countries around the world.

We Know How to Market Coffee (To Coffee Lovers Everywhere)

In our digital world, there are myriad ways for a company to share its story, from Instagram feeds, to FaceBook posts, to YouTube videos. You'll find SWDCC on all of them, as well as on Twitter, Flickr, Vimeo and at swisswater.com.

We also appear in more traditional mediums. In the spring and fall of 2014, for example, we ran a flight of 10-second spots on Food Network, a popular television channel aimed at people who are passionate about great food. Our Process was also featured in a widely viewed Tim Horton's commercial, which aired during heavily watched television programs such as NHL playoff hockey games.

We employ multiple mediums because it positions us to reach an extremely diverse audience, from youthful mobile-phone addicts, to middle-aged foodies, to more senior hockey fans. However, while the available communication methods have changed dramatically over the past decade, we haven't forgotten the essence of great marketing: know your audience, understand its desires and frame your message accordingly.



To ensure we're doing that, we contracted an independent party in 2014 to conduct an in-depth, two-part "perception analysis", or customer audit, of SWDCC. During phase one of the enquiry, interviewers asked our customers about their experiences with our company and with our competitors. Their answers provided us with invaluable information, enabling us to identify which aspects of our business were most appreciated, where we needed to improve and how we could better compete against other decaffeinators.

During phase two of the audit, the researchers turned their attention to specialty coffee drinkers, probing their perceptions of SWISS WATER® Process coffees specifically and decaffeinated coffee in general. The results were quite revealing, delivering key insights into coffee lovers' thinking. They also confirmed that our marketing strategy, which seeks to separate our branded coffees from every other decaffeinated coffee, was right on track.

Our Brand Manifesto, which truly revolutionized the way we talk and think about our product, also scored well. In fact, it was the marketing equivalent of a homerun, effectively capturing the substance and spirit of what we do, while resonating strongly with our target audience. Now, we can easily convey our difference, with a simple, yet powerful, positioning statement that works across all mediums.

We Know Coffee (And Learn More Everyday)

In closing, I'd like simply to say that I am confident that our decaffeination business will continue to thrive in the near and long term.

Why? Because as I've demonstrated here, our entire team has remained steadfastly committed to advancing the capabilities of the Swiss Water Decaffeinated Coffee Company for more than a decade. As a result, our company is better than ever. Better at producing delicious, chemical free decaffeinated coffees our customers love. Better at supporting our customers throughout the decaffeination cycle. Better at effectively communicating our product's impressive qualities to the world.

And, because our commitment to continuous improvement is rooted in a genuine passion for great coffee, our desire to keep progressing never stops. Every day, we gain new knowledge, explore new ideas and discover new ways to enhance the work we do.

We Know Coffee – and we're only getting better with time.

On behalf of the Board,

Frank Dennis
President and CEO


WE CRAVE COFFEE
THAT'S AMAZING, NOT JUST ADEQUATE
COFFEE WORTH GETTING EXCITED ABOUT, NOT JUST EXCITED BY.
COFFEE THAT MAKES OTHER COFFEES TURN AND STARE.
SO WE EXPERIMENT, ANALYZE, INNOVATE.
COFFEE WITHOUT THE CAFFEINE CAN BE JUST AS HEADY AND IT SHOULD NEVER APOLOGIZE FOR ANYTHING.
WE'VE TRANSFORMED DECAF FROM COMMODITY TO CULINARY.
WE ARE IMPORTERS, ROASTERS, BARISTAS, COFFEE LOVERS.
WE KNOW THE CARE THAT GOES INTO PRODUCING COFFEE.
WE WILL NEVER LET COFFEE DOWN.
WE ARE A SPECIALTY COFFEE COMPANY THAT SPECIALIZES IN AMAZING COFFEE WITHOUT CAFFEINE.
SWISS WATER
PROCESS

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 March 12, 2015, provides a review of the financial results for the three and 12 months ended December 31, 2014 relative to the comparable periods of 2013. The three-month period represents the fourth quarter ("Q4") of our 2014 fiscal year. This MD&A should be read in conjunction with the Company's 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, 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

2014 was a record year for Ten Peaks. Revenues exceeded $66 million, reflecting substantial growth in volumes, a strong US dollar and a relatively high coffee commodity price (or "NY'C'"). Processing volumes rose by 12% over 2013, driven by significant ongoing growth in the specialty regional market, as well as year-over-year increases in business with our national accounts. Our annual gross profit increased 83% over 2013, markedly boosting our net income and EBITDA.

2014 was the fifth consecutive year of increasing volumes, which are now 39% higher than they were in 2009. During this time, we have dramatically grown our market share in the United States, added new business in international markets, and continued to grow with our Canadian customers. Our volumes rose significantly in the US and international markets in 2014, demonstrating a broad-based expansion of our business. Our notable increase in processing volumes is a direct result of Ten Peaks' growth strategy, which is centered around a commitment to delivering superior quality coffees, a 100% chemical free water decaffeination process and exceptional customer service.

Our higher-margin specialty regional accounts continued to drive our growth in 2014, with volumes to this customer group up by 29% over 2013 levels. This is the fourth straight year of double-digit growth in our specialty regional business (which grew by 17% in 2013, 18% in 2012 and 29% in 2011). Our national accounts business also increased during 2014, with volumes to these customers increasing by 6%.

The NY'C' rose throughout the first nine months of 2014, easing off somewhat in the fourth quarter. This increased our revenues and our gross profit, as we sell coffee based on the current market price, which was higher than our purchase price for much of 2014.

In accordance with our risk management practices, we hedge changes in coffee commodity prices and the US-Canadian dollar exchange rates. The rising NY'C' in 2014 generated net losses on our coffee futures contracts of $0.5 million, compared to net gains of $0.8 million in 2013. We also recorded a realized loss of $0.1 million on our foreign exchange forward contracts in 2014, compared to a realized gain of $0.1 million in 2013.

The improvement in our financial results boosted performance-based compensation and increased our stock-based compensation expenses for 2014. Professional fees and IT-related expenses were also up, as we adopted a new enterprise resource planning system during the year. As a result, our operating expenses were higher than during 2013.

EBITDA increased by 68% during 2014 to $7.1 million. The gain was driven by higher gross profit, which was partially offset by our increased operating expenses and by losses on commodity futures. Similarly, net income grew by 82% compared to 2013.

Our cash from operations before changes in working capital accounts rose by $1.1 million over the 2013 level. Increased inventory levels owing to a rising NY'C', a stronger US dollar and the additional green coffee needed to facilitate our higher sales, together with higher accounts receivables related to increased sales, consumed cash in the year. Overall, we used $1.7 million in cash for operating activities, compared to cash generation of $5.7 million in 2013. The increased working capital requirements boosted our net debt (bank indebtedness less cash) to $6.9 million, up by $4.7 million from the end of 2013.

Finally, in 2014 we paid $1.7 million in eligible dividends to shareholders, which is unchanged from 2013. We have paid a quarterly dividend of $0.0625 per share for the past 16 quarters.

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 December 31, 2014, the consolidated financial statements of Ten Peaks included the accounts of Ten Peaks; our wholly owned subsidiaries SWDCC and Seaforth; and two wholly owned subsidiaries of SWDCC, Swiss Water Decaffeinated Coffee Company USA, Inc., and Swiss Water Process Marketing Services Inc. Inter-company accounts and transactions have been eliminated on consolidation.

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

SWISS WATER DECAFFEINATED COFFEE COMPANY'S BUSINESS

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

We also decaffeinate coffee owned by our customers for a processing fee under toll arrangements (our "toll" business). The value of the coffee processed under toll arrangements does not form part of our inventory, our revenue or our cost of sales. Revenue from toll arrangements consists entirely of processing revenue. In 2014, approximately 21% 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.

Business Strategy

SWDCC seeks to maintain and enhance profitability and cash from operations by pursuing the following business strategies:

- *Offer Superior Quality, 100% Chemical Free Decaffeinated Coffees* – We support our premium brand position by offering superior quality coffees. This starts with buying premium Arabica coffees from top exporters and importers, as the quality of the green coffee directly affects the quality of the finished product. We then ensure the quality and integrity of the original green coffee is maintained throughout our proprietary production process. We use the HACCP (hazard analysis critical control points) system to manage our food safety and quality assurance programs. In addition, our proprietary carbon management technology captures caffeine while protecting the coffee's body and flavour characteristics. Finally, because we control all aspects of caffeine removal, we can ensure that our process remains 100% chemical free and that our carbon and our green coffee extract never come into contact with methylene chloride. We believe this is an important and relevant competitive distinction that underscores the integrity of our chemical free positioning.
- *Continuously Improve our Production Process* – We are committed to continuous improvement throughout our production process, and to leading the coffee industry in the science of decaffeination. This allows us to further enhance our proprietary process and provide superior quality coffees to our customers. Through Six Sigma methodologies, statistical process controls and lean manufacturing initiatives, we have dramatically improved our production process, thereby improving our production efficiencies, while reducing defects. In addition, these improvements have allowed us to make tangible improvements to the quality of the coffee we process. SWISS WATER® Process decaffeinated green coffees now more closely resemble regular green coffees, which makes it much easier to visually gauge roast level and stage during the roasting process. Additionally, improvements we have made to our proprietary carbon renewal process have resulted in notable improvements at the "cupping", or tasting, table. Due to better retention of chlorogenic and amino acids (naturally occurring acids and antioxidants in green coffee which form a key part of a coffee's taste profile) our coffees have better body and flavour than ever before.
- *Create Consumer Demand by Developing Brand Awareness* – Strong brand awareness levels, premium quality and consumer demand encourage retailers to carry decaffeinated coffee products bearing the SWISS WATER® Process brand name. Therefore, we strategically invest in a range of cost-effective initiatives designed to enhance awareness of the SWISS WATER® Process brand and our chemical free proposition, and to increase demand at the consumer level. These activities include regionally targeted media campaigns; public relations; customer co-marketing events; social media; and website management.
- *Leverage Higher Margin Selling Proposition to Retailers* – As health-aware consumers are willing to pay a premium for healthy food options, coffee retailers can improve their margins - particularly on a by-cup or by-drink basis – simply by switching to chemical free SWISS WATER® Process coffees. This makes our sales proposition very attractive and is a key leverage point in our business development program with major roaster retailers and premium street retail accounts. In addition to higher margins, these retailers are ideally positioned to benefit from the significant value-added elements of the SWISS WATER® Process brand. These include our ongoing efforts to build brand awareness, consultative selling, extensive merchandising programs, and web-based merchandising material fulfillment and customer education tools.

Our growth strategy is working. SWDCC's processing volumes have grown in each of the past five years, with total processing volumes increasing by 39% during that time. By comparison, the overall market for decaffeinated coffees has been shrinking. This decline can be seen in the largest coffee consuming market in the world, the United States. In 2014, the total volume (measured in lbs) of decaffeinated coffee sold in US grocery stores dropped by 3.3% from 2013. This continues a 4 year trend of declining volumes in US grocery stores[1]. Our volumes to US customers have nearly doubled during the same period, demonstrating that we are winning market share in the US marketplace. By executing on our business strategy and demonstrably improving the quality of our SWISS WATER® Process decaffeinated coffees, we have consistently expanded our customer base and won back lapsed customers.

Business and Geographic Segments

During the year ended December 31, 2014, our only business segment was the decaffeination of green coffee. Due to its relatively small size, results of our Seaforth coffee-handling subsidiary are not separated out for reporting purposes. Our largest geographical market by volume was Canada, followed closely by the United States. By dollar value, 45% of our sales were to customers located in Canada, 45% were to the United States, and the remaining 10% were to other countries.

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[1] *IRI Data Coffee Category, Total US F/D/Mx, Calendar Year 2010 ending Jan 2, 2011, Calendar Year 2011 ending Jan 1, 2012, Calendar Year 2012 ending Dec 30, 2012, Calendar Year 2013 ending Dec 29, 2013, Calendar Year 2014 ending December 28, 2014*

Commodity Futures

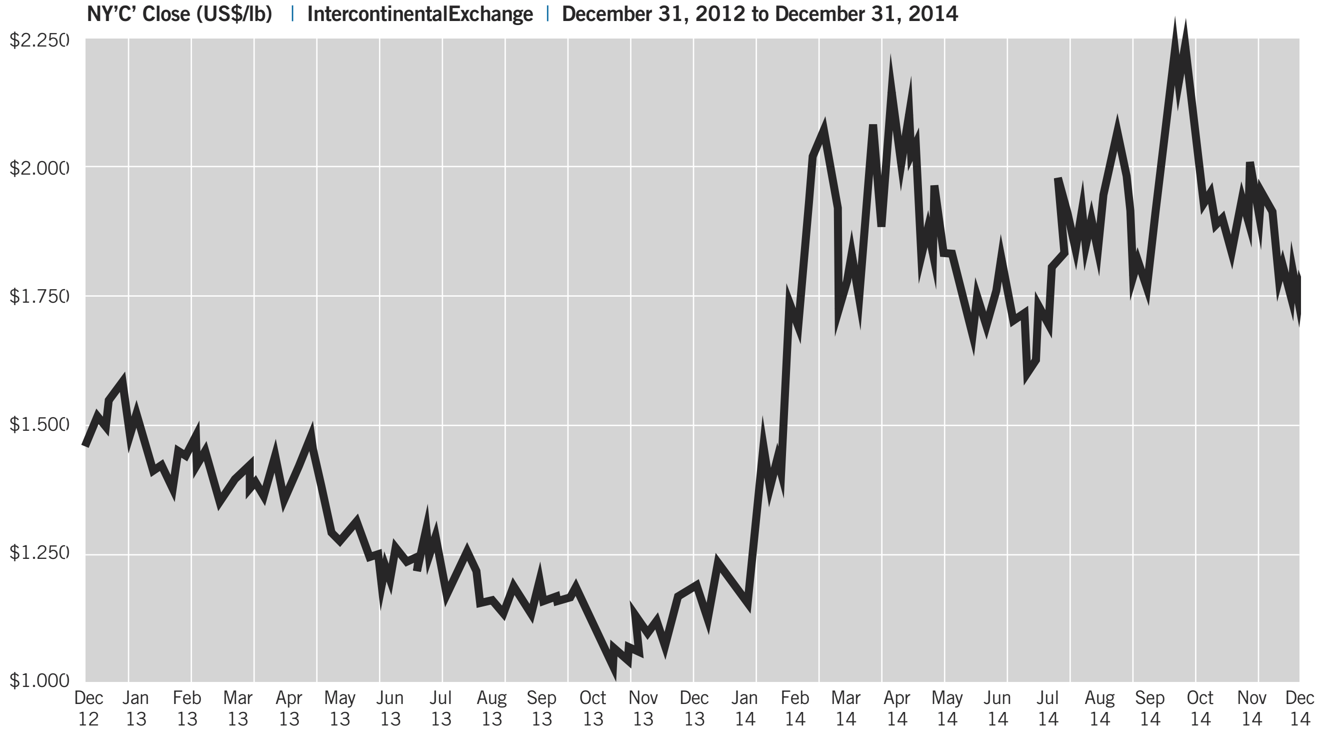
We use derivative instruments to help offset the effect of movements in the NY'C' component of coffee pricing between the time we purchase green coffee and the time we sell decaffeinated green coffee to our customers (approximately three months). Our commodity price risk mitigation strategy requires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

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

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

The chart below shows the movement in the NY'C' since December 31, 2012:

NY'C' Close (US$/lb) | IntercontinentalExchange | December 31, 2012 to December 31, 2014



As is evident in the chart above, the NY'C' rose rapidly in the first quarter of 2014 and remained relatively high for the remainder of the year. The rise 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). As Brazil is the largest coffee-producing country in the world, this has led to considerable concern and market speculation in the coffee commodity market.

The NY'C' averaged US$1.89 in the fourth quarter of 2014, up by 72% from Q4 2013. For the year ended December 31, 2014, the average NY'C' was US$1.78, up by 41% from 2013. All else being equal, a higher average NY'C' will increase the value of green coffee included in both our sales and our cost of sales. Green coffee revenues and costs of sales are also affected by the proportionate mix of our toll and regular business, the quality differentials for the specified coffees, and the US-Canadian dollar exchange rate.

Currency Forwards

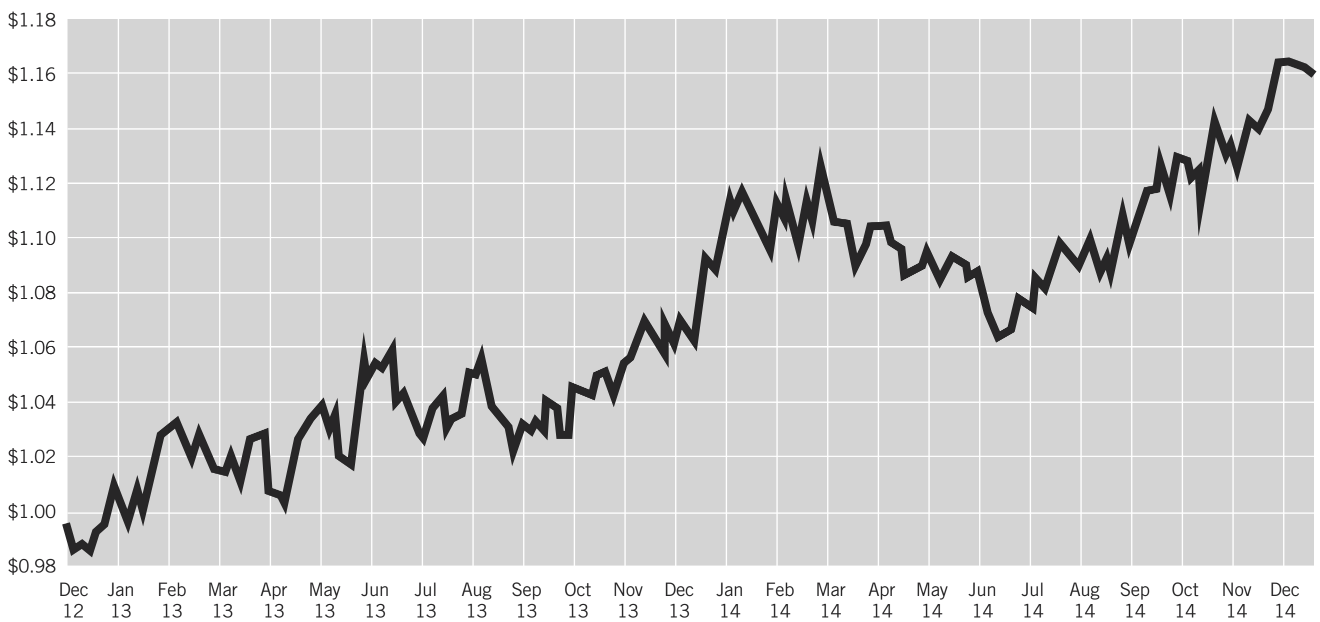
Coffee is traded in US dollars ("US$"), as buyers and sellers reference the NY'C' coffee price when entering into contracts. As a result, the majority of our revenues are denominated in US$, while a significant portion of our expenses and cash outflows occur in Canadian dollars. Therefore, our financial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

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

With cash flows hedged in this manner, we can make informed decisions about capital and operating expenditures. However, as we do not use hedge accounting, our currency hedging practices can result in significant volatility in our reported net income. This is because our US$ revenues and expenses are recognized at the exchange rates in effect at the time sales are made or expenses incurred (rather than 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 December 31, 2012:

US Dollars to Canadian Dollars | Bank of Canada Noon Rates | December 31, 2012 to December 31, 2014



The US$ averaged $1.14 in Q4 2014, up by 8% from an average of $1.05 in Q4 2013. For the 12 months ended December 31, 2014, the US$ averaged $1.10, an increase of 7% over 2013. The stronger US$ contributed to an increase in our revenues, as 73% of our 2014 sales were generated in US$, compared to 62% in 2013.

The rapid increase in the US$ in Q4 2014 also generated unrealized losses on our US$ denominated debt in the period. Similarly, it generated unrealized losses on our forward contracts. Both these items reduced our net income (as is discussed further below), but as non-cash items, did not reduce our EBITDA in the three and 12 months ended December 31, 2014.

KEY PERFORMANCE DRIVERS

The following key performance drivers are critical to the successful implementation of our strategy and ability to improve profitability and cash from operations:

External Factors

- *US-Canadian Dollar Exchange Rates* – As noted above, the majority of our revenues are generated in US dollars, while a significant portion of our costs are paid in Canadian dollars. We therefore have exposure to changes in the US-Canadian dollar exchange rates. This is managed, in part, through derivative financial instruments. All other factors being equal, our profitability and cash from operations will be higher when the US dollar appreciates relative to Canadian dollar. A long-term depreciation of the Canadian dollar will improve our long-term profitability and cash generation.
- *Coffee Commodity Prices* – We buy and sell coffees based on the NY'C' and the quality differentials for specified coffees, both of which rise and fall in response to changes in supply and demand. We manage our exposure to changes in the NY'C' coffee price on the value of our inventories through a commodity hedging program (discussed under 'Commodity Futures' above), but cannot hedge our exposure to changes in quality differentials.

Under IFRS, we do not mark our inventory to market. Thus, an increase in the NY'C' will increase the market value of our inventory, but will not result in an increase in our stated inventory value on our statement of financial position. However, a significant drop in the NY'C' could result in an impairment in the value of our inventory under IFRS (if it resulted in a lower net realizable value for our inventory). This impairment could subsequently be recovered at a later date with an offsetting increase in the NY'C'.

In addition to the price risks associated with holding coffee inventories, our sales volumes, revenue and cost of sales are affected by changes in the underlying commodity price. In a period of rapidly rising coffee prices, we expect to sell less coffee as customers postpone coffee purchases and consume inventories. Commodity price increases also raise the green coffee cost recovery revenue generated through our non-toll business, as well as the costs of green coffee sold to customers to generate sales. When the NY'C' rises over an extended period of time, we expect our gross profit to increase, as we sell coffee at higher prices than we purchased it at. As our gross margin is heavily influenced by changes in the coffee commodity price, when reviewing performance in any given reporting period, we focus primarily on the absolute dollar amount of gross profit generated and not on gross profit as a percentage of sales.

Increases in coffee commodity prices also affect our statement of financial position. When coffee prices rise, our inventory values gradually increase (as we replace coffee at higher prices), as do our accounts receivable. This increases the amount of working capital used in our business, and thus our bank debt also tends to rise. At the same time, our accounts payable increase with higher coffee prices.

Finally, there is no open market to hedge the quality differential component of our green coffee cost. We sell coffee at replacement quality differentials, and as such, in a period of falling (rising) differentials we will generate differential cost recovery losses (gains), as green coffee revenues will be less than (exceed) green coffee costs.

Internal Factors

- *Process Volumes* – Our decaffeination facility generates a certain level of fixed operating costs that are incurred regardless of the volume of coffee processed. Accordingly, our profitability and cash from operations will increase as processing volumes increase. Processing volume is a key performance indicator ("KPI") that we monitor continuously.
- *Process Consistency* – As discussed in the 'Business Strategy' section above, we manage our operations in order to reduce variability in production and drive continuous improvement. Production consistency results in improved product quality. We have developed a number of KPIs designed to monitor process consistency, and have set targets for continuous process improvement.

- *Product Quality* – Quality control is a key part of our operations. We use the HACCP (hazard analysis critical control points) system to manage our food safety and quality assurance programs. All green coffees delivered to our processing facility are weighed and inspected and are subject to rigorous internal quality-control evaluations. Each lot of green coffee processed is monitored throughout the decaffeination process, and a certificate of analysis is prepared for each lot. A sample from each production lot is also roasted, brewed and cupped to ensure quality. In addition, our focus on reducing the size of production lots and increasing inventory turnover results in fresher coffee being provided to our customers. Production batch size and inventory turns are two other KPIs that we monitor regularly.
- *Employee Safety* – We are focused on operating our business in a safe manner, and reducing the likelihood that employees will be injured at work. We track employee safety metrics by department, and our safety committee proactively seeks ways to reduce the risks inherent in our operating environment. While we cannot completely eliminate workplace incidents or accidents, we have significantly reduced the number of safety-related incidents over the past four years. We believe that ensuring employee safety leads to improved employee retention and morale, increased efficiency and lower operating costs.
- *Environmental Responsibility* – We are committed to operating in a safe and environmentally responsible manner. Each month, a number of environmental measures are tracked to ensure that we are in compliance with environmental requirements.

CAPACITY TO DELIVER RESULTS

The following resources allow us to deliver on our business strategy:

- *Proprietary Chemical Free Production Lines* – We have two decaffeination production lines. This enables us to align our production capacity with changes in demand throughout the year. We operate one line when demand is lower, and both lines when demand is higher, giving us better control over our variable costs. Our 100% chemical free production process is proprietary, and our commitments to leading the coffee industry in the science of decaffeination and to continuous improvement helps ensure that we maintain a competitive advantage.
- *Consumer Branding as the Premium, 100% Chemical Free Method of Decaffeinating Green Coffee* – We have been successful in establishing our brand as a leading chemical free processor of green decaffeinated coffee. Consumers and participants in the coffee trade are increasingly aware of the value of the chemical free SWISS WATER® Process due to its quality and taste. We believe that there is significant potential to continue to broaden consumer awareness of the benefits of the SWISS WATER® Process.
- *Established Customer Base* – The SWISS WATER® Process has an established customer base across North America and in many international markets. Our customers include some of North America's largest roasters, roaster retailers and leading coffee brands.
- *Broad Distribution Channels* – Green coffee decaffeinated using the SWISS WATER® Process is sold through the coffee market's key distribution channels: roaster retailers, commercial roasters and coffee importers. This diversity ensures that we access all key segments of the specialty coffee trade and consumer coffee markets.
- *Working Capital* – We have sufficient lines of credit available to invest in the inventory required to execute on our business strategy, and in the capital equipment required to maintain and improve our production process. Cash from operations is used to fund investments in building consumer awareness of the SWISS WATER® Process brand, to pay other operating expenses and to pay dividends to our shareholders.
- *Management Expertise* – Ten Peaks is highly regarded in the coffee industry for our senior management team's substantial experience, our close attention to consumer trends in the specialty coffee market, and our in depth knowledge of green and roasted coffee. In particular, our intense focus on premium product quality and commitment to science-driven insight is well recognized. To maximize these strengths, we have invested significant resources in enhancing our team's industry-related skills and talents over the past few years. Going forward, we intend to leverage our exceptional experience with, and knowledge of, the specialty coffee industry to continue to build our business.

SELECTED ANNUAL INFORMATION

(In $000s except per share amounts)	Year Ended December 31 2014	Year Ended December 31 2013	Year Ended December 31 2012
Balance Sheet			
Total assets	38,093	30,968	33,273
Total long-term liabilities	1,091	884	774
Income Statement			
Sales	66,180	53,873	59,713
EBITDA(1)	7,070	4,211	3,393
Net income	3,017	1,654	1,504
Dividends paid	1,672	1,669	1,669
Per share, basic and diluted(2)			
EBITDA(1)	1.05	0.63	0.51
Net income	0.45	0.25	0.23
Dividends paid	0.25	0.25	0.25

(1) EBITDA is defined under 'Non-IFRS Measures' along with details of its calculation.
(2) Per share data is calculated based on the weighted average number of shares outstanding (basic and diluted).

Our total assets increased year-over-year due to higher inventory values, an increase in accounts receivable due to higher sales, and an increase in derivate assets, netted with ongoing depreciation and amortization of fixed assets, and a reduction in cash. Results of operations including our revenues, net income and EBITDA are discussed in more detail below.

OPERATING RESULTS

Sales and Processing Volumes

During the fourth quarter, our processing volumes grew by 3.5% over Q4 2013. Our annual processing volumes were up by 12% over 2013, a significant increase which reflects our ongoing gains in market share. During Q4 2014, volumes to specialty regional accounts increased by 18% and volumes to national accounts fell by 2%. For the full year, specialty regional accounts recorded growth of 29% and volumes to national accounts rose by 6%.

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

Our revenue by category was as follows:

(In $000s)	3 Months Ended December 31, 2014	3 Months Ended December 31, 2013	12 Months Ended December 31, 2014	12 Months Ended December 31, 2013
Process revenue	$ 4,604	$ 4,115	$ 16,200	$ 13,641
Green revenue	13,916	11,002	46,891	38,142
Distribution revenue	936	677	3,089	2,090
Total	$ 19,456	$ 15,794	$ 66,180	$ 53,873

Our fourth quarter sales totaled $19.5 million, an increase of $3.7 million, or 23%, over the same quarter in 2013. Process revenue increased by $0.5 million, or 12%, driven by higher processing volumes and a stronger US$. Green revenue increased by $2.9 million, or 26%, due to a rising US$, a higher average NY'C compared to the prior year and higher sales volumes. Distribution revenue was up by $0.3 million, or 38%, reflecting the expansion of Seaforth's business and our increased volumes.

Sales for the 12 months ended December 31, 2014 totaled $66.2 million, representing an increase of $12.3 million, or 23%, over 2013. As with the fourth quarter, volume growth and the appreciation of the US$ combined to boost all three revenue types. Process revenue rose by 19% to $16.2 million, while green revenue increased by 23% to $46.9 million. Distribution revenue was up by $1.0 million, or 48%, reflecting the expansion of Seaforth's business and increased volumes.

Cost of Sales

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

For Q4 2014, our cost of sales totaled $16.2 million, up by 17% over the same period in 2013. The increase was mainly related to higher green coffee costs, which were driven by the growth in our volumes and the higher NY'C'. It also includes higher freight charges which increased with the growth in shipments to the United States and outside of North America.

For the year ended December 31, 2014, our cost of sales rose by 15% to $54.8 million. As with the fourth quarter, higher green coffee costs and freight charges drove the increase. Higher utility charges and increased costs at Seaforth (reflecting the expanded operations for a full year in 2014) also contributed to rising cost of sales. In addition, the labour disruption at the Port Metro Vancouver in March 2014 increased our freight and handling charges, as we purchased coffee from warehouses in other parts of North America and shipped it to our facility to replace the green coffee that was stuck at the port.

Gross Profit

Gross profit for the fourth quarter increased by 65% to $3.2 million, and by 83% to $11.4 million for the 12 months ended December 31, 2014. In both periods, the year-over-year growth was driven by our higher sales revenue, which more than offset the increases in our cost of sales.

Sales and Marketing Expenses

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

Sales and marketing expenses were $0.5 million for the fourth quarter and $1.5 million for year ended December 31, 2014. This represents an increase of $0.1 million over the same periods in 2013. In both cases, the increase was related to additional market research and advertising which was undertaken in Q4 2014 in support of the SWISS WATER® brand.

Occupancy Expenses

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

Administration Expenses

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

Administration expenses rose by 48% to $1.3 million for the fourth quarter and by 32% to $4.0 million for the full year. In both periods, the increases reflect higher stock-based compensation expenses and performance bonuses owing to our strong financial results, as well as higher professional fees and consulting costs related to the adoption of a new enterprise resource planning system.

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 expenses for the fourth quarter and full year of 2014 rose somewhat compared to the same periods in 2013, reflecting this year's higher debt levels.

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.

For the fourth quarter, we recorded $1.0 million in realized gains on our futures contracts, compared with realized gains of $0.2 million in the same quarter in 2013. We also recorded $0.4 million in unrealized gains on coffee futures in Q4, compared to $0.2 million in unrealized losses in the fourth quarter of 2013. The net effect was that we recognized $1.4 million in net gains on futures contracts during the fourth quarter of 2014, compared to no net gains or losses in Q4 2013.

In Q4 2014, we recorded no realized gains or losses on our foreign currency derivatives, unchanged from Q4 2013. During the quarter, we recorded unrealized losses of $0.3 million on foreign exchange forward contracts, compared to $0.2 million of unrealized losses in the same period of 2013.

For the 12 months ended December 31, 2014, we realized $1.4 million in losses on our commodity futures contracts, compared to realized gains of $1.5 million for 2013. We also recorded $1.0 million in unrealized gains on commodity futures, compared to $0.8 million in unrealized losses in 2013. The net effect was a loss on commodity futures contracts of $0.5 million for 2014, compared to a gain of $0.8 million in the previous year.

For 2014, we realized an annual loss of $0.1 million on our foreign currency derivatives and we recorded an unrealized loss of $0.6 million on such contracts, compared to a realized gain of $0.1 million, and unrealized losses of $0.3 million on foreign exchange forward contracts in 2013.

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 a loss of $0.1 million on foreign exchange in Q4 2014, unchanged from the same period in 2013. For the full year, we recorded a foreign exchange loss of $0.3 million, compared to a loss of $0.1 million in 2013.

Income Before Taxes and Net Income

In the fourth quarter, we recorded income before taxes of $2.3 million, compared to $0.5 million for the same period in 2013. Deferred income taxes reduced our net income by $0.6 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 $1.7 million for the quarter, compared to $0.3 million for the same period in 2013.

For the full year, we recorded income before taxes of $4.2 million, compared to $2.2 million in 2013. As with the fourth quarter result, higher gross profit drove the year-over-year increase in pre-tax earnings. This was offset somewhat by higher expenses in 2014, as well as by losses on derivative instruments and foreign exchange. In 2014, our net income was reduced by deferred income taxes of $1.2 million, compared to $0.5 million in 2013. As a result, we recorded net income of $3.0 million, an increase of 82% over after-tax earnings in 2013.

Basic and Diluted Earnings per Share

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

For the quarter ended December 31, 2014, basic and diluted earnings per share were both $0.25, compared to $0.05 per share in Q4 2013. In the fourth quarter of 2014, the basic and diluted weighted average number of shares outstanding were 6,735,099 and 6,769,107, compared to 6,675,254 and 6,870,025 respectively in Q4 2013.

For 2014, basic and diluted earnings per share were both $0.45, compared to $0.25 for 2013. The basic and diluted weighted average number of shares outstanding in 2014 were 6,692,953 and 6,844,717, compared to 6,675,254 and 6,834,780 respectively in 2013.

NON-IFRS MEASURES

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

EBITDA

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

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

The reconciliation of net income to EBITDA is as follows:

(In $000s)	3 Months Ended December 31, 2014	3 Months Ended December 31, 2013	12 Months Ended December 31, 2014	12 Months Ended December 31, 2013
Income for the period	$ 1,672	$ 343	$ 3,017	$ 1,654
Income taxes	650	144	1,168	498
Income before tax	2,322	487	4,185	2,152
Finance income	(18)	(23)	(78)	(92)
Finance expenses	58	32	207	148
Depreciation & amortization	402	356	1,526	1,415
Unrealized (gain) loss on foreign exchange forward contracts	263	195	556	277
Loss/(gain) on foreign exchange	62	60	276	68
Share-based compensation	20	90	398	238
Loss on disposal of plant and equipment	-	4	-	4
EBITDA	$ 3,109	$ 1,201	$ 7,070	$ 4,210

EBITDA for the fourth quarter of 2014 was $3.1 million, an increase of $1.9 million, or 159%, over Q4 2013. EBITDA for the 12 months ended December 31, 2014 rose by $2.9 million, or 68%, to $7.1 million, compared to 2013. The increase reflects the higher gross profit we recorded in 2014, partially offset by increased operating costs and the loss on commodity futures contracts.

QUARTERLY INFORMATION / SEASONALITY

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

(In $000s except per share amounts)

	Q4 2014	Q3 2014	Q2 2014	Q1 2014	Q4 2013	Q3 2013	Q2 2013	Q1 2013
Sales	19,456	17,244	15,997	13,482	15,794	13,217	12,819	12,043
Gross profit	3,221	2,588	3,437	2,116	1,949	1,354	1,739	1,170
EBITDA(1)	3,109	1,342	2,497	123	1,201	1,067	1,365	577
Net income	1,672	200	1,819	(673)	343	561	644	106
Per share(2)								
EBITDA(1) - basic and diluted	0.46	0.20	0.37	0.02	0.18	0.16	0.20	0.09
Net income - basic and diluted	0.25	0.03	0.27	(0.10)	0.05	0.08	0.10	0.02

(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

In 2014, we generated $6.3 million in cash from operations before changes in non-cash working capital, compared to $5.1 million in 2013.

Changes in non-cash working capital accounts used $7.9 million during 2014, compared to cash generation of $0.7 million the previous year. Increases in inventory used $7.5 million for working capital in 2014, while higher accounts receivable used $2.5 million. In both cases, the increases reflect the higher NY'C' and the stronger US$ compared to the same periods in 2013, in conjunction with higher inventory volume requirements to facilitate growing sales. The higher accounts receivable also reflects our increased sales volumes. Overall, net cash used in operating activities was $1.7 million during 2014, compared to cash generation of $5.7 million in 2013.

Investing Activities

Capital expenditures were $0.6 million in 2014, up from $0.4 million in 2013. Purchases of capital equipment vary from year to year, based on the needs of the business. Capital expenditures grew over the course of 2014 as we implemented new enterprise resource planning software, upgraded our leased facilities and invested in some additional machinery.

Financing Activities

In 2014, we paid $1.7 million in dividends to shareholders, which was unchanged from 2013.

Our bank debt increased in 2014, as the rising NY'C' increased the burden on working capital. As at December 31, 2014, our net debt (bank indebtedness less cash on hand) was $6.9 million. This represents an increase of $4.7 million since January 1, 2014.

Credit Facilities and Liquidity

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

In addition, we have a US$2.75 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 December 31, 2014.

Contractual Obligations

The following table sets forth our contractual obligations and commitments as at December 31, 2014:

(In $000s)	Total	Less than 1 year	1-3 Years	4-5 Years	Over 5 Years
Operating leases[1]	$ 4,464	$ 1,309	$ 2,802	$ 353	$ -
Purchase obligations[2]	25,723	25,630	93	-	-
Total contractual obligations	$ 30,187	$ 26,939	$ 2,895	$ 353	$ -

(1) Minimum obligations for our facilities for the current lease terms.
(2) Represents outstanding coffee purchasing commitments.

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

Seaforth holds two leases for its warehouse facilities. The first warehouse lease expires on December 30, 2015 and the second on June 30, 2019.

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

OFF-BALANCE SHEET ARRANGEMENTS

Ten Peaks has no off-balance sheet arrangements.

RELATED PARTY TRANSACTIONS

We provide toll decaffeination services and/or sell finished goods to, and purchase raw material inventory from, companies that are related to two Ten Peaks Directors. For Q4 2014, $0.5 million of our total sales (December 31, 2013 - $0.3 million) were to those companies and $1.0 million (December 31, 2013 – $0.6 million) of our green coffee purchases were from those companies. For the full year ended December 31, 2014, $1.6 million of our total sales (December 31, 2013 - $1.1 million) were to those companies and $2.8 million (December 31, 2013 – $2.2 million) of our green coffee purchases were from those companies.

All transactions were in the normal course of operations and were measured at the fair value of the consideration received or receivable, which was established and agreed to by the related parties. As at December 31, 2014, our accounts receivable balances with these companies were $159 thousand (December 31, 2013 – $60 thousand) and accounts payable balances were $207 thousand (December 31, 2013 - $204 thousand).

OUTLOOK

We expect SWDCC's decaffeination business will continue to grow in the coming year, albeit at a slower rate than in 2014, when volumes grew by 12%. In 2015, we expect our growth rates to be more consistent with historical levels.

Over the past five years, we have steadily grown our business by consistently delivering premium-quality chemical free decaffeinated coffees, and by providing exceptional customer service. This approach has allowed us to win market share and diversify our customer base. Accordingly, we will maintain our focus on quality and service as we go forward. Additionally, our commitment to 100% chemical free processing, and to preserving the unique quality of fine coffees through the decaffeination process, are already recognized, valued and respected by the coffee trade and our customers, and we believe our reputation for excellence will continue to drive incremental growth in 2015.

Our demonstrated ability to preserve the flavour characteristics in green coffee through the decaffeination process has won us strong customer loyalty. This has helped us grow sales to our specialty regional customers, who trust us to toll decaffeinate their unique coffees in small batches. These same accounts are also increasingly purchasing green decaffeinated coffees from our inventories, as they know our green coffee buying team sources distinctive coffees that the end consumer will appreciate.

Our national accounts have also grown in number and in total volumes over the past few years. These accounts tend to be bigger, more established customers, and they represent a larger share of our total business. Given SWDCC's well-established green coffee expertise, many of these accounts trust us to manage their entire decaffeinated coffee program from procurement to delivery at their plant. Our vendor-managed inventory services include green coffee buying to customer specifications; handling, storing and blending coffees as needed; processing in quantities that optimize the freshness of their finished goods; and delivering decaffeinated green coffees to their roasting facilities as needed throughout the year.

Internationally, we are continuing to work with regional distributors to build awareness of the SWISS WATER® brand and to introduce more consumers to our exceptional quality, chemical free decaffeinated coffees. Our volumes rose 45% outside of North America in 2014, showing that our investment in building international awareness of the SWISS WATER® brand is paying off. While this is a long-term process, we expect to continue to grow our international business in 2015.

Seaforth Supply Chain Solutions underwent rapid growth in 2013 and 2014. We expect the growth to slow in 2015, allowing the opportunity to focus on improving customer service and ensuring the accurate and timely handling of green coffee. While it will never be a large financial driver of our overall operating results, Seaforth offers services that are an essential part of the coffee value chain. As such, it has allowed SWDCC to improve its customer service by providing a more integrated approach to green coffee decaffeination.

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).

ENVIRONMENTAL RISKS

The Canadian Securities Administrators ("CSA") identifies five categories of risks: litigation, physical, regulatory, reputational and business model, for which issuers are asked to identify material risks and if they are reasonably likely to affect financial statements in the future.

Environmental matters relate to a broad range of issues, including those related to air, water, waste and land. As a small company with limited human and financial resources, we focus on only those risks that we believe could have a materially adverse impact on our operations and/or financial results within our planning horizon, rather than seeking to identify all possible future risks. Risk assessment involves judgment, uncertainty and estimates, which can provide only reasonable, rather than absolute, assurance that all the applicable risks and their expected impacts on Ten Peaks are considered.

The most pervasive environmental risks that we face relate to the fact that we buy, sell and store an agricultural commodity. The supply of green coffee can be impacted by numerous environmental conditions such as frosts, drought, plant disease and insect damage, which can impact the quality and size of the coffee crop. In addition, certain environmental conditions such as excessive rains can hamper crop harvesting. The shortage of high-quality Arabica coffees that the market experienced in 2010 and 2011 was due in large part to a number of environmental matters that affected many coffee-growing regions. A shortage of coffee can impact our processing volumes and revenues. We seek to mitigate the risks of coffee shortages by maintaining an extensive list of coffee suppliers; by dealing with importers who themselves have multiple suppliers rather than contracting directly with farmers or coffee co-operative organizations; by maintaining up to three months of coffee inventories at any time; by developing and modifying coffee blends that take into consideration coffee availability and cost from various coffee origins; and, by entering into purchase contracts with suppliers for future delivery of coffee (rather than relying on 'spot' deliveries). In addition, the coffee commodity price is closely tied to available supplies of coffee globally. We mitigate the commodity price risk through our commodity price risk management policy. As is discussed earlier in this MD&A, any sustained increase in coffee commodity prices tends to increase both our revenues and cost of sales, and can result in realized and/or unrealized losses being recorded on our derivative financial instruments.

Our leased facilities are located in the Metro Vancouver area of British Columbia. Vancouver is considered to be at high risk of a major earthquake. Any significant earthquake in the vicinity could have a material impact on our operations for a period of time, depending on the extent of the damage to the facilities, our equipment, and the transportation infrastructure in the region. In short, a major earthquake could have a material adverse impact on our revenues. We carry property and business interruption insurance, including earthquake coverage, which would help offset the cash flow impact of such an event. In addition, we keep some finished goods inventory in third-party coffee warehouses in other regions, and we would be able to sell these finished goods even if our production and distribution of coffee were temporarily interrupted by an earthquake. Nevertheless, the financial and operational impact of a major earthquake cannot be reasonably predicted.

We are subject to a number of environmental laws and regulations related to our facilities in British Columbia, which mandate, among other things, the maintenance of air and water quality. We routinely monitor our compliance with these standards. Based on our compliance record and our maintenance programs, as well as currently enacted laws and regulations, we do not believe that these regulatory risks are material.

We expect to incur increased costs for energy and water consumption over time. If we cannot pass on such increased costs to our customers, our profitability may be adversely impacted.

We believe that all known environmental obligations and provisions have been appropriately reflected in our financial statements. We have not identified any material litigation, reputational, or business model risks related to environmental matters. Nevertheless, we may be subject to potential unknown or unforeseeable environmental impacts arising from, or related to, our business. Costs associated with such issues could be material.

We believe that the trend toward increased environmental awareness creates an opportunity for us to grow our business, as consumers and coffee industry participants place greater emphasis on reducing their impact on the environment. As one of the few chemical free decaffeinators in the world, we believe that an increased focus on environmental matters will allow us to win more business away from decaffeinators that use chemicals such as methylene chloride to decaffeinate coffee.

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 12-month period ended December 31, 2014.

Foreign Exchange and Coffee Hedging

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

Commodity Price Risk

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

As at December 31, 2014, we had futures contracts to buy 2.0 million lbs of green coffee with a notional value of US$3.3 million, and contracts to sell 4.2 million lbs of green coffee with a notional value of US$6.9 million (December 31, 2013 – buy 1.5 million lbs with a notional value of US$1.6 million, and sell 2.4 million lbs with a notional value of US$2.7 million), with the furthest contract maturing in September 2015. The net notional value of the contracts outstanding at December 31, 2014 was approximately US$3.6 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)	3 Months Ended December 31 2014	3 Months Ended December 31 2013	Year ended December 31 2014	Year ended December 31 2013
Realized loss (gain)	$ (963)	$ (217)	$ 1,441	$ (1,520)
Unrealized (gain) loss	(392)	200	(964)	768
	$ (1,355)	$ (17)	$ 477	$ (752)

At December 31, 2014, the net derivative assets related to these contracts was $0.9 million (December 31, 2013: $0.2 million) and was comprised of derivatives on account, including margin. We estimated a one percent change in the mark-to-market rate applied to the futures contracts would have resulted in an estimated $42,200 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 December 31, 2014, Ten Peaks had forward currency contracts to buy US$4.5 million and sell US$18.3 million (December 31, 2013: buy US$7.5 million and sell US$16.9 million) from January 2015 through to December 2016 at various Canadian exchange rates ranging from $1.0080 to $1.1801. The net notional value of the contracts outstanding at December 31, 2014 was approximately US$13.8 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)	3 Months Ended December 31 2014	3 Months Ended December 31 2013	Year ended December 31 2014	Year ended December 31 2013
Realized loss (gain)	$ 43	$ (42)	$ 127	$ (94)
Unrealized (gain) loss	263	195	556	277
	$ 306	$ 153	$ 683	$ 183

At December 31, 2014, the net derivative liabilities related to these contracts was $806,000 (December 31, 2013: liabilities of $250,000). We estimated a 100 basis point change in the US$ exchange rate relative to the Canadian dollar under forward foreign exchange contracts would have resulted in an estimated $138,000 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.

For 2014, our assumptions related to inventory are not considered critical accounting estimates. 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.

Intangible Assets

Indefinite life intangible assets are tested for impairment indicators annually, or more frequently when events or changes in circumstances occur that indicate goodwill or indefinite life intangibles may be impaired. An impairment loss is recognized for the amount by which an asset's or cash-generating unit's carrying amount exceeds its recoverable amount. Ten Peaks has determined that we have only one cash generating unit ("CGU") and that any intangible assets related to that CGU. To determine the recoverable amount, we estimate either the fair value less costs to sell, or the value-in-use based on the present value of expected future cash flows from the CGU. In estimating the value-in-use, we must determine the appropriate discount rate in order to calculate the present value of those cash flows, as well as make certain assumptions about future profits which relate to future events and circumstances. Actual results may vary from these estimates.

In 2014, as in 2013, there was no impairment charge related to our intangible assets, all of which are being amortized over their useful lives.

Asset Retirement Obligation

The undiscounted future value of the asset retirement obligation ("ARO") in respect of our leased decaffeination facility is estimated at $0.9 million. This estimate assumes that we relocate from the current location upon expiry of the third lease renewal term in 2023. Further, the estimate reflects the expected costs of vacating the leased facility in 2023, having regard for the contract language in the lease, the expected useful lives of our plant and equipment, the expected costs that would be paid to a third party to remove equipment, and the expected scrap or resale value of the equipment. The present value of this obligation is estimated to be $0.7 million using an inflation rate of 2.1%, a market risk premium of 5.0%, and a risk-free rate of 2.27%. The ARO will increase each quarter as the present value of the future liability increases. As at December 31, 2014, the present value of the ARO was $0.7 million.

Share-Based Compensation

We are required to make certain assumptions in respect of the Restricted Share Units ("RSUs") that have been granted by Ten Peaks.

In calculating the compensation expense for RSUs, we make assumptions regarding forfeiture rates and the percentage of each award that will be cash-settled at the vesting date. The fair value of our common stock on the date of each grant was determined based on the volume weighted average Canadian dollar trading price for the five trading days prior to the grant date, calculated by dividing the total value by the total volume of our common stock traded. The expected forfeiture rate was calculated based on the percentage of management-level staff turnover in any three-year period over the past six years. The claim rate of the cash-settled portion was estimated at the maximum percentage allowed under the award agreements. As necessary, we revise our estimates based on subsequent information. Actual forfeiture rates and claim rates may be different from estimates and may result in potential future adjustments which would affect the amount of share-based compensation expense recorded in a particular period.

Ten Peaks also has a deferred share unit plan (the "DSU Plan") for its non-executive Directors. Under the DSU Plan, participants may elect to defer compensation and receive DSUs equal to the value of the deferred compensation. DSUs are increased by the dividend rate on a quarterly basis.

Under IFRS, DSUs are classified as cash-settled share-based payment transactions as the participants shall receive cash following a Redemption Event. The DSUs do not contain any vesting conditions or forfeiture provisions, as they are issued in exchange for deferred compensation. As such, we recognize the expense and the liability to pay for eventual redemption when the DSUs are issued. Thereafter, we re-measure the liability for DSUs at the end of each reporting period and at the date of settlement, with the difference recognized in income or expense in the period.

Income Taxes

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

Deferred tax assets also reflect estimates of the recoverability of non-capital loss carry forwards. We have recognized the benefit of loss carry forwards to the extent that it is probable that taxable income will be available in the future against which our non-capital loss carry forwards can be utilized. As at December 31, 2014, Ten Peaks and its subsidiaries had combined non-capital tax loss carry forwards totaling $5.3 million, which can be used to reduce income taxes payable in future years.

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

CHANGES IN ACCOUNTING STANDARDS

The following standards became effective and were adopted by Ten Peaks in 2014. The adoption of these standards did not have a material impact on our consolidated financial statements:

- *Investment Entities (Amendments to IFRS 10:* Consolidated Financial Instruments, IFRS 12: Disclosures of Interests in other entities, and IAS 27: Separate Financial Statements) sets forth additional disclosures and clarifications.
- *IAS 32 (Amendment):* Clarifies the application of the requirements of offsetting financial assets and financial liabilities.
- *IAS 36 (Amendment):* Sets forth additional disclosures with respect to nonfinancial assets.
- *IFRIC 21: Levies:* Addresses accounting for a liability to pay a levy imposed by the government if that liability is within the scope of IAS 37 – Provisions, Contingent Liabilities and Contingent Assets.

In addition, 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.
- *IFRS 7 (Amendment):* Outlines the disclosures when applying IFRS 9, the new financial instruments standard, which became effective for annual periods beginning on or after January 1, 2015.
- *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.
- I*FRS 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 will become effective to an entity's first annual IFRS financial statements for a period beginning on or after January 1, 2017.
- *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 2010-2012 and 2011-2013 became effective for annual periods beginning on or after July 1, 2014.
- *IFRSs (Amendment):* The Annual Improvements to IFRSs 2012-2014 become effective for annual periods beginning on or after July 1, 2016.

We have not yet adopted any of these new and amended standards or interpretations, and we are currently assessing the impact of adoption.

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 December 31, 2014, have concluded that disclosure controls and procedures, as of such date, were effective to provide reasonable assurance that information required to be disclosed by us that we file or submit, is (i) recorded, processed, summarized and reported within the time periods as required, and (ii) accumulated and made known to management, including our CEO and CFO, to allow timely decisions regarding required disclosure.

Management is responsible for establishing and maintaining adequate internal controls over financial reporting ("ICFR") to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Under the supervision and with the participation of management, including the CEO and CFO, we conducted an evaluation of the design and effectiveness of our ICFR as of December 31, 2014, 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 December 31, 2014, Ten Peaks maintained effective ICFR.

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

There were no changes in our ICFR that occurred during the period beginning on October 1, 2014 and ended on December 31, 2014 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. Management is currently updating its control framework to COSO 2013, with a view to having this completed by the end of 2015.

MANAGEMENT'S STATEMENT OF RESPONSIBILITIES

This MD&A and the accompanying consolidated financial statements are the responsibility of management, and have been reviewed and approved by our Board of Directors. The consolidated financial statements have been prepared by management in accordance with IFRS, and where appropriate reflect management's best estimates and judgments. Management has also prepared financial and all other information in this MD&A and has ensured that this information is consistent with the consolidated financial statements.

Ten Peaks maintains appropriate systems of internal control, policies and procedures, which provide management with reasonable assurance that assets are safeguarded and the financial records are reliable and form a proper basis for preparation of financial statements.

The Board of Directors ensures that management fulfills its responsibilities for financial reporting and internal control through an Audit Committee. This committee reviews the consolidated financial statements and MD&A, and reports to the Directors. At the recommendation of the Audit Committee and as approved by our shareholders, the Directors have engaged Deloitte LLP to independently audit the consolidated financial statements in accordance with Canadian generally accepted auditing standards. The auditors have full and direct access to the Audit Committee.

SUBSEQUENT EVENTS

Payment of Dividend

Ten Peaks paid an eligible dividend of $0.0625 per share on January 15, 2015 to shareholders of record on December 31, 2014.

On March 11, 2015, the Directors declared an eligible dividend of $0.0625 per share, to be paid on April 15, 2015 to shareholders of record on March 31, 2015.

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF TEN PEAKS COFFEE COMPANY INC.

We have audited the accompanying consolidated financial statements of Ten Peaks Coffee Company Inc. and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2014 and December 31, 2013, and the consolidated statements of income and comprehensive income, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Ten Peaks Coffee Company Inc. its subsidiaries as at December 31, 2014 and December 31, 2013, and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

Deloitte LLP

Deloitte, LLP
Chartered Accountants
March 11, 2015
Vancouver, British Columbia

TEN PEAKS COFFEE COMPANY INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

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

	Note	December 31 2014	December 31 2013
Assets			
Current assets			
Inventories	6	$ 13,986	$ 6,463
Accounts receivable	7	7,514	4,972
Prepaid expenses and other receivables		315	236
Derivative assets	8	911	152
Cash		898	2,594
Total current assets		23,624	14,417
Non-current assets			
Plant and equipment	9	11,839	12,508
Intangible assets	10	2,206	2,465
Deferred tax assets	11	424	1,578
Total non-current assets		14,469	16,551
Total assets		$ 38,093	$ 30,968
Liabilities and shareholders' equity			
Current liabilities			
Bank indebtedness	12	$ 7,773	$ 4,786
Accounts payable		2,764	916
Accrued liabilities		1,339	1,118
Dividend payable		421	417
Derivative liabilities	8	493	119
Current Portion of Other Liabilities	13	250	219
Total current liabilities		13,040	7,575
Non-current liabilities			
Derivative liabilities	8	313	131
Other liabilities	13	33	28
Asset retirement obligation	14	745	725
Total non-current liabilities		1,091	884
Total liabilities		14,131	8,459
Shareholders' equity			
Share capital	15	24,770	24,631
Share-based compensation reserve		75	106
Deficit		(883)	(2,228)
Total equity		23,962	22,509
Total liabilities and shareholders' equity		$ 38,093	$ 30,968

Commitments (note 22)

Approved on behalf of the Board

David Rowntree, Director   Frank Dennis, Director

See accompanying notes to these Consolidated Financial Statements

TEN PEAKS COFFEE COMPANY INC.

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(Tabular amounts in thousands of Canadian dollars, except per share and number of shares figures)
for the years ended

	Note	December 31 2014	December 31 2013
Revenue		$ 66,180	$ 53,873
Cost of sales		(54,819)	(47,662)
Gross profit		11,361	6,211
Sales and marketing expenses		(1,500)	(1,415)
Occupancy expenses		(112)	(50)
Administration expenses		(3,999)	(3,034)
Finance income		78	92
Finance expenses		(207)	(149)
Realized (loss) gain on derivative financial instruments		(1,568)	1,614
Unrealized gain (loss) on derivative financial instruments		408	(1,045)
Loss on foreign exchange		(276)	(68)
Loss on disposal of plant and equipment		-	(4)
Income before tax		4,185	2,152
Income tax expense	11	(1,168)	(498)
Net income and comprehensive income for the period		$ 3,017	$ 1,654
Attributable to shareholders		3,017	1,654
Total comprehensive income attributable to shareholders		$ 3,017	$ 1,654
Earnings per share			
Basic and Diluted (per share)	20	$ 0.45	$ 0.25

TEN PEAKS COFFEE COMPANY INC.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

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

	Share capital		Share-based compensation reserve	Deficit	Total equity
	Shares	Amount			
Balance at December 31, 2012	6,675,254	$ 24,631	$ 45	$ (2,213)	$ 22,463
Share-based compensation	-	-	61	-	61
Dividends (Note 18)	-	-	-	(1,669)	(1,669)
Net income and comprehensive income	-	-	-	1,654	1,654
Balance at December 31, 2013	6,675,254	$ 24,631	$ 106	$ (2,228)	$ 22,509
Shares issued for restricted share units	59,845	139	(139)	-	-
Share-based compensation	-	-	108	-	108
Dividends (Note 18)	-	-	-	(1,672)	(1,672)
Net income and comprehensive income	-	-	-	3,017	3,017
Balance at December 31, 2014	6,735,099	$ 24,770	$ 75	$ (883)	$ 23,962

TEN PEAKS COFFEE COMPANY INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Tabular amounts in thousands of Canadian dollars, except per share and number of shares figures)
for the years ended

	December 31 2014	December 31 2013
Cash flows from operating activities		
Net income for the period	$ 3,017	$ 1,654
Items not affecting cash		
Depreciation and amortization	1,526	1,415
Unrealized loss (gain) on derivative financial instruments	(408)	1,045
Share-based compensation	398	238
Payment of restricted share units settled in cash	(254)	-
Foreign exchange (gain) loss on cash held	(86)	(102)
Foreign exchange (gain) loss on debt	778	315
Income taxes recognized in profit and loss	1,168	498
Interest income recognized in profit and loss	(79)	(92)
Interest expense recognized in profit and loss	207	149
	6,267	5,124
Movements in working capital:		
Accounts receivable	(2,542)	(1,010)
Inventory	(7,522)	3,031
Prepaid expenses	(81)	(67)
Accounts payable and accrued liabilities	2,086	(608)
Derivative assets at fair value through profit or loss	(759)	112
Derivative liabilities at fair value through profit or loss	964	(806)
Change in non-cash working capital relating to operating activities	(7,854)	652
Cash (used in) generated from operations	(1,587)	5,776
Interest received	78	92
Interest paid	(188)	(129)
Income taxes paid	(20)	-
Net cash (used in) generated from operating activities	(1,717)	5,739
Cash flows from investing activities		
Additions to plant and equipment	(602)	(370)
Net cash used in investing activities	(602)	(370)
Cash flows from financing activities		
Dividends paid	(1,672)	(1,669)
Proceeds from bank indebtedness	2,209	-
Repayments of bank indebtedness	-	(2,512)
Net cash generated from (used in) financing activities	537	(4,181)
Effects of foreign exchange rate changes on cash held	86	102
Net increase in cash	(1,696)	1,290
Cash, beginning of period	2,594	1,304
Cash, end of period	$ 898	$ 2,594

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 consolidated financial statements for the year ended December 31, 2014 and December 31, 2013 have been prepared using accounting policies consistent with International Financial Reporting Standards ("IFRSs") and in accordance with International Accounting Standard ("IAS") 1 *Presentation of Financial Statements*.

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

The following standards became effective for annual periods beginning on or after January 1, 2014, with earlier application permitted. The adoption of these standards by the Company in 2014 did not have a material impact on its consolidated financial statements.

- *Investment Entities (Amendments to IFRS 10: Consolidated Financial Instruments, IFRS 12: Disclosures of Interests in other entities, and IAS 27: Separate Financial Statements)* sets forth additional disclosures and clarifications.
- *IAS 32 (Amendment):* Clarifies the application of the requirements of offsetting financial assets and financial liabilities.
- *IAS 36 (Amendment):* Sets forth additional disclosures with respect to nonfinancial assets.
- *IFRIC 21:* Levies: Addresses accounting for a liability to pay a levy imposed by the government if that liability is within the scope of *IAS 37 – Provisions, Contingent Liabilities and Contingent Assets*.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

3.1 Basis of preparation

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

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

3.2 Basis of Consolidation

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

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

3.3 Segment reporting

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

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

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

3.4 Foreign currency translation

(a) *Functional and presentation currency*

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

(b) *Transactions and balances*

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

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

3.5 Inventories

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

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

3.6 Plant and equipment

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

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

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

The costs related to the plant and equipment in the course of construction are classified as construction-in-progress. Such items are transferred to the appropriate category of plant and equipment when it is completed and ready for intended use. Depreciation of these assets commences when the asset is available for use.

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

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

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

3.7 Intangible assets

(a) Proprietary process technology ("PPT")

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

(b) Brand

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

3.8 Impairment of assets

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

An impairment loss is recognized for the amount by which the carrying amount of an asset or cash generating unit ("CGU") exceeds its recoverable amount. The Company has determined that it has only one CGU and that all assets relate to that CGU. To determine the recoverable amount, management estimates either the fair value less costs to sell, or the value-in-use based on the present value of expected future cash flows from the CGU. In estimating the value-in-use, management must determine the appropriate discount rate in order to calculate the present value of those cash flows, as well as make certain assumptions about future profits which relate to future events and circumstances. Discount factors are determined individually for each asset or CGU and reflect their respective risk profiles as assessed by management.

3.9 Financial instruments

Financial assets and financial liabilities are initially measured at fair value including transaction costs, other than financial instruments measured at fair value through profit or loss ("FVTPL").

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire or when the financial asset and all substantial risks and rewards are transferred. A financial liability is derecognized when it is extinguished, discharged, cancelled or expired.

Financial assets and financial liabilities are measured following initial recognition as described below.

Financial assets

The Company classifies its financial assets in the following categories: financial assets at "FVTPL"; "loans and receivables"; "held-to-maturity"; and "available-for-sale". The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(1) Financial assets at FVTPL

Financial assets at FVTPL include financial assets that are either classified as held-for-trading or that meet certain conditions and are designated at FVTPL upon initial recognition. All derivative financial instruments fall into this category, except for those designated and effective as hedging instruments.

Financial assets in this category are subsequently measured at fair value. Realized and unrealized gains and losses arising from changes in the fair value are recognized in profit or loss in the period in which they arise. Gains or losses on derivative financial instruments are based on changes in fair value determined by reference to active market transactions or using a valuation technique where no active market exists. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

The Company's outstanding foreign exchange forward and collar contracts and commodity futures contracts are classified as FVTPL and are classified as current assets if the assets represent the amount the Company would have received from a counterparty to settle the contract at the market rates in effect at the balance sheet date and are expected to be realized within 12 months of the reporting period date.

(2) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Company provides money, goods or services directly to a debtor with no intention of trading the receivable. After initial recognition, these are carried at amortized cost using the effective interest method, less provision for impairment. Discounting is not applied where the effect of discounting is immaterial.

The Company's cash and accounts receivable are classified as "loans and receivables." Individual receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. An impairment of accounts receivable is recorded as a provision against accounts receivable and is presented within 'administration expenses'.

(3) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities other than loans and receivables. Financial assets are classified as held-to-maturity if the Company's management has the positive intention and ability to hold to maturity.

During the periods, the Company did not hold any financial assets in this category.

(4) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated to this category or do not qualify for inclusion in any of the other categories.

The available-for-sale financial assets are measured at fair value with unrealized gains and losses recognized in other comprehensive income until realized, when the cumulative gains or losses are transferred to the statement of income and comprehensive income.

During the periods, the Company did not hold any financial assets in this category.

The Company assesses at each reporting period date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

Financial liabilities

The Company's financial liabilities include bank indebtedness, accounts payable, accrued liabilities and derivative financial instruments. Derivative financial instruments, deferred share units and restricted share units are accounted for at FVTPL.

Bank indebtedness, accounts payable and accrued liabilities are all classified as other financial liabilities, and are measured after initial recognition at amortized cost using the effective interest method. Financial liabilities classified as FVTPL are measured at fair value with gains or losses recognized in profit or loss.

The Company's outstanding foreign exchange forward and collar contracts and commodity futures contracts fall into the category of derivatives at FVTPL and are classified as current liabilities if they represent the amount the Company would have paid to a counterparty to settle the contract at the market rates in effect at the balance sheet date and they are expected to be realized within 12 months of the reporting period date.

Fair Value Hierarchy

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

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

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

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

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

3.10 Current and deferred income taxes

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

The income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date, and any adjustments to taxes payable in respect of previous years. The Company periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

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

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

3.11 Provisions

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

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

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

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

3.12 Leases as the lessee

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

3.13 Revenue recognition

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

Revenue is recognized when all the following conditions are satisfied:

1) persuasive evidence of an arrangement exists;
2) the goods are shipped;
3) title has passed to the customer;
4) the price has been substantively determined; and
5) collection is reasonably assured.

3.14 Employee benefits

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

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

3.15 Share-based compensation

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

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

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

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

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

3.16 Earning per share ("EPS")

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

3.17 Application of revised IFRSs

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

- *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 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.
- *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.
- I*FRS 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 will become effective to an entity's first annual IFRS financial statements for a period beginning on or after January 1, 2017.
- *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 2010-2012 and 2011-2013 become effective for annual periods beginning on or after July 1, 2014.
- *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. MANAGEMENT JUDGMENTS AND ESTIMATION UNCERTAINTY

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

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

4.1 Inventories

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

4.2 Impairment

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

For the years ended December 31, 2014 and 2013, there were no impairment losses recognized.

4.3 Useful lives of depreciable assets

Management reviews the useful lives of depreciable assets at each reporting date. At December 31, 2014 management determined that the useful lives represent the expected utility of the assets to the Company.

4.4 Provision for asset retirement obligations

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

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

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

4.5 Share-based compensation

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

4.6 Income taxes

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

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

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

5. CAPITAL MANAGEMENT

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

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

6. INVENTORIES

	December 31 2014	December 31 2013
Raw materials	$ 8,518	$ 4,203
Finished goods	5,195	1,992
Carbon	271	236
Packaging	44	49
Inventory provision	(42)	(17)
	$ 13,986	$ 6,463

During the year, the cost of inventories recognized as an expense was $50.1 million (2013: $44.4 million). For the year ended December 31, 2014, the inventory provision increased by $25,000 (2013: decreased $8,000).

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

7. ACCOUNTS RECEIVABLE

	December 31 2014	December 31 2013
Accounts receivable	$ 7,514	$ 4,979
Provision for impairment	-	(7)
	$ 7,514	$ 4,972

The Company's accounts receivable has been reviewed for indicators of impairment. No accounts were found to be impaired and therefore no allowance for credit losses was provided as at December 31, 2014 (December 31, 2013: $7,000).

8. DERIVATIVE FINANCIAL INSTRUMENTS

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

	December 31 2014	December 31 2013
Coffee futures contracts, net	$ 911	$ 152
US Dollar forward contracts, current	(493)	(119)
US Dollar forward contracts, long-term	(313)	(131)
Net fair value of derivatives assets	$ 105	$ (98)

9. PLANT AND EQUIPMENT

	Machinery and equipment	Leasehold improvements	Computer	Furniture and fixtures	Construction in progress	Total
Cost						
Balance January 1, 2014	$ 27,967	$ 4,868	$ 576	$ 261	$ 259	$ 33,931
Additions	139	35	7	9	412	602
Transfers	102	105	290	-	(496)	0
Balance December 31, 2014	$ 28,208	$ 5,008	$ 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)
Balance December 31, 2014	$ (19,372)	$ (2,611)	$ (563)	$ (148)	$ -	$(22,694)
Carrying amount December 31, 2014	$ 8,836	$ 2,397	$ 310	$ 122	$ 175	$ 11,839
Cost						
Balance January 1, 2013	$ 27,842	$ 4,847	$ 568	$ 214	$ 137	$ 33,608
Additions	53	16	2	55	244	370
Disposals	-	-	(39)	(8)	-	(47)
Transfers	72	5	45	-	(122)	-
Balance December 31, 2013	$ 27,967	$ 4,868	$ 576	$ 261	$ 259	$ 33,931
Depreciation						
Balance January 1, 2013	$ (17,640)	$ (2,046)	$ (513)	$ (111)	$ -	$ (20,310)
Depreciation	(837)	(270)	(29)	(20)	-	(1,156)
Disposals	-	-	39	4	-	43
Balance December 31, 2013	$ (18,477)	$ (2,316)	$ (503)	$ (127)	$ -	$ (21,423)
Carrying amount December 31, 2013	$ 9,490	$ 2,552	$ 73	$ 134	$ 259	$ 12,508

For the year ended December 31, 2014, depreciation expense of $1,149,000 (2013: $1,094,000) has been charged to cost of sales and $122,000 (2013: $62,000) was included in administrative expenses. During the year, no impairment loss was recognized (2013: nil).

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

10. INTANGIBLE ASSETS

	PPT	Brand	Total
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
Cost			
Balance January 1, 2013	$ 3,246	$ 1,000	$ 4,246
Balance December 31, 2013	$ 3,246	$ 1,000	$ 4,246
Amortization			
Balance January 1, 2013	$ (720)	$ (802)	$ (1,522)
Amortization	(240)	(19)	(259)
Balance December 31, 2013	$ (960)	$ (821)	$ (1,781)
Carrying amount December 31, 2013	$ 2,286	$ 179	$ 2,465

For the year ended December 31, 2014, amortization expense of $240,000 (2013: $240,000) relating to PPT has been charged to cost of sales and $19,000 (2013: $19,000) relating to Brand was included in administrative expenses. The Company expects amortization of intangible assets to be the same in 2015.

There was no impairment loss recognized for the years ended December 31, 2014 and 2013.

11. TAX

11.1 Income tax expense

	2014	2013
Current tax expense	$ 13	$ 18
Deferred tax expense	$ 1,155	$ 480
Total income tax expense	$ 1,168	$ 498

11.2 Reconciliation

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

	2014	2013
Statutory rate	26%	25.8%
Income before tax	$ 4,185	$ 2,152
Income tax calculated at applicable tax rates	$ 1,088	$ 555
Non-deductible expenses	67	5
Increase in statutory income tax rates	–	(80)
Income tax expense in foreign countries	13	18
Income tax expense	$ 1,168	$ 498

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

11.3 Current income tax liabilities

	December 31 2014	December 31 2013
Income tax payable	$ 13	$ 18
	$ 13	$ 18

11.4 Deferred income tax assets (liabilities)

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

	Goodwill and intangibles	Plant and equipment	ARO	Share-based compensation	Tax losses	Total
Balance January 1, 2013	$ 983	$(2,086)	$ 176	$ 27	$ 2,958	$ 2,058
(Expense) recovery	(127)	(369)	12	63	(59)	(480)
Balance December 31, 2013	$ 856	$(2,455)	$ 188	$ 90	$ 2,899	$ 1,578
(Expense) recovery	(38)	297	5	117	(1,536)	(1,155)
Balance December 31, 2014	$ 818	$(2,158)	$ 193	$ 207	$ 1,364	$ 424

SWDCC has non-capital tax losses carry forwards of $3.7 million which begin to expire in 2029. Ten Peaks has non-capital tax loss carry forwards of $1.2 million that begin to expire in 2030. Seaforth has non-capital tax loss carry forwards of $0.4 million that begin to expire in 2032.

12. BANK INDEBTEDNESS

	December 31 2014	December 31 2013
Revolving operating line of credit	$ 7,541	$ 4,786
Swing line	232	-
	$ 7,773	$ 4,786

The Company had the following credit facilities as at December 31, 2014:

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. $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$2.75 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 December 31, 2014, the Company was in compliance with its debt covenants.

13. 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.

	December 31 2014	December 31 2013
Current portion	$ 250	$ 219
Long term	33	28
Total other liabilities	$ 283	$ 247

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

14. ASSET RETIREMENT OBLIGATION

The Company estimates the total undiscounted amount of any cash flows required to settle its ARO is approximately $0.9 million, which will be incurred on or about the expiry of the third lease renewal term in 2023. As at December 31, 2014, the Company has a long-term liability ARO of $0.7 million (December 31, 2013: $0.7 million), reflecting the present value of the ARO using a credit adjusted risk free rate of 2.27%.

15. SHARE CAPITAL

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

	Number of shares	Amount
Balance as at December 31, 2013	6,675,254	24,631
Balance as at December 31, 2014	6,735,099	24,770

Restricted share units

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

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

The movement in RSUs as at December 31, 2014 is as follows:

	Number of RSUs at	Weighted average share price	Remaining vesting period (years)	Performance based
Balance at January 1, 2013	139,655	$ 2.65	2.08	No
RSUs granted	43,600	$ 2.80	2.70	No
RSUs issued for dividends	12,085	$ 2.81	1.19	No
Balance at December 31, 2013	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	$ 4.64	1.29	

Deferred share units

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

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

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

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

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

The issuance of DSUs as at December 31, 2014 is as follows:

	Number of DSUs at	Weighted average share price	Performance based
Balance at January 1, 2013	9,725	$ 2.66	No
DSUs issued	20,038	$ 2.76	No
Balance at December 31, 2013	29,763	$ 3.40	No
DSUs issued	13,809	$ 4.09	No
Balance at December 31, 2014	43,572	$ 4.34	

16. EMPLOYEE BENEFITS EXPENSES

Expenses recognized for employee benefits are detailed below:

	December 31 2014	December 31 2013
Short-term benefits	$ 6,036	$ 5,242
Long-term benefits	400	238
Post-employment benefits	543	470
Total employee benefits expenses	$ 6,979	$ 5,950

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 years ended December 31, 2014, the total expense recognized in the statement of income and comprehensive income of $0.5 million (2013: $0.5 million) represented contributions paid to RRSPs, IRAs, CPP and EI by the Company at rates specified in the rules of the plans.

17. RELATED PARTY TRANSACTIONS

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

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

Compensation of Key Management Personnel

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

	December 31 2014	December 31 2013
Short-term benefits	$ 1,605	$ 1,251
Long-term benefits	374	219
Post-employment benefits	64	77
Total	$ 2,043	$ 1,547

Trading transactions

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

	December 31 2014	December 31 2013
Sales	$ 1,613	$ 1,075
Purchase of raw materials	$ 2,793	$ 2,232

	December 31 2014	December 31 2013
Accounts receivable	$ 159	$ 60
Accounts payable	$ 207	$ 204

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

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

18. DIVIDENDS

For the year ended December 31, 2014, the Company declared quarterly eligible dividends to shareholders totaling $1.7 million or $0.25 per share (2013: $1.7 million).

19. SEGMENT REPORTING

The Company's sales are 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	December 31 2014	December 31 2013
Canada	$ 29,989	$ 29,320
United States	$ 29,661	20,713
Other	$ 6,530	3,840
	$ 66,180	$ 53,873

Non-Current Assets	December 31 2014	December 31 2013
Canada	$ 13,995	$ 14,973
United States	49	–
	$ 14,004	$ 14,973

20. BASIC AND DILUTED EARNINGS PER SHARE

	2014	2013
Profit attributable to shareholders (basic)	$ 3,017	$ 1,654
Weighted average number of shares (basic)	6,692,953	6,675,254
Basic and diluted EPS	$ 0.45	$ 0.25

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:

	2014	2013
Weighted average number of RSUs granted	169,463	159,526

21. 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.

21.1 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 December 31, 2014, the Company had futures contracts to buy 2.0 million lbs of green coffee with a notional value of US$3.3 million, and contracts to sell 4.2 million lbs of green coffee with a notional value of US$6.9 million (December 31, 2013 – buy 1.5 million lbs with a notional value of US$1.6 million, and sell 2.4 million lbs with a notional value of US$2.7 million), with the furthest contract maturing in September 2015. The net notional value of the contracts outstanding at December 31, 2014 was approximately US$3.6 million.

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

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

	December 31 2014	December 31 2013
Realized loss (gain)	$ 1,441	$ (1,520)
Unrealized (gain) loss	(964)	768
	$ 477	$ (752)

At December 31, 2014, the net derivative assets related to these contracts was $0.9 million (December 31, 2013: $0.2 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 December 31, 2014 would have resulted in an estimated $42,200 change in income before taxes.

21.2 Foreign currency risk

The Company realizes a significant portion of its sales in US$, and purchases green coffee in US$ which is, in some cases, sold to customers in Canadian dollars. The Company enters into forward foreign currency contracts to manage its exposure to currency rate fluctuations and to minimize the effect of exchange rate fluctuations on business decisions. These contracts relate to the Company's future net cash flows in US$ from sales. In addition, the Company enters into forward contracts to buy US$ for coffee that it resells in Canadian dollars. At December 31, 2014, the Company had forward currency contracts to buy US$4.5 million and sell US$18.3 million (December 31, 2013: buy US$7.5 million and sell US$16.9 million) from January 2015 through to December 2016 at various Canadian exchange rates ranging from $1.0080 to $1.1801. The net notional value of the contracts outstanding at December 31, 2014 was approximately US$13.8 million.

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

	December 31 2014	December 31 2013
Realized loss (gain)	$ 127	$ (94)
Unrealized (gain) loss	556	277
	$ 683	$ 183

At December 31, 2014, the net derivative liabilities related to these contracts was $806,000 (December 31, 2013: liabilities of $250,000). The Company estimates a 100 basis point change in the US$ exchange rate relative to the Canadian dollar under forward foreign exchange contracts would have resulted in an estimated $138,000 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$:

	December 31 2014	December 31 2013
Bank indebtedness	$ (6,456)	$ (2,980)
Accounts receivable	6,013	3,825
Derivative instruments	786	203
Accounts payable and accrued liabilities	(1,985)	(713)
Net US dollar exposure	$ (1,642)	$ 335

At December 31, 2014, the Company estimated a 100 basis point change in the US$ exchange rate relative to the Canadian dollar in the net US$ exposure would have resulted in an estimated $16,000 change in income before taxes.

21.3 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 December 31, 2014 on its outstanding borrowings was 2.53% (2013: 2.61%). The Company estimated that a 100 basis point fluctuation in interest rates would have resulted in an estimated $75,000 change in the interest expense.

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

21.4 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 year ended December 31, 2014, revenues from three major customers of $26 million (2013: $22.5 million) represented 39% (2013: 42%) of total revenues for the period. These customers represented 28% of total accounts receivable as at December 31, 2014 (December 31, 2013: 21%).

The Company had 37% of its accounts receivable past due as at December 31, 2014 (December 31, 2013: 15%). Of the accounts receivable past due, 93% are 1-30 days past due, 6.6% are 31-60 days past due, 0.4% are 61-90 days past due, and 0% are over 90 days past due.

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

21.5 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.

21.6 Fair value of financial instruments

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

	December 31 2014	Level 1	Level 2	Level 3
Financial assets at FVTPL				
Derivative assets	$ 911	$ 911	$ -	$ -
	$ 911	$ 911	$ -	$ -
Financial liabilities at FVTPL				
Derivative liabilities	$ 806	$ -	$ 806	$ -
Other liabilities	$ 286	$ -	$ 286	$ -
	$ 1,092	$ -	$ 1,092	$ -

	December 31 2013	Level 1	Level 2	Level 3
Financial assets at FVTPL				
Derivative assets	$ 152	$ 152	$ -	$ -
	$ 152	$ 152	$ -	$ -
Financial liabilities at FVTPL				
Derivative liabilities	$ 250	$ -	$ 250	$ -
Other liabilities	$ 247	$ -	$ 247	$ -
	$ 497	$ -	$ 497	$ -

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

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

22. COMMITMENTS

22.1 Operating lease commitments

The Company has three operating leases for the business. The first one relates to a facility which houses the decaffeination plant and office. The current lease term will expire in 2018. After 2018, the lease on the decaffeination facility can be renewed at the Company's option for one additional 5-year term.

The second operating lease relates to a warehouse facility that commenced on February 1, 2012. The warehouse lease expires on December 30, 2015.

The third operating lease relates to additional warehouse facilities that commenced on August 1, 2013. In September 2013, the Company entered into an addendum to this lease, securing an adjacent unit effective on October 1, 2013. In November 2014, the Company secured a second building adjacent to the warehouse facility and extended the overall term for all units related to the third operating lease. This lease expires on June 30, 2019.

A summary of future minimum payments under these operating leases as at December 31, 2014 is as follows:

Minimum lease payments due:	
No later than 1 year	$ 1,309
Later than 1 year and no later than 5 years	3,155
Later than 5 years	-
	$ 4,464

22.2 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 December 31, 2014, these contracts related to the purchase of green coffee in the amount of $25.7 million. $25.6m will become payable within 12 months from the financial statement date.

23. SUBSEQUENT EVENTS

The consolidated financial statements for the year ended December 31, 2014 were approved for issuance on March 11, 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 January 15, 2015, the Company paid an eligible dividend in the amount of $0.4 million ($0.0625 per share) to shareholders of record on December 30, 2014.

On March 11, 2015, the Directors declared an eligible dividend of $0.0625 per share, to be paid on April 15, 2015 to shareholders of record on March 31, 2015.

TEN PEAKS COFFEE COMPANY INC.

DIRECTORS AND OFFICERS

David J. Rowntree, Chairman

Mr. Rowntree is the founder and Managing Director of Highland West Capital Ltd., a Vancouver based merchant bank. Prior to founding Highland West, Mr. Rowntree co-founded and co-managed for 18 years Tricor Pacific Capital, a private equity investment firm. Mr. Rowntree is legally trained and spent over 16 years as a practicing lawyer both in public practice and as in-house counsel. In addition to serving as Chairman of Ten Peaks, Mr. Rowntree is a board member of CPI Card Group, a Tricor portfolio company, and is the Past Chair of the Board of the VGH & UBC Hospital Foundation. Mr. Rowntree obtained a Bachelor of Arts degree from the University of British Columbia and a Bachelor of Law degree from Osgoode Hall Law School in Toronto, Ontario.

Frank Dennis, President & CEO, Director

Mr. Dennis leads Ten Peaks and SWDCC with over 20 years of experience in the coffee industry. His background is in packaged goods marketing with Braun Canada and Kraft Foods Canada. Mr. Dennis led the $300 million Kraft coffee portfolio in the late 1990s and was responsible for the sale of the Swiss Water Division to private equity interests in 2000. As President and CEO of SWDCC, he has led the growth of the business and the brand as well as the extended development of the chemical free decaffeination category. Mr. Dennis is highly involved in the specialty coffee industry and is also currently the President of "Grounds For Health" a charity dedicated to reducing cancer in women living in coffee-producing regions. Mr. Dennis earned a B.A. in Economics from the University of Western Ontario, and a M.B.A. from the University of Toronto.

Diane Fulton, Director

Ms. Fulton is Vice-President and Chief Investment Officer of the Vancouver Foundation. Previously, she was Executive Director of Investments for the University of British Columbia's Faculty Pension Plan. In addition, she spent 11 years at Scotia McLeod Inc., most recently as Director and Vice President of Corporate Finance. Ms. Fulton is a director of the University of British Columbia's Investment Management Trust, and serves on the Trust's audit committee. Ms. Fulton is also an advisor to the investment committees of Insurance Corporation of British Columbia and Pacific Blue Cross, and is a member of the investment committees of the Public Guardian and Trustee of British Columbia and the Real Estate Foundation. She holds an honours B.Sc. from the University of Toronto and an M.B.A. from York University. In 2008, she completed the Directors Education Program offered by the Institute of Corporate Directors and earned the ICD.D designation.

Richard T. Mahler, Director

Mr. Mahler was Executive Vice President and CFO of Finning International Inc., the world's largest Caterpillar dealer, from 1990 to 2003. He is Chair of the Board of the British Columbia Investment Management Corporation which manages $100 billion of pension assets for over 500,000 public service workers in the province. Mr. Mahler is past Chair of Partnerships BC and the VGH/UBC Hospital Foundation and was Vice Chair of the Vancouver Board of Trade. He was awarded the Queen's Golden Jubilee Medal for Distinguished Service in 2002. He holds a BSc from the University of Waterloo and a MBA from McMaster University.

Alton McEwen, Director

Mr. McEwen is an experienced business executive with an excellent reputation in the worldwide specialty coffee industry. In July 2011, Mr. McEwen was appointed President and CEO of Distant Lands Coffee Company, having served on the company's board of directors since 2006. Distant Lands is a premium, vertically-integrated coffee farming, importing and roasting operation based in the state of Washington. Previously, Mr. McEwen was CEO of The Second Cup Ltd., Canada's leading specialty coffee retailer, from 2000 until his retirement in 2004. In addition, he brings strong packaged goods and food service expertise gained through prior senior management positions with mmmuffins Ltd., Rowntree Canada, Laura Secord, and Catelli Ltd. Mr. McEwen is a graduate of McGill University.

Donald B. Schroeder, Director

Mr. Schroeder spent 20 years at the TDL Group (the parent company of Tim Hortons) and most recently was its President and Chief Executive Officer, until his retirement in May 2011. Prior to that, he enjoyed a 20-year career as a private practice lawyer in Hamilton, Ontario. It was during this time that Mr. Schroeder's involvement with Tim Horton's began. Since his retirement from the TDL Group, he has continued his association with Tim Hortons as a consultant to the Board of Directors and as a member of the Board of the Tim Hortons Children's Foundation.

Roland W. Veit, Director

A native of Switzerland, Mr. Veit is the principal owner and Chairman of Paragon Coffee Trading Company Ltd. (Paragon), a large US green coffee trading house. He has been involved in the coffee business since 1972, when he started his career at Nestle's world headquarters in Switzerland. In 1978, Mr. Veit left Nestle to work as a coffee trader in Johannesburg and New York, before co-founding Paragon in 1986. He served as a board member of the Green Coffee Association of New York (GCA) from 1998 until 2007, including two terms as Chairman. Mr. Veit serves as a quality and technical arbitrator for the GCA, and the Specialty Coffee Association of America (SCAA). Previously, he was the Chairman of the SCAA's International Relations Committee.

Sherry Tryssenaar, CMA, Chief Financial Officer

As Chief Financial Officer of Ten Peaks and SWDCC, Ms. Tryssenaar is responsible for the corporate finance, external financial reporting, compliance and risk management, and investor relations functions of the companies.
Ms. Tryssenaar is an experienced financial executive and a Certified Management Accountant. She earned a Bachelor of Business Administration (first class honours) from Simon Fraser University, and an MSc (Econ) from the London School of Economics, which she attended as a Commonwealth Scholar. Ms. Tryssenaar is Chair of YWCA Metro Vancouver, and a director of Unit Electrical Engineering, a privately held corporation. In May 2011, Ms. Tryssenaar was recognized as BC's "CFO of the Year" in the Small Public Company category.

TEN PEAKS COFFEE COMPANY INC.

SHAREHOLDER INFORMATION

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