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 20, 2018, provides a review of the financial results for the three and 12 months ended December 31, 2017 relative to the comparable periods of 2016. The three-month period represents the fourth quarter ("Q4") of our 2017 fiscal year. This MD&A should be read in conjunction with Ten Peaks' audited consolidated financial statements for the year ended December 31, 2017, which are available at www.sedar.com.

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

FORWARD-LOOKING STATEMENTS

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

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

EXECUTIVE SUMMARY

During 2017, we recorded record volumes and revenues, as well as year-over-year improvements in our financial results. Strong growth in the first nine months of the year was offset somewhat in the fourth quarter, as anticipated. A summary of our financial results is shown in the table below:

In $000s except per share amounts	3 months ended December 31, 2017	3 months ended December 31, 2016	12 months ended December 31, 2017	12 months ended December 31, 2016
Revenue	$ 20,662	$ 22,449	$ 83,755	$ 81,927
Gross profit	3,178	3,215	12,590	12,050
Operating income	958	1,526	4,812	5,017
Net income	(380)	1,328	4,160	4,149
EBITDA [1]	1,334	1,998	6,923	5,772
Per share:				
Earnings per share,[2] basic	$ (0.04)	$ 0.15	$ 0.46	$ 0.46
Earnings per share,[2] diluted	(0.04)	0.15	0.42	0.46
Dividend declared	0.0625	0.0625	0.25	0.25

[1] EBITDA is defined under 'Non-IFRS Measures' of this MD&A, which is a "Non-GAAP Financial Measure" as defined by CSA Staff Notice 52-306.
[2] Per-share calculations are based on the weighted average number of shares outstanding during the period.

Our improved financial results for the year ended December 31, 2017 primarily reflect our higher volumes, as we continued to gain market share against our competitors. More importantly, our full year volumes were the highest in SWDCC's history, growing by 5% over 2016 with a slight year-over-year decline in the fourth quarter volumes of 2%. Q4 2016 represented the highest quarterly volume in SWDCC's history until the third quarter of 2017, when a new company record was set for quarterly volumes.

Shipments to roasters increased by 6% for the fourth quarter and by 2% for the full year, while shipments to importers decreased by 17% in Q4 and increased by 11% in the full year, compared to the same periods last year. Volumes to our specialty accounts grew by 4% in the fourth quarter and by 9% for the full year. Shipments to our commercial accounts decreased by 5% in the fourth quarter, while 12-month shipments to commercial accounts rose by 2%.

Revenue for the fourth quarter decreased by 8% to $20.7 million, primarily due to a lower coffee commodity price, or New York 'C' (NY'C'), compared to the same quarter of 2016. Revenue for the full year rose by 2% to $83.8 million. Revenue grew in all three categories in 2017, primarily due to the higher volume of shipments.

Gross profit declined by 1%, to $3.2 million in the fourth quarter. Seaforth's warehousing business grew faster than anticipated in 2017, which resulted in increased warehouse, transportation and labour costs being incurred during the fourth quarter to alleviate backlogs. For the full year, gross profit rose by $0.5 million, or 4%, to $12.6 million. The increase was mainly related to higher process revenue, which grew with our increased volumes.

Operating expenses increased in the fourth quarter and for the full year by $0.5 million and $0.7 million, or 31% and 11%, respectively. For both periods, the year-over-year increase reflects higher staffing and staff-related expenses including stock-based compensation.

Operating income was down by $0.6 million, or 37%, to $1.0 million for the fourth quarter. For the full year, operating income declined by $0.2 million, or 4%, to $4.8 million.

Two non-cash items – a loss on foreign exchange and a loss on the fair value of the embedded option – reduced earnings by $1.1 million in the fourth quarter. Overall, we recorded a net loss of $0.4 million in the period, compared to net income of $1.3 million in Q4 2016. For the full year, net income totaled $4.2 million. This was unchanged from 2016, as the increases in our gross profit, gains on risk management activities, and a gain on the embedded option were offset by higher operating costs and financing costs.

EBITDA for the fourth quarter decreased by $0.7 million, or 33%, to $1.3 million, owing to increased operating costs and reduced gains on risk management activities. For the full year, EBITDA increased by $1.2 million, or 20%, to $6.9 million. The increase for 2017 was driven by higher volumes and operating income, as well as improved performance on our risk management activities.

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, Canada. 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. Decaffeinating without the use of chemicals 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, 2017, 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. At the end of 2017, Swiss Water Process Marketing Services Inc. was dissolved and its assets and liabilities were assumed by SWDCC. Inter-company accounts and transactions have been eliminated on consolidation.

Ten Peaks' shares trade on the Toronto Stock Exchange under the symbol 'TPK'. As at the date of this report 9,061,210 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 2017, 22% of the coffee we processed was under toll arrangements, with the balance being regular green coffee sales.

Our cost of sales is comprised primarily of the cost of green coffee purchased for our regular business, 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 NY'C' coffee futures 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 flows 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 operate under the Food Safety Systems Certification (FSSC) 22000 that manages our food safety, as well as HACCP (Hazard Analysis Critical Control Points) 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.

Business and Geographic Segments

During the year ended December 31, 2017, 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 the United States, followed by Canada, and other international markets. By dollar value, 46% of our sales were to customers located in the United States, 42% were to Canada, and the remaining 12% were to other countries.

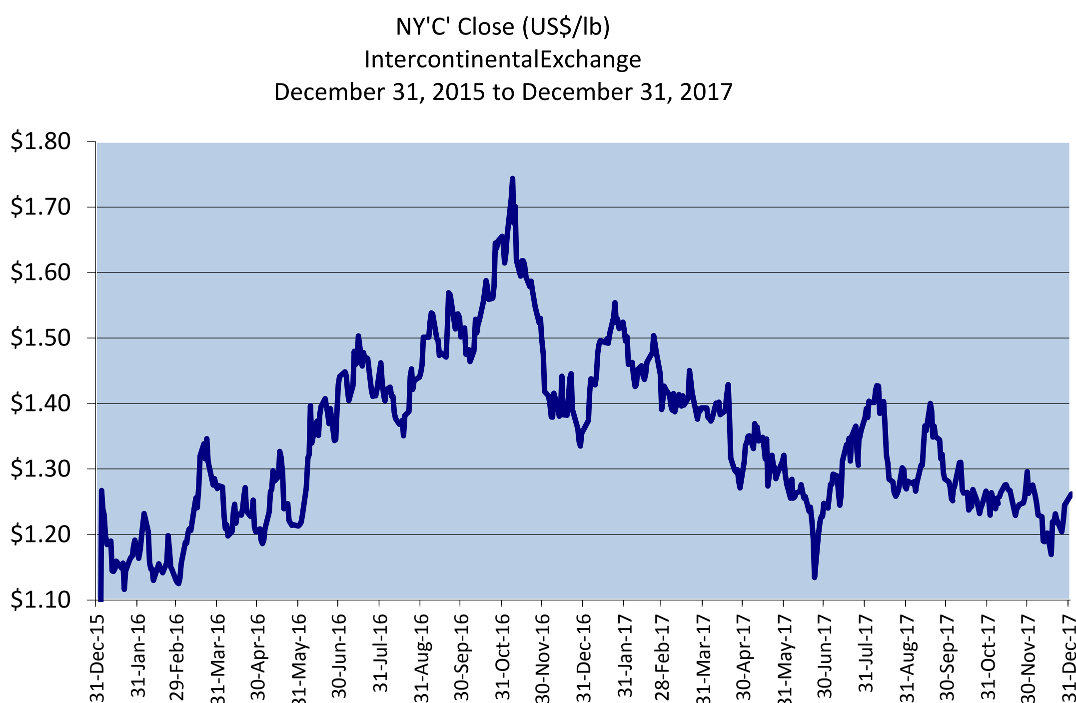
Commodity Futures

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

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

Volatility in the NY'C' generates gains or losses on the derivative financial instruments that we hold. These gains and losses offset corresponding losses or gains in the value of the inventory we hold. In 2016, we adopted hedge accounting under International Financial Reporting Standards ("IFRS"), which now allows us to match gains and losses on our derivative financial instruments with the underlying hedged item (e.g. inventory and purchase commitments).

The chart below shows the movement in the NY'C' for the last eight quarters:



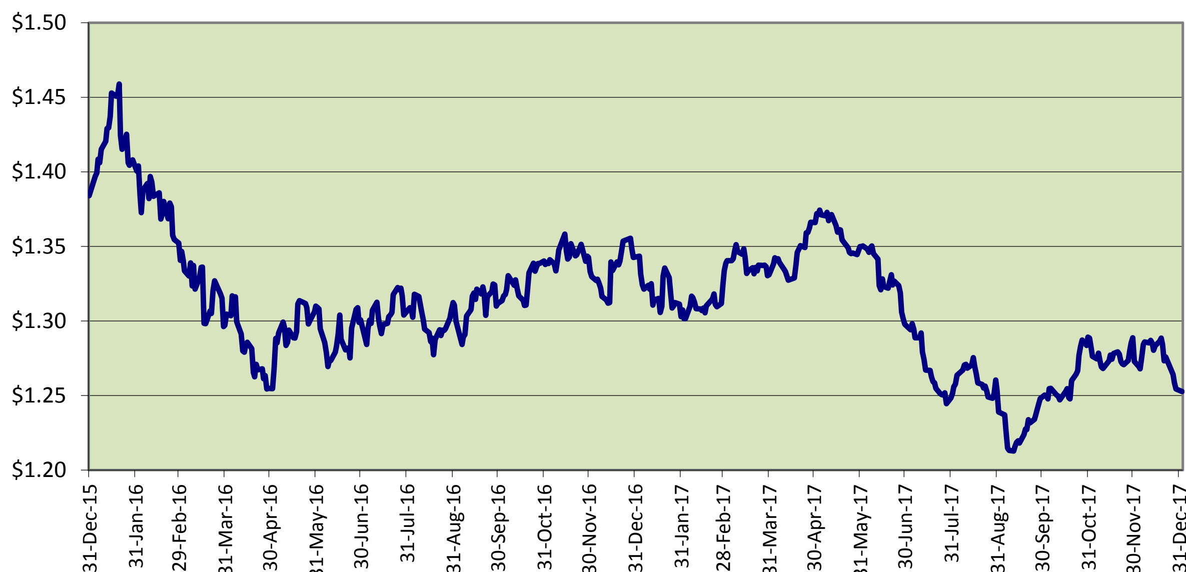
In 2017, the NY'C' averaged US$1.25 in the fourth quarter and US$1.33 for the year, compared to an average of US$1.52 in Q4 2016 and US$1.36 in 2016. The rise and fall of the NY'C' affects our volume of shipments, our revenues and our cost of sales. After the NY'C' reached a seven-year low in January 2016, it rose steadily through the year before peaking in November 2016. In an upward trending market, our customers tend to consume their inventories rather than build them. Subsequently, the NY'C' fell sharply in December, closing 2016 at US$1.37 per pound. During 2017, the NY'C' declined gradually in the first two quarters, rose somewhat in the third quarter and fell again in the fourth quarter, closing the year at US$1.26 per pound. When the NY'C' declines over a sustained period, our customers tend to add to their inventories.

Currency Forwards

Coffee is traded in US$, as buyers and sellers reference the NY'C' coffee price when entering into contracts. As a result, the majority of our revenues are denominated in US$, while a significant portion of our expenses and cash outflows occur in Canadian dollars ("C$"). Therefore, our financial results are affected by any significant fluctuation in US$/C$ 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 60 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 60-month period. In accordance with our risk management policy, 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 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.

The chart below illustrates the US$/C$ exchange rates for the last eight quarters:



In Q4 2017, the US$ averaged $1.27 Canadian, a decrease of 5% over the same period in 2016. For the full year, the US$ averaged $1.30 Canadian, which was 2% lower than in 2016. The US$/C$ exchange rate was relatively stable in the first five months of last year, before declining rapidly between May and the end of August. When the US$ declines rapidly, it reduces our gross profit on green coffee revenues, as we sell our coffee at a lower US$ than we purchased it for.

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

- *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 'Hedge Accounting' below), but cannot hedge our exposure to changes in quality differentials.

  In addition to the price risks associated with holding coffee inventories, our revenue and cost of sales are affected by changes in the underlying commodity price. Commodity price increases (decreases) raise (lower) 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.

  Changes in the NY'C' also affect our statement of financial position, and the amount of working capital we use in our business. When coffee prices rise (fall), our inventory values gradually increase (decrease) as we replace coffee at higher prices. Our accounts receivable and our accounts payable also rise and fall with the NY'C'.

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.

- *US$/C$ 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$/C$ 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.

Internal Factors

- *Processing 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 operate under the Food Safety Systems Certification (FSSC) 22000, which manages our food safety, as well as HACCP (Hazard Analysis Critical Control Points) 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.
- *Order Fulfillment* – Our integrated supply chain management strategy includes maintaining inventories of finished goods at various coffee warehouses throughout North America, and of raw goods for improved inventory replenishment times. Our order fulfillment rates are monitored regularly. An improved order fulfillment rate has contributed to our volume growth and improved customer service levels.
- *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 are proud of the fact that SWDCC has not had a lost-time incident in more than four years. We believe that ensuring employee safety leads to improved employee retention and morale, increased efficiency and lower operating costs.
- *Sustainability and Environmental Responsibility* – The SWISS WATER® Process is a 100% chemical free

decaffeination process that enables us to consistently deliver high-quality coffee. Our approach to sustainability is to continually improve and innovate this process to be more efficient by actively managing resource usage in a safe and environmentally responsible manner. In addition to carefully managing our operations, we take steps to ensure sustainable coffee supply by purchasing sustainably certified coffees and organic coffees. We promote social sustainability by participating in programs within the coffee industry that advance the health of women and their families living in coffee-growing communities (Grounds for Health) and that foster research-based approaches to advancing coffee cultivation (World Coffee Research).

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. In 2016, we expanded the capacity of one of our production lines, which enables us to meet near-term growth in demand for our products. Longer term, we have announced plans to construct a new processing plant, which will house a third production line once it is complete. Construction of the new facility is expected to be complete by the end of 2018, and the new production line is expected to be operational in the second quarter of 2019.
- *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 and Expansion Capital* – We believe we have sufficient lines of credit available to invest in the inventory and working capital required to execute on our business strategy. In 2015 and 2016, we raised equity and debt which is being used to fund the construction of our third production line (to be housed in the new production facility noted above).
- *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)	**December 31, 2017**	**December 31, 2016**	**December 31, 2015**
Balance Sheet			
Total assets	72,848	67,899	57,688
Total long-term liabilities	19,497	17,733	3,070
Income Statement			
Sales	83,755	81,927	83,641
EBITDA(1)	6,923	5,772	8,034
Net income	4,160	4,149	1,312
Dividends paid	2,260	2,256	1,824
Per share, basic(2)			
EBITDA(1)	0.77	0.64	1.04
Net income	0.46	0.46	0.17
Dividends paid	0.25	0.25	0.25
Per share, diluted(2)			
EBITDA(1)	0.64	0.63	1.04
Net income	0.42	0.46	0.17

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

Our total assets and our total liabilities have increased in each of the last two years following an equity offering in 2015 and a convertible debenture offering in 2016. Proceeds from the equity offering in 2015 were used to increase capacity of one production line in 2016, resulting in an increase in fixed assets, and repayment of short-term debt. Proceeds from the debt and equity offerings are also being used to construct a new production line, which will be housed in a new production facility that is currently under construction (see 'Outlook' section, below).

Of note, we adopted hedge accounting on January 1, 2016, and as such the operating results from 2015 are not directly comparable to those in 2016 and 2017. Prior to the adoption of hedge accounting, we experienced considerable volatility in our gross profit, net income and EBITDA numbers. Results of operations including our revenues, net income and EBITDA are discussed in more detail below.

HEDGE ACCOUNTING

We adopted the hedge accounting provisions of IFRS 9 on January 1, 2016 because it better aligns with our existing hedging strategies. The adoption of hedge accounting reduces the volatility in our financial results, by better matching our accounting practices to our existing hedging practices. We have ***not*** changed our risk management strategies with the adoption of hedge accounting. The economic impact of our hedges is unchanged, even though the accounting for these derivative instruments has changed.

We enter into three types of hedges:

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

Each type of hedge is discussed below.

Commodity Hedges:

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

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

Revenue Hedges:

We enter into forward contracts to sell US$ at future dates to hedge the foreign exchange cash flow variability of expected US$ processing fee revenue up to 60 months in advance. The hedged process revenue includes both process revenue from tolling arrangements (processing of customer-owned coffee) as well as the US$ processing fee layer of inventory sales agreements. This enables us to more reliably predict how much Canadian currency we will receive for our US$ process revenue. Cash flows in the immediate twelve month period are hedged at a higher percentage of expected future revenues than those farther out, reflecting greater uncertainty in the 13- to 60-month period.

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

Customer-Specific Hedges:

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

The adoption of hedge accounting allows for better matching of US$ purchases with the associated gains/losses on the forward contracts used to economically hedge these items. At each period-end, customer-specific hedges are re-measured to their fair value. Under hedge accounting, the gains/losses on these hedges

are deferred on the statement of financial position until the inventory is sold, at which time the gains/losses are recorded in cost of sales on the income statement.

OPERATING RESULTS

Processing Volumes and Revenue

We recorded another record year for processing volumes and revenues in 2017, with shipments growing by 5% over 2016. On a year-over-year basis, volumes grew in each of the first three quarters of 2017, then declined marginally by 2% in Q4. The fourth quarter of 2016 was particularly strong, with volumes in that quarter rising by 9% over the same period in 2015.

Growth in sales to our specialty customers led the way in both the fourth quarter and the full year. Volumes to our specialty accounts increased by 4% in in Q4 2017 and by 9% for year, compared to the same periods of 2016. Fourth quarter shipments to our commercial accounts declined by 5% when compared to fourth quarter of 2016, while full-year shipments to commercial accounts rose by 2%.

We also categorize our customers by the nature of their business: either coffee importers or roasters. Coffee importers act like grocery stores to roasters, sourcing and importing green coffee from various origins and carrying a selection of different origins and quality levels for roasters to choose from. Importers buy from us in order to resell our coffees to roasters when and where they need it. Roasters are in the business of roasting and packaging coffee for sale to consumers in their own coffee shops, or for home or office use. Roasters either buy directly from SWDCC, or they buy from an importer. Roasters generally carry lower inventories, as they tend to take delivery of green coffee shortly before roasting it. As such, shipments to roasters are more stable from period to period.

Shipments to importers declined by 17% in Q4 2017, but rose by 11% for the full year. Shipments to roasters increased by 6% in the fourth quarter and by 2% for the full year. In 2016, several months of rising green coffee costs prompted importers to reduce their inventories and delay buying. In Q4 2016, the NY'C' declined quickly, prompting an influx of orders as importers rebuilt inventories. Importers continued to build inventories through much of 2017, as the NY'C' gradually declined.

We monitor and report our revenue in three categories. "Process revenue" represents the amount we charge our customers for decaffeinating green coffee, and it generally increases as our processing volume increases. "Green coffee cost recovery revenue", or "green revenue", is the amount we charge our customers for the green coffee we purchase for decaffeination. "Distribution revenue" consists of shipping, handling and warehousing charges billed to our customers. It typically rises with processing volumes and with the growth of Seaforth's business.

Our revenue by category for the indicated periods was as follows:

(In $000s)	3 months ended December 31, 2017	3 months ended December 31, 2016	12 months ended December 31, 2017	12 months ended December 31, 2016
Process revenue	$ 5,652	$ 5,712	$ 21,781	$ 20,671
Green revenue	13,800	15,661	57,177	57,038
Distribution revenue	1,210	1,076	4,797	4,218
Total	$ 20,662	$ 22,449	$ 83,755	$ 81,927

Our fourth quarter sales totaled $20.7 million, a decrease $1.8 million, or 8%, compared to the same quarter in 2016. Process revenue decreased by $0.1 million, or 1%, reflecting the decrease in sales to commercial customers in the quarter, which was partially offset by hedging gains in the period. Green revenue decreased

by $1.9 million, or 12%, reflecting lower volumes and a drop in NY'C' in the quarter. Distribution revenue rose by $0.1 million, or 12%, due to growth in Seaforth's business.

Annual sales totaled $83.8 million, an increase of $1.8 million, or 2%, over 2016. Process revenue increased by 5%, which was in line with our higher volumes. Our revenue hedges contributed $0.9 million to process revenue, offsetting the impact of a lower US$ in 2017. Green revenue remained flat, as higher sales volumes were offset by a lower NY'C'. Distribution revenue rose by 14%, with the increase driven by higher volumes and growth in Seaforth's business.

Cost of Sales

Cost of sales includes the cost of green coffee purchased for our regular business, the plant labour and other processing costs directly associated with our production facility, customer-specific hedges and commodity hedges. Cost of sales 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.

Cost of sales decreased during the fourth quarter by $1.8 million, or 9%, to $17.5 million. The decrease was driven by lower green coffee costs owing to a lower NY'C', as well as lower volumes in Q4 2017. For the full year, cost of sales was $71.2 million, up by $1.3 million, or 2%, over 2016. The increase was driven by higher volumes of shipments and a stronger US$ earlier in the year, mitigated by $0.9 million in commodity hedges and in customer-specific hedges related to cost of sales.

Gross Profit

Gross profit decreased by 1% in the fourth quarter, with the decline in revenue slightly exceeding the increase in cost of sales. Annual gross profit increased by $0.5 million, or 4%, over 2016 as our higher revenues and shipments more than offset increases in our cost of sales.

Administration Expenses

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

Administration expenses increased by $0.5 million, or 48%, to $1.5 million for the fourth quarter of 2017, and by $0.6 million, or 13%, to $5.1 million for 2017. In both periods, the year-over-year increases reflect higher staffing and staff-related expenses, including stock-based compensation expenses, as well as recruitment expenses for positions filled late in the year.

Sales and Marketing Expenses

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

Sales and marketing expenses were up by $0.1 million, or 11%, to $0.7 million in Q4 2017, and by $0.2 million, or 8%, to $2.6 million, for the full year. In 2017, we invested in increased marketing activities in support of SWDCC's strategic growth initiatives. These activities included an increased media presence, developing and delivering digital consumer marketing content, and increased participation in international trade shows.

Occupancy Expenses

Occupancy expenses include the cost of renting offices for sales, marketing and administrative use. Occupancy costs for the fourth quarter and full year were similar to the same periods in 2016.

Finance Expenses and Income

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

Net finance expenses were $0.2 million and $0.8 million for the three months and year ended December 31, 2017, compared to net finance expense of $0.2 million and nil, respectively, in the same periods last year. In 2017, interest expense for the convertible debenture was $1.4 million, compared to $0.3 million in the prior year. The convertible debenture was issued in Q4 2016, such that interest was incurred for only one quarter that year. Interest on the convertible debenture is expensed at an effective interest rate of 12.15% (a rate determined by management in accordance with IFRS), while the contractual interest paid on this loan is at a rate of 6.85%. Interest expenses were partially offset by interest income of $0.6 million in 2017, compared to $0.3 million in 2016.

Gains and Losses on Risk Management Activities

With the adoption of hedge accounting, gains or losses on designated hedges are included in either revenue or cost of sales, held on the balance sheet or included in other comprehensive income for future transactions (see ‘Hedge Accounting’, above). Thus, ‘Gain on risk management activities’ includes only those gains and losses on derivative financial instruments or portions of such instruments that are not designated as hedging instruments.

For the three months ended December 31, 2017, we recorded a gain of $0.4 million, while during same period in 2016, the gain was $0.5 million. For the full year, we recorded a gain of $1.2 million compared to a gain of $0.6 million for 2016.

Fair Value Adjustment on Embedded Option

Ten Peaks entered into a convertible debenture in October 2016. Under IFRS, this instrument is deemed to contain an embedded option which must be revalued at each balance sheet date. The fair value of the derivative liability was determined using the Black-Scholes Option Pricing Model. The variables and assumptions used in computing the fair value are based on management’s best estimate at each balance sheet date.

The revaluation on this embedded option resulted in a loss of $0.3 million and a gain of $0.6 million in the fourth quarter and for the year, respectively (2016: nil and a loss of $nil).

Gains and Losses on Foreign Exchange

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

During the fourth quarter, we recorded a loss on foreign exchange of $0.8 million, compared to a gain of $0.1 million for the same period in 2016. The rapid depreciation of the C$ late in the fourth quarter of 2017 contributed to the loss on foreign exchange. For the full year, we recorded no effective net foreign exchange gain or loss, compared to a gain of $0.1 million in 2016.

Income Before Taxes and Net Income

In the fourth quarter, we recorded income before taxes of $0.1 million, compared to $1.9 million in the same period of 2016. Current and deferred income taxes reduced net income in Q4 2017 by $0.5 million due to reconciling items from prior periods, which were recorded in the fourth quarter. By comparison, current and deferred income taxes reduced our net income by $0.6 million in Q4 2016. 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 incurred a net loss of $0.4 million for the fourth quarter, compared to net income of $1.3 million for the same period in 2016.

For the full year, we recorded pre-tax income of $5.8 million, up from $5.7 million in 2016. This was reduced by income tax expenses of $1.6 million, unchanged from 2016. Overall, we earned net income of $4.2 million for the full year, compared to $4.1 million in 2016.

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. For the purposes of the calculation, under IFRS we are required to assume that the maximum number of shares issuable under the convertible debenture will be issued, even though the debenture contains a net share settlement provision (which if exercised would result in far fewer shares being issued).

In Q4 2017, the potential common shares issuable under the convertible debenture are anti-dilutive, and as such they are excluded from the calculation of diluted earnings per share in the quarter. These potential common shares are included in the calculation of the diluted earnings per share for 2017.

The calculations of basic and diluted earnings per share for the current and prior periods are shown in the following table:

	3 months ended December 31, 2017	3 months ended December 31, 2016	12 months ended December 31, 2017	12 months ended December 31, 2016
Basic EPS:				
Net income attributable to shareholders	$ (380)	$ 1,328	$ 4,160	$ 4,149
Weighted average number of shares	9,038,862	9,038,862	9,038,862	9,019,621
Basic EPS	**$ (0.04)**	**$ 0.15**	**0.46**	**$ 0.46**
Diluted EPS:				
Net income attributable to shareholders	$ (380)	$ 1,328	$ 4,160	$ 4,149
Effect of diluted securities: RSUs			-	19
After tax effect of diluted securities if debenture converted:				
Interest on convertible debenture	-	-	1,035	-
Loss (gain) on fair value adjustment of embedded option	-	-	(604)	-
Net income after effect of diluted securities	$ (380)	$ 1,328	$ 4,591	$ 4,168
Weighted average number of shares - basic	9,038,862	9,038,862	9,038,862	9,019,621
Effect of diluted securities: RSUs				83,932
Effect of diluted securities: convertible debenture	-	-	1,818,182	-
Weighted average number of shares - diluted	9,038,862	9,038,862	10,857,044	9,103,553
Diluted EPS	**$ (0.04)**	**$ 0.15**	**$ 0.42**	**$ 0.46**

Other Comprehensive Income

Gains or losses on our designated revenue hedges that will mature in future periods are recorded in other comprehensive income, net of income tax expense. Other comprehensive income, net of tax for the fourth quarter was a loss of $0.3 million, compared to a loss of $0.8 million in the same period of 2016. For the full year, we reported accumulated gains in other comprehensive income of $1.1 million, compared to $0.4 million in 2016. This amount fluctuates with the closing US$/C$ exchange rate each period-end.

Non-IFRS Measures

EBITDA

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

We define EBITDA as net income before interest, depreciation, amortization, impairments, share-based compensation, gains/losses on foreign exchange, gains/losses on disposal of capital equipment, fair value adjustments on embedded options, and provision for income taxes. Our definition of EBITDA also excludes unrealized gains and losses on the undesignated portion of foreign exchange forward contracts.

The reconciliation of net income to EBITDA is as follows:

(In $000s)

	3 months ended December 31, 2017	3 months ended December 31, 2016	12 months ended December 31, 2017	12 months ended December 31, 2016
Income for the period	$ (380)	$ 1,328	$ 4,160	$ 4,149
Income taxes	454	590	1,606	1,593
Income before tax	74	1,918	5,766	5,742
Finance income	(174)	(124)	(580)	(342)
Finance expenses	368	316	1,414	346
Depreciation & amortization	583	596	2,172	2,053
Unrealized gain on foreign exchange forward contracts	(679)	(603)	(1,462)	(1,750)
Fair value loss (gain) on embedded option	305	(6)	(604)	(6)
(Gain) loss of foreign exchange	751	(66)	6	(91)
Share-based compensation	106	(33)	211	(180)
EBITDA	**$ 1,334**	**$ 1,998**	**$ 6,923**	**$ 5,772**

In order to help readers better understand our financial results, the following table shows the reconciliation of operating income to EBITDA:

(In $000s)

	3 months ended December 31, 2017	3 months ended December 31, 2016	12 months ended December 31, 2017	12 months ended December 31, 2016
Operating income for the period	$ 958	$ 1,525	$ 4,812	$ 5,017
Add back:				
Depreciation & amortization	583	596	2,172	2,053
Share-based compensation	106	(33)	211	(180)
Gain (loss) on risk management activities	366	519	1,190	638
Deduct:				
Unrealized (gain) loss on foreign exchange forward contracts	(679)	(609)	(1,462)	(1,756)
EBITDA	**$ 1,334**	**1,998**	**6,923**	**5,772**

EBITDA for the three months ended December 31, 2017 was $1.3 million, down by 33% compared to Q4 2016. The year-over-year decrease was related to somewhat lower volumes, increased expenses and reduced gains on risk management activities in Q4 2017. For the full year, EBITDA was $6.9 million, up by 20% from $5.8 million for 2016. Volume increases and improved performance on our risk management activities contributed to the rise in EBITDA.

Quarterly Information / Seasonality

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

In $000s except for per share amounts

	8 Quarter Average	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016
Sales	20,710	20,662	21,955	21,915	19,223	22,448	20,752	18,074	20,653
Gross Profit	3,080	3,178	3,014	3,364	3,035	3,216	3,219	2,601	3,014
Operating income	1,229	958	1,117	1,470	1,267	1,526	1,330	999	1,162
EBITDA[1]	1,587	1,334	1,678	2,235	1,677	1,998	1,515	1,000	1,259
Net income (loss)	1,039	(380)	1,385	1,720	1,435	1,328	879	758	1,184
Per Share[2]									
Net income (loss) - basic	0.12	(0.04)	0.15	0.19	0.16	0.15	0.10	0.08	0.13
Net income (loss) - diluted	0.10	(0.04)	0.15	0.17	0.08	0.15	0.10	0.08	0.13

[1] EBITDA is defined in the section on 'Non-IFRS Financial 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 an element of seasonality in our business, in that the second half of the year tends to have higher volumes and revenues.

Liquidity and Capital Resources

Cash Flow from Operations

For the 12 months ended December 31, 2017, we generated $1.7 million in net cash from operating activities, compared to cash generation of $9.2 million in 2016. Income taxes paid reduced cash from operating activities in the period by $0.9 million (2016: Nil). In addition, investments in inventory used $3.1 million in cash in 2017, compared to a generated cash inflow of $7.4 million in 2016. In 2017 and 2016, there was an increase in accounts receivable which resulted in a decrease in our cash inflows of $0.4 million and $4.5 million, respectively.

Investing Activities

Cash outflows relating to capital expenditures for 2017 were $8.1 million, compared to $5.3 million in 2016. Capital costs for both years included investments in support of our capacity expansion.

In 2016, $12.7 million of cash outflows were related to the purchase of short-term investments, while in 2017, proceeds from short-term investments were $5.6 million.

Financing Activities

During the 12 months ended December 31, 2017, we paid $2.3 million in dividends to shareholders. This is unchanged from 2016.

Credit Facilities and Liquidity

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

In addition, we have a US$8.0 million foreign exchange and commodity futures contract facility. This allows us to enter into spot, forward and other foreign exchange rate transactions with our bank with a maximum term of 60 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, 2017.

Inventory

Our inventory increased 27% by value and 54% by volume between December 31, 2016 and December 31, 2017. The increase reflects growth in both finished goods and raw materials inventory.

With the adoption of hedge accounting, gains/losses on derivative instruments for coffee to be sold in future periods are now recorded in inventory. The hedge accounting component of inventory as at December 31, 2017 was a minor gain, compared to a loss of $0.6 million in 2016.

Accounts Receivable

Our accounts receivable increased by $0.4 million, or 4%, between December 31, 2016 and December 31, 2017. This compares to an increase of $4.5 million, or 63%, between December 31, 2015 and December 31, 2016. The increases reflect a trend in the coffee industry, in which large coffee roasters have demanded longer accounts payable terms from their suppliers. As a result, we extended payment terms to a number of our larger customers in 2016.

Contractual Obligations

The following table sets forth our contractual obligations and commitments as at December 31, 2017:

(In $000s)

	Total	Less than 1 year	1-3 Years	4-5 Years	Over 5 Years
Long-term debt [1]	$ 15,845	$ 28	$ 113	$ 113	$ 15,591
Financing leases [2]	5,696	786	2,210	2,210	491
Operating leases [3]	3,103	1,691	1,412	-	-
Purchase obligations [4]	32,984	32,875	109	-	-
Total contractual obligations	$ 57,628	$ 35,380	$ 3,844	$ 2,323	$ 16,082

[1] Long-term debt represents the principal amounts of the convertible debenture and construction loan.
[2] Minimum obligations for our financing leases.
[3] Minimum obligations for our operating leases.
[4] Represents outstanding coffee and natural gas purchase commitments.

SWDCC leases a facility which houses its decaffeination plant and offices. The current lease term expires in 2018. SWDCC has already exercised its option to renew the lease on the decaffeination facility for one additional five-year term until 2023.

Seaforth leases warehouses in two locations for its primary operations. These leases expire in June 2019 and November 2019.

Swiss Water Decaffeinated Coffee Company USA, Inc. holds a lease for its Seattle, WA sales office, which expires on March 31, 2020.

In 2016, SWDCC signed a lease agreement for a build-to-suit production facility. The lease has an initial term of five years and can be renewed at SWDCC's option in five-year increments up to a total of 30 years. The lease will commence on the earlier of the date of opening of the SWDCC business in any part of the premises, and the date of expiry of the fixturing period, which is estimated to be in May 2018. Under the lease, SWDCC has multiple options to buy-out the lease starting at the end of the second five-year term. The buy-out value will be equal to the fair market value of the property as determined by an appraisal process, subject to specified maximum and minimum values.

The lease also includes a construction management agreement for the construction of a highly specialized building to house the production plant. The landlord will finance a portion of the building, with loan payments commencing on the earlier of substantial completion of construction and January 1, 2019. The loan is repayable in equal monthly installments over 15 years and can be prepaid without penalty at any time. As at the year ended December 31, 2017, Ten Peaks accrued a "Construction loan" to cover amounts due on work completed to date, including accrued interest, in the amount of $0.8 million (2016: nil).

As at December 31, 2017, the Company's capital commitments for the new facility located in Delta, BC were $16.0 million.

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, a company that is related to Ten Peaks' Director, Roland Veit.

The following table summarize related party sales and purchases during the periods:

(In $000s)	3 months ended December 31, 2017	3 months ended December 31, 2016	12 months ended December 31, 2017	12 months ended December 31, 2016
Sales	$ 33	$ 390	$ 303	$ 764
Purchases of raw materials	$ 1,903	$ 1,266	$ 6,934	$ 4,509

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, 2017, our accounts receivable balance with this company was nil (December 31, 2016: $0.1 million) while our accounts payable balance with this company was nil (December 31, 2016: $0.1 million).

On March 16, 2017, a subsidiary of Ten Peaks and a member of Key Management (the borrower) entered into a promissory note in the amount of US$0.1 million. For as long as the borrower remains an employee, the obligation to repay the principal is forgiven against current and future awards under the RSU Plan, by forfeiture of awards. The loan is interest-free other than in the event of default, in which case the promissory note shall bear simple interest at a rate of 10% per annum.

OUTLOOK

Overall, management expects double-digit volume increases in 2018. Demand for our premium quality decaffeinated coffees is rising, due to a number of factors. First, the market for decaffeinated coffee is expanding, with decaf being the fastest growing segment of the US coffee market[1]. Total decaffeinated coffee sales are up year-over-year, with specialty decaffeinated coffee sales being particularly strong, especially in out-of-home markets.

We believe this is due, in part, to the premiumization of the coffee market, as well as growing awareness and consumption of premium decaffeinated coffee. In fact, the largest consumers of decaffeinated coffee are 18 to 24 year olds[2], who want to drink great-tasting coffee all day long, without worrying about the potential side effects of caffeine.

Additionally, younger consumers are more conscious of artificial ingredients and chemicals in the production of their food and drink. As a result, we've seen increased demand for our methylene chloride free, sustainable organically certified and conventional SWISS WATER® Process coffees, as more food companies now employ our branded coffees to help them respond to this growing consumer demand.

More importantly, various media sources[3] have recently underscored the health and environmental hazards associated with methylene chloride (the primary chemical used by our competitors to decaffeinate coffee). This has drawn attention to the real and perceived harmful effects of using chemicals to decaffeinate coffee. At present, our marketing team is leveraging this increased consumer awareness, and highlighting the availability of our premium quality, 100% chemical free coffees. We expect this rise in consumer awareness to stimulate market pull for our coffees over the coming months and year ahead, and we will continue to proactively employ positive messaging to accentuate our amazing coffees without caffeine.

In addition to consumer-driven trends, changes in the global decaffeination market are enhancing our growth prospects. An older decaffeination plant in Europe closed in 2017, reducing the number of available chemical free, third-party decaffeinators. We have already won some additional business from coffee companies affected by this shutdown, and we expect additional growth in the future.

As we have noted previously, we are building a state-of-the-art production facility which will enable us to meet the anticipated long-term growth in demand for our decaffeinated coffees. Construction of the new facility, which is located in Delta, BC, began in May 2017 and is expected to be completed in 2018. Initially, this facility will house one new production line, although the site is large enough for expansion well into the future. The new production line is expected to be completed and commissioned in Q2 2019. The additional capacity that was added in Q1 2016 at our current Burnaby, BC facility, together with additional de-

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[1] National Coffee Association 2017 Coffee Drinking Trends

[2] National Coffee Association 2017 Coffee Drinking Trends

[3] New York Times has published (https://www.nytimes.com/2017/10/21/us/epa-toxic-chemicals.html) and podcasted https://www.nytimes.com/podcasts/the-daily?_r=0 a piece on EPA regulations, and they are highlighting methylene chloride as a key chemical that isn't, but should be, regulated, because it's a hazard to people's health.

Earlier this year, New Scientist published a report (https://www.newscientist.com/article/2138753-ozone-layer-recovery-will-be-delayed-by-chemical-leaks/) about how methylene chloride is slowing the regeneration of the ozone layer. This report was picked up by other media companies as well.

bottlenecking initiatives currently underway, is expected to be sufficient to fulfill expected business growth until the new line is operational.

In short, our unbending commitment to 100% chemical free processing, and to preserving the unique quality of fine coffees through the decaffeination process, are already well recognized, valued and respected by the coffee trade and our customers, while attracting new supporters all the time. Accordingly, we believe our reputation for excellence will continue to drive incremental growth in SWDCC's decaffeination business in 2018 and beyond.

During the coming year, our primary focus will be to position SWDCC for steady future growth, which includes securing new business to fill our current capacity and leveraging the production capacity that will be coming online in 2019. In the second quarter of this year, we expect to open a European sales office, to better serve customers in the largest decaffeinated coffee market in the world. In addition, we are expanding our ability to target specific customer groups by selectively adding to our sales and marketing team. These initiatives will increase our expenses somewhat, and are expected to generate increased sales orders in the second half of this year. Overall, we expect our volume growth to exceed that achieved in 2017.

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, risks related to information technology, 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 option to renew this lease for an additional five-year term has been exercised, with the new lease term expiring in 2023. The lease also provides for an additional five-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. 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.

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

We use financial instruments to mitigate economic risks associated with our business. The three types of hedges we enter into, and the hedging instruments used, are discussed in more detail under 'Hedge Accounting' above.

As of January 1, 2016, we classify our financial assets and financial liabilities in the following measurement categories (i) those to be measured subsequently at fair value (either through other comprehensive income or through profit or loss); and (ii) those to be measured at amortized cost. We have implemented the following classifications for financial instruments other than derivatives:

- Cash and cash equivalents and short-term investments are classified as assets at fair value and any period change in fair value is recorded through interest income in the consolidated statement of income, as applicable.
- Accounts receivable and other receivables are classified as assets at amortized cost using the effective interest rate method. Interest income is recorded in the consolidated statement of income, as applicable.
- Accounts payable, credit facilities, the debt portion of the convertible debenture and other liabilities are classified as other financial liabilities and are measured at amortized cost using the effective interest rate method. Interest expense is recorded in the consolidated statement of income, as applicable.

Commodity Price Risk

Commodity price risk is the risk that the fair value of inventory will fluctuate as a result of changes in commodity prices. We utilize futures contracts to manage our commodity price exposure. We buy and sell futures contracts for coffee on the IntercontinentalExchange in order to offset our inventory position and future purchase commitments, and fix the input cost of green coffee. As at December 31, 2017 we had futures contracts to buy 2.2 million lbs of green coffee with a notional value of US$2.7 million, and contracts to sell 4.5 million lbs of green coffee with a notional value of US$5.5 million (December 31, 2016 – buy 2.0 million lbs with a notional value of US$ 2.7 million, and sell 6.4 million lbs with a notional value of US$8.8 million), with the furthest contract maturing in December 2018. The net notional value of the contracts outstanding at December 31, 2017 was approximately US$2.8 million (2016: US$6.1 million).

Foreign Currency Risk

We realize a significant portion of our sales in US dollars, and purchase green coffee in US$ which is, in some cases, sold to customers in Canadian 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. 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, 2017, we had forward currency contracts to buy US$7.2 million and sell US$46.2 million (December 31, 2016: buy US$9.5 million and sell US$42.7 million) from January 2018 through to December 2021 at various Canadian exchange rates ranging from $1.2147 to $1.3837. The net notional value of the contracts outstanding at December 31, 2017 was approximately US$39.0 million (2016: US$33.2 million).

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 asset retirement obligations, share-based compensation and convertible debt with embedded derivatives 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.

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, and the expected costs that would be paid to a third party to remove equipment.

Convertible Debenture with Embedded Derivatives

On October 11, 2016, the Company issued an unsecured subordinated convertible debenture for gross proceeds of $15,000,000. The convertible debenture bears interest at a rate of 6.85% per annum to be paid quarterly in arrears and is due on October 11, 2023. The convertible debenture is convertible into common shares of the Company at a conversion price of $8.25 per common share. Under the terms of the agreement, Ten Peaks has the option to pay interest-in-kind for the first two years. If elected, this option will increase the principal sum by the interest owing. As of December 31, 2017, this option was not elected.

The convertible debenture also includes a Net Share Settlement feature that allows Ten Peaks, upon conversion, to elect to pay cash equal to the face value of the convertible debenture and to issue common shares equal to the excess value of the underlying equity above the face value of the convertible debenture. If the Net Share Settlement option is elected, it will result in fewer common shares being issued. In 2016, the Company paid financing costs of $0.5 million in respect of issuing the convertible debenture.

Under IFRS, we are required to estimate the interest rate on a similar instrument of comparable credit status and providing for substantially the same cash flows, on the same terms, but without the equity conversion option, in order to estimate the fair value of the liability portion of the convertible debenture upon initial recognition. We have estimated the effective interest rate to be 12.15%, such that the fair value of the liability component of the convertible debenture was initially measured at $11.2 million. During 2017, the company estimated and recorded $1.4 million in interest expense (2016: $0.3 million) and paid $1.0 million (2016: $0.3 million).

We are also required to estimate the fair value of the embedded derivative liability related to the convertible debenture at initial recognition, and at the end of each reporting period. We use the residual value method to allocate the fair value of the convertible debenture between the liability component and the derivative liability. Under this method, the value of the derivative liability was determined to be $3.3 million at inception. The fair value of the derivative liability was determined using the Black-Scholes Option Pricing Model. The

variables and assumptions used in computing the fair value are based on management's best estimate. The value varies with different variables of certain subjective assumptions.

Inputs into the Black-Scholes Option Pricing Model to determine the fair value of the conversion option:

	December 31, 2017	December 31, 2016
Share price	$ 6.70	$ 7.37
Exercise price	$ 8.25	$ 8.25
Option life	5.79 years	7 years
Volatility	40%	39%
Risk-free interest rate	1.90%	0.92%
Dividend yield	3.73%	3.39%

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, 2017, Ten Peaks and its subsidiaries had combined non-capital tax loss carry forwards totaling $0.6 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 for annual periods beginning on or after January 1, 2017, with earlier application permitted.

- *IAS 7 Statement of Cash Flows:* requires additional disclosures about changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.
- *IAS 12 Income Taxes*: implements a 'comprehensive balance sheet method' of accounting for income taxes which recognizes both the current tax consequences of transactions and events and the future tax consequences of the future recovery or settlement of the carrying amount of an entity's assets and liabilities. IAS 12 clarifies the requirements for recognizing deferred tax assets on unrealized loss, deferred tax where an asset is measured at fair value below the assets tax base and certain other aspects of accounting for deferred tax assets.
- *Investment Entities:* (Amendments to IFRS 10 Consolidated Financial Statements, IFRS 12: Disclosures of Interest 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.

- *IFRSs (Amendment):* The Annual Improvements to IFRSs 2012-2016.

We have adopted these amended standards and interpretations, and we assessed that there was no impact on our consolidated financial statements.

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

- *IFRS 9 Financial Instruments:* The Company has early adopted all of the requirements of IFRS 9 as of January 1, 2016.
- *IFRS 2: Share-based payment:* contains amendments to classification and measurement of share-based payment transactions. It is effective for annual periods beginning on or after January 1, 2018.
- *IFRS 15: Revenue from Contracts with Customers:* replaces IAS 11, IAS 18, IFRIC 13, IFRIC 15, IFRIC 18 and SIC-31. IFRS 15 establishes principles to address the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The core principle of IFRS 15 is that revenue related to the transfer of promised goods or services should be recognized when the control of the goods or services passes to customers. The Company has evaluated the impact of applying IFRS 15, analyzing its toll revenue, regular decaffeinated coffee sales and coffee handling agreements. The Company concluded there is no material change in the timing of revenue recognized under the new standard as the point of transfer of risk and reward for goods and services and transfer of control occurs at the same time. In addition, IFRS 15 requires entities to apportion revenue earned from contracts to distinct performance obligations on a relative standalone selling price basis. The impact of this change on the amount of revenue recognized in a year is insignificant. IFRS 15 contains additional presentation and disclosure requirements which are more detailed than the current standards. Upon the adoption of IFRS 15, the Company will provide disclosures for each of the Company's revenue streams to supplement the revenue data that is currently presented in the segmented information disclosure. It is effective for annual periods beginning on or after January 1, 2018.
- *IFRS 16: Leases:* requires an application of control model to the identification of leases, distinguishing between a lease and a service contract. Also, IFRS 16 introduces significant changes to the accounting by lessees, introducing a single, on-balance sheet accounting model that is similar to the current finance lease accounting, with limited exceptions for short-term leases or leases of low value assets. A leasee can choose to apply IFRS 16 using either a full retrospective or a modified retrospective approach. The Company plans to apply IFRS 16 at the date it becomes effective but has not yet selected a transition approach. It is effective for annual periods beginning on or after January 1, 2019.
- *IFRIC 22: Foreign Currency Transactions and Advance Consideration*: clarifies the appropriate exchange rate to use on initial recognition of an asset, expense or income when advance consideration is paid or received in a foreign currency. Management expects this IFRIC may change the exchange rate used to translate advances received for revenue in a foreign currency. The impact on the initial measurement of revenue would depend on the

movements in exchange rates. It is effective for annual periods beginning on or after January 1, 2018.

- *IAS 40 Investment Property*: contains amendments to transfers of investment property. It is effective for annual periods beginning on or after January 1, 2018.
- *IFRIC 23 Uncertainty over Income Tax Treatments*: clarifies the application of recognition and measurement requirements in IAS 12, Income taxes, where there is uncertainty over income taxes. It is effective for annual periods beginning on or after January 1, 2019.

Other than IFRS 9 Financial Instruments (2014), which we early adopted on January 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.

INTERNAL CONTROLS OVER FINANCIAL REPORTING AND DISCLOSURE CONTROLS AND PROCEDURES

The Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") of Ten Peaks are responsible for establishing and maintaining adequate internal control 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, 2017, based on the updated framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO 2013"). Based on this assessment, the CEO and the CFO concluded that, as of December 31, 2017, Ten Peaks' ICFR were effective.

The CEO and the CFO are also responsible for establishing and maintaining adequate disclosure controls and procedures. Disclosure controls and procedures are controls and other procedures designed to provide reasonable assurance that information required to be disclosed in documents filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation and includes controls and procedures designed to ensure that information required to be disclosed in documents filed or submitted under securities legislation is accumulated and communicated to the Company's management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

The CEO and the CFO evaluated, or caused to be evaluated under their supervision, the effectiveness of our disclosure controls and procedures and based on this evaluation, the CEO and the CFO concluded that, as of December 31, 2017, Ten Peaks' disclosure controls and procedures were effective.

There were no changes in our ICFR that occurred during the period beginning on October 1, 2017 and ended on December 31, 2017 have materially affected, or are reasonably likely to materially affect, Ten Peaks' ICFR.

SUBSEQUENT EVENTS

On January 15, 2018, Ten Peaks paid an eligible dividend in the amount of $0.6 million ($0.0625 per share) to shareholders of record on December 29, 2017.

On February 21, 2018 the Company issued 22,348 of shares pursuant to Restricted Share Unit Plan.

On March 19, 2018, Ten Peaks declared an eligible dividend of $0.0625 per share, to be paid on April 16, 2018 to shareholders of record on March 29, 2018.