



**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**(unaudited)**

**For the Three and Nine Months Ended September 30, 2017**

**TEN PEAKS COFFEE COMPANY INC.**

**Condensed Consolidated Interim Statements of Financial Position  
(Tabular amounts in thousands of Canadian dollars)  
(Unaudited)**

as at	Note	<u>September 30, 2017</u>	<u>December 31, 2016</u>
<b>Assets</b>			
Current assets			
Inventories	4	\$ 13,612	\$ 11,574
Accounts receivable		11,830	11,707
Prepaid expenses and other receivables		491	524
Short-term investments		18,887	12,700
Derivative assets	5	1,551	95
Cash and cash equivalents		2,526	12,497
Total current assets		<u>48,897</u>	<u>49,097</u>
Non-current assets			
Plant and equipment	6	20,021	16,278
Intangible assets	7	1,492	1,687
Deferred tax assets		1,238	837
Derivative assets	5	959	-
Long-term receivables		82	-
Total non-current assets		<u>23,792</u>	<u>18,802</u>
Total assets		<u>\$ 72,689</u>	<u>\$ 67,899</u>
<b>Liabilities and shareholders' equity</b>			
Current liabilities			
Accounts payable		\$ 4,429	\$ 2,797
Accrued liabilities		1,335	1,166
Dividend payable	12	565	565
Derivative liabilities	5	177	815
Current portion of other liabilities		527	488
Total current liabilities		<u>7,033</u>	<u>5,831</u>
Non-current liabilities			
Derivative liabilities	5	-	582
Fair value adjustment on embedded option	5	2,405	3,314
Deferred tax liabilities		2,226	1,676
Convertible debenture	5	11,559	11,283
Other liabilities		65	81
Asset retirement obligation		802	797
Total non-current liabilities		<u>17,057</u>	<u>17,733</u>
Total liabilities		<u>24,090</u>	<u>23,564</u>
Shareholders' equity			
Share capital	8	43,496	43,496
Share-based compensation reserve		77	63
Accumulated other comprehensive income		1,823	419
Retained earnings		3,203	357
Total equity		<u>48,599</u>	<u>44,335</u>
Total liabilities and shareholders' equity		<u>\$ 72,689</u>	<u>\$ 67,899</u>

**Subsequent Events (note 17)**

Approved on behalf of the Board  
(signed) *David Rowntree*, Director (signed) *Frank Dennis*, Director

See accompanying notes to these Condensed Consolidated Interim Financial Statements

**TEN PEAKS COFFEE COMPANY INC.**

**Condensed Consolidated Interim Statements of Income**

(Tabular amounts in thousands of Canadian dollars except per share amounts)

(Unaudited)

for the	Note	3 months ended September 30, 2017	3 months ended September 30, 2016	9 months ended September 30, 2017	9 months ended September 30, 2016
Revenue		\$ 21,955	\$ 20,752	\$ 63,093	\$ 59,478
Cost of sales		<u>(18,941)</u>	<u>(17,533)</u>	<u>(53,680)</u>	<u>(50,643)</u>
Gross profit		3,014	3,219	9,413	8,835
Operating expenses					
Sales and marketing expenses		(626)	(668)	(1,861)	(1,745)
Occupancy expenses		(34)	(34)	(101)	(103)
Administration expenses		<u>(1,237)</u>	<u>(1,187)</u>	<u>(3,595)</u>	<u>(3,497)</u>
Total operating expenses		(1,897)	(1,889)	(5,557)	(5,345)
Operating income		1,117	1,330	3,856	3,490
Non-operating or other					
Finance (expense) income, net		(252)	50	(641)	188
Gain on risk management activities		129	97	825	120
Fair value (loss) gain on embedded option	5	(56)	-	909	-
Gain (loss) on foreign exchange		<u>633</u>	<u>(202)</u>	<u>745</u>	<u>24</u>
Total non-operating or other		454	(55)	1,838	332
Income before tax		1,571	1,275	5,694	3,822
Income tax expense		<u>(186)</u>	<u>(396)</u>	<u>(1,153)</u>	<u>(1,002)</u>
<b>Net income for the period</b>		<u>\$ 1,385</u>	<u>\$ 879</u>	<u>\$ 4,541</u>	<u>\$ 2,820</u>
<b>Earnings per share</b>					
Basic (per share)	14	<u>\$ 0.15</u>	<u>\$ 0.10</u>	<u>\$ 0.50</u>	<u>\$ 0.31</u>
Diluted (per share)	14	<u>\$ 0.15</u>	<u>\$ 0.10</u>	<u>\$ 0.41</u>	<u>\$ 0.31</u>

See accompanying notes to these Condensed Consolidated Interim Financial Statements

**TEN PEAKS COFFEE COMPANY INC.**

(Tabular amounts in thousands of Canadian dollars)

(Unaudited)

**Condensed Consolidated Interim Statements of Comprehensive Income**

for the	3 months ended September 30, 2017	3 months ended September 30, 2016	9 months ended September 30, 2017	9 months ended September 30, 2016
<b>Net income for the period</b>	\$ 1,385	\$ 879	\$ 4,541	\$ 2,820
<b>Other comprehensive income (loss)</b>				
Items that may be subsequently reclassified to income				
Other comprehensive income (loss) for the period	709	(727)	1,897	1,635
Tax on other comprehensive income (loss) for the period	(184)	189	(493)	(425)
<b>Net income and other comprehensive income for the period</b>	\$ 1,910	\$ 341	\$ 5,945	\$ 4,030

**Condensed Consolidated Interim Statements of Changes in Equity**

	Share capital		Share-based compensation reserve	Accumulated Other Comprehensive Income ("AOCI")	Retained earnings	Total equity
	Shares	Amount				
<b>Balance at December 31, 2015</b>	9,011,566	\$ 43,448	\$ 72	\$ -	\$ (1,536)	\$ 41,984
Shares issued for restricted share units	27,296	48	(48)	-	-	-
Share-based compensation	-	-	39	-	-	39
Dividends (Note 12)	-	-	-	-	(2,256)	(2,256)
Net income and comprehensive income, net of tax	-	-	-	419	4,149	4,568
<b>Balance at December 31, 2016</b>	9,038,862	\$ 43,496	\$ 63	\$ 419	\$ 357	\$ 44,335
Share-based compensation	-	-	14	-	-	14
Dividends (Note 12)	-	-	-	-	(1,695)	(1,695)
Net income and comprehensive income, net of tax	-	-	-	1,404	4,541	5,945
<b>Balance at September 30, 2017</b>	9,038,862	\$ 43,496	\$ 77	\$ 1,823	\$ 3,203	\$ 48,599

See accompanying notes to these Condensed Consolidated Interim Financial Statements

TEN PEAKS COFFEE COMPANY INC.  
Condensed Consolidated Interim Statements of Cash Flows  
(Tabular amounts in thousands of Canadian dollars)  
(Unaudited)

for the	Note	<u>9 months ended</u> <u>September 30, 2017</u>	<u>9 months ended</u> <u>September 30, 2016</u>
<b>Cash flows from operating activities</b>			
Net income for the period		\$ 4,541	\$ 2,820
Items not affecting cash			
Depreciation and amortization		1,589	1,456
Unrealized (gain) loss on undesignated hedging instruments		(782)	1,147
Unrealized gain on fair value adjustment of embedded option		(909)	-
Share-based compensation expense (recovery)		105	(147)
Income taxes recognized in profit and loss		1,153	1,002
Interest income recognized in profit and loss		(406)	(218)
Interest expense recognized in profit and loss		1,046	30
		<u>6,337</u>	<u>6,090</u>
Change in non-cash working capital relating to operating activities	16	<u>(2,358)</u>	<u>(3,172)</u>
<b>Net cash generated from operations</b>		<b>3,979</b>	<b>2,918</b>
Interest received		341	218
Interest paid		(764)	(42)
Income taxes paid		(507)	-
<b>Net cash generated from operating activities</b>		<b>3,049</b>	<b>3,094</b>
<b>Cash flows for investing activities</b>			
Additions to plant and equipment		(5,138)	(4,253)
Short-term investments		(6,187)	-
<b>Net cash used in investing activities</b>		<b>(11,325)</b>	<b>(4,253)</b>
<b>Cash flows from (to) financing activities</b>			
Dividends paid		(1,695)	(1,691)
Payment of restricted share units settled in cash		-	(147)
Proceeds from bank indebtedness		-	598
<b>Net cash used in financing activities</b>		<b>(1,695)</b>	<b>(1,240)</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(9,971)</b>	<b>(2,398)</b>
<b>Cash and cash equivalents, beginning of year</b>		<b>12,497</b>	<b>9,065</b>
<b>Cash and cash equivalents, end of period</b>		<b>\$ 2,526</b>	<b>\$ 6,667</b>

See accompanying notes to these Condensed Consolidated Interim Financial Statements

# TEN PEAKS COFFEE COMPANY INC.

---

## Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2017

(Tabular amounts in thousands of Canadian dollars except per share amounts)

(Unaudited)

### 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.

### 2. BASIS OF PREPARATION

The Company's condensed consolidated interim financial statements for the three and nine months ended September 30, 2017 have been prepared in accordance with International Accounting Standards 34 – Interim Financial Reporting ("IAS 34") as issued by the International Accounting Standards Board ("IASB"). Accordingly, certain disclosures included in the annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the IASB have been condensed or omitted. These condensed consolidated interim financial statements should be read in conjunction with the Company's amended and restated audited consolidated financial statements for the year ended December 31, 2016.

The accounting policies applied in the preparation of these condensed consolidated interim financial statements are consistent with those applied and disclosed in the Company's amended and restated audited consolidated financial statements for the year ended December 31, 2016, except for those policies disclosed below.

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

The following amendments to accounting standards became effective for annual periods beginning on or after January 1, 2017. The adoption of these revised standards by the Company did not have a material impact on its condensed consolidated interim financial statements.

- *IAS 7: Statement of Cash Flows:* requires an entity to present a statement of cash flows as an integral part of its primary financial statements. Cash flows are classified and presented into operating activities (either using the 'direct' or 'indirect' method), investing activities or financing activities, with the latter two categories generally presented on a gross basis.
- *IAS 12: Income Taxes:* implements a 'comprehensive statement of changes of financial statement 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.

The following new standard is effective for annual periods beginning on or after January 1, 2018.

- *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.

The company has not yet adopted this standard, and is currently assessing the impact of the adoption.

## TEN PEAKS COFFEE COMPANY INC.

### Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2017

(Tabular amounts in thousands of Canadian dollars except per share amounts)

(Unaudited)

#### 3. 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 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.

#### 4. INVENTORIES

During the three and nine months ended September 30, 2017, the cost of inventories recognized as an expense was \$17.7 million (2016: \$16.1 million) and \$50.0 million (2016: \$47.5 million), respectively. The hedge accounting component represents the derivative loss on designated hedges for inventory on hand as at each period end.

	September 30, 2017	December 31, 2016
Raw materials	\$ 7,045	\$ 5,864
Finished goods	6,358	5,835
Carbon	357	315
Packaging	64	147
Hedge accounting component	(212)	(587)
	\$ 13,612	\$ 11,574

#### 5. DERIVATIVE FINANCIAL INSTRUMENTS

The Company's derivative financial instruments carried at fair value through profit or loss were as follows:

	September 30, 2017	December 31, 2016
Coffee futures contracts, net	\$ 1,052	\$ 95
US Dollar forward contracts, current	324	(815)
US Dollar forward contracts, long term	959	(582)
Fair value adjustment on embedded option	(2,405)	(3,314)
	\$ (70)	\$ (4,616)

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 statement of financial position 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 statement of financial position date. The value varies with different variables and certain assumptions.

# TEN PEAKS COFFEE COMPANY INC.

## Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2017

(Tabular amounts in thousands of Canadian dollars except per share amounts)

(Unaudited)

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

Key Inputs	At September 30, 2017	At Inception
Share price	\$6.45	\$7.37
Exercise price	\$8.25	\$8.25
Option life	6.04 years	7 years
Volatility	39%	39%
Risk-free interest rate	1.96%	0.92%
Dividend yield	3.88%	3.39%

For the three and nine months ended September 30, 2017, this revaluation resulted in a loss of \$0.06 million and a gain of \$0.9 million, respectively, being recorded in income.

## 6. PLANT AND EQUIPMENT

	Machinery and equipment	Leasehold improvements	Computer equipment	Furniture and fixtures	Construction in progress	Total
<b>Cost</b>						
Balance January 1, 2017	\$ 33,557	\$ 5,052	\$ 1,062	\$ 181	\$ 2,083	\$ 41,935
Additions	51	6	33	5	5,043	5,138
Balance September 30, 2017	\$ 33,608	\$ 5,058	\$ 1,095	\$ 186	\$ 7,126	\$ 47,073
<b>Accumulated depreciation</b>						
Balance January 1, 2017	\$ (21,546)	\$ (3,227)	\$ (750)	\$ (134)	\$ -	\$ (25,657)
Depreciation	(1,066)	(237)	(84)	(8)	-	(1,395)
Balance September 30, 2017	\$ (22,612)	\$ (3,464)	\$ (834)	\$ (142)	\$ -	\$ (27,052)
<b>Carrying amount September 30, 2017</b>	\$ 10,996	\$ 1,594	\$ 261	\$ 44	\$ 7,126	\$ 20,021
<b>Cost</b>						
Balance January 1, 2016	\$ 28,284	\$ 4,952	\$ 998	\$ 304	\$ 2,127	\$ 36,665
Additions	-	63	-	-	5,230	5,293
Disposals	(23)	-	-	-	-	(23)
Transfers	5,296	37	64	(123)	(5,274)	-
Balance December 31, 2016	\$ 33,557	\$ 5,052	\$ 1,062	\$ 181	\$ 2,083	\$ 41,935
<b>Accumulated depreciation</b>						
Balance January 1, 2016	\$ (20,229)	\$ (2,882)	\$ (641)	\$ (157)	\$ -	\$ (23,909)
Depreciation	(1,285)	(345)	(109)	(9)	-	(1,748)
Balance December 31, 2016	\$ (21,546)	\$ (3,227)	\$ (750)	\$ (134)	\$ -	\$ (25,657)
<b>Carrying amount December 31, 2016</b>	\$ 12,011	\$ 1,825	\$ 312	\$ 47	\$ 2,083	\$ 16,278

For the three months ended September 30, 2017, depreciation expense of \$437,000 (2016: \$413,000) has been charged to cost of sales and \$30,000 (2016: \$32,000) was included in administration expenses.

For the nine months ended September 30, 2017, depreciation expense of \$1,303,000 (2016: \$1,166,000) has been charged to cost of sales and \$92,000 (2016: \$64,000) was included in administration expenses.

There was no impairment loss recognized for the three and nine months ended September 30, 2017 (2016: nil).



## TEN PEAKS COFFEE COMPANY INC.

### Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2017

(Tabular amounts in thousands of Canadian dollars except per share amounts)

(Unaudited)

#### 7. INTANGIBLE ASSETS

	PPT		Brand		Total
<b>Cost</b>					
Balance January 1, 2017	\$	3,246	\$	1,000	\$ 4,246
Balance September 30, 2017	\$	3,246	\$	1,000	\$ 4,246
<b>Amortization</b>					
Balance January 1, 2017	\$	(1,680)	\$	(879)	\$ (2,559)
Amortization		(181)		(14)	(195)
Balance September 30, 2017	\$	(1,861)	\$	(893)	\$ (2,754)
<b>Carrying amount September 30, 2017</b>	\$	1,385	\$	107	\$ 1,492
<b>Cost</b>					
Balance January 1, 2016	\$	3,246	\$	1,000	\$ 4,246
Balance December 31, 2016	\$	3,246	\$	1,000	\$ 4,246
<b>Amortization</b>					
Balance January 1, 2016	\$	(1,440)	\$	(859)	\$ (2,299)
Amortization		(240)		(20)	(260)
Balance December 31, 2016	\$	(1,680)	\$	(879)	\$ (2,559)
<b>Carrying amount December 31, 2016</b>	\$	1,566	\$	121	\$ 1,687

For the three months ended September 30, 2017, amortization expense of \$60,000 (2016: \$60,000) relating to Proprietary Process Technology ("PPT") has been charged to cost of sales and \$5,000 (2016: \$4,000) relating to Brand was included in administration expenses.

For the nine months ended September 30, 2017, amortization expense of \$181,000 (2016: \$180,000) relating to PPT has been charged to cost of sales and \$14,000 (2016: \$14,000) relating to Brand was included in administration expenses.

There was no impairment loss recognized for the three and nine months ended September 30, 2017 (2016: nil).

#### 8. 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.

As of September 30, 2017, there were 9,038,862 common shares, and 103,257 restricted share units ("RSUs") outstanding.

## TEN PEAKS COFFEE COMPANY INC.

### Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2017

(Tabular amounts in thousands of Canadian dollars except per share amounts)

(Unaudited)

#### Restricted share units

The movement in RSUs for the nine months ended September 30, 2017, and the year ended December 31, 2016, is as follows:

	Number of RSUs	Volume based weighted average share price	Remaining vesting period (years)	Performance based
<b>Balance at January 1, 2016</b>	<b>97,304</b>	<b>\$ 12.01</b>	<b>1.45</b>	
RSUs issued for dividends	2,477	\$ 8.62	1.03	No
RSUs forfeited	(3,136)	\$ 6.92	-	No
RSUs cash-settled	(21,064)	\$ 6.96	-	No
RSUs exercised	(27,296)	\$ 6.96	-	No
<b>Balance at December 31, 2016</b>	<b>48,285</b>	<b>\$ 7.86</b>	<b>1.14</b>	
RSUs issued for dividends	1,416	\$ 6.26	0.85	No
RSUs granted	52,480	\$ 6.19	2.86	No
RSUs issued for dividends	524	\$ 6.26	2.86	No
RSUs issued for dividends	551	\$ 6.01	2.61	No
<b>Balance at September 30, 2017</b>	<b>103,257</b>	<b>\$ 6.48</b>		

#### Deferred share units

The movement in deferred share units "DSUs" for the nine months ended September 30, 2017, and the year ended December 31, 2016, is as follows:

	Number of DSUs	Weighted average share price	Performance based
<b>Balance at January 1, 2016</b>	57,391	\$ 12.06	
DSUs issued	11,488	\$ 8.79	No
<b>Balance at December 31, 2016</b>	68,879	\$ 7.08	
DSUs issued	3,393	\$ 7.12	No
DSUs exercised	(9,581)	\$ 6.24	No
DSUs issued	2,524	\$ 6.45	No
DSUs issued	2,687	\$ 6.36	No
<b>Balance at September 30, 2017</b>	<b>67,902</b>	<b>\$ 6.46</b>	

## TEN PEAKS COFFEE COMPANY INC.

### Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2017

(Tabular amounts in thousands of Canadian dollars except per share amounts)

(Unaudited)

#### 9. BANK INDEBTEDNESS

The Company had no outstanding bank debt as at September 30, 2017 or December 31, 2016, other than temporary overdraft accounts in the amount of \$0.3 million (2016: \$0.2 million). The following credit facilities were available to the Company as at September 30, 2017:

- a. a \$14.5 million revolving operating line of credit which bears interest at the bank's prime lending rate plus 75 basis points; and
- b. a \$1.5 million swing operating line of credit which bears interest at the bank's prime lending rate plus 75 basis points.

Any US dollar ("US\$") denominated debt under the revolving operating line of credit or swing line can be financed using LIBOR loans at the LIBOR rate plus 2.35% per annum.

In addition, the Company has a US\$8.0 million foreign exchange and commodity futures contract facility, which allows the Company to enter into spot, forward and other foreign exchange rate transactions and commodity futures transactions with the bank with a maximum term of up to 60 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 September 30, 2017, the Company was in compliance with its debt covenants.

#### 10. EMPLOYEE BENEFITS EXPENSES

Expenses recognized for employee benefits are detailed below:

	3 months ended September 30, 2017	3 months ended September 30, 2016	9 months ended September 30, 2017	9 months ended September 30, 2016
Short-term benefits	\$ 1,884	\$ 1,691	\$ 5,067	\$ 5,104
Long-term benefits	62	81	100	(147)
Post-employment benefits	138	216	519	557
	\$ 2,084	\$ 1,988	\$ 5,686	\$ 5,514

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.

#### 11. 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.

# TEN PEAKS COFFEE COMPANY INC.

## Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2017

(Tabular amounts in thousands of Canadian dollars except per share amounts)

(Unaudited)

### Key Management Personnel

The remuneration of directors and key management personnel for the periods was as follows:

	3 months ended September 30, 2017		3 months ended September 30, 2016		9 months ended September 30, 2017		9 months ended September 30, 2016	
Short-term benefits	\$	454	\$	265	\$	1,037	\$	848
Long-term benefits		50		72		78		(156)
Post-employment benefits		19		46		55		72
	\$	523	\$	383	\$	1,170	\$	764

On March 16, 2017, a subsidiary of the Company 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.

### Trading transactions

During the periods, the Company entered into the following transactions with a company that is related to a director:

	3 months ended September 30, 2017		3 months ended September 30, 2016		9 months ended September 30, 2017		9 months ended September 30, 2016	
Sales	\$	44	\$	215	\$	270	\$	374
Purchase of raw materials	\$	1,081	\$	901	\$	5,031	\$	3,243
						September 30, 2017		December 31, 2016
Accounts receivable					\$	-	\$	121
Accounts payable					\$	236	\$	94

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.

## 12. DIVIDENDS

For the nine months ended September 30, 2017, the Company declared quarterly eligible dividends to shareholders totaling \$1.7 million or \$0.1875 per share (2016: \$1.7 million) of which \$0.6 million was payable at September 30, 2017 (2016: \$0.6 million).

## 13. SEGMENT REPORTING

The Company’s sales are primarily generated in a single segment (decaffeination of green coffee) and in three geographic areas – Canada, United States and other international markets.

The Company’s revenue from external customers and its non-current assets by location are detailed below:

# TEN PEAKS COFFEE COMPANY INC.

## Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2017

(Tabular amounts in thousands of Canadian dollars except per share amounts)

(Unaudited)

### Revenue:

	3 months ended September 30, 2017	3 months ended September 30, 2016	9 months ended September 30, 2017	9 months ended September 30, 2016
Canada	\$ 8,524	\$ 8,169	\$ 25,824	\$ 22,863
United States	10,880	10,742	30,261	28,386
Other	2,551	1,841	7,008	8,229
	\$ 21,955	\$ 20,752	\$ 63,093	\$ 59,478

### Non-current assets (not including deferred tax assets):

	September 30, 2017	December 31, 2016
Canada	\$ 22,541	\$ 17,951
United States	13	14
	\$ 22,554	\$ 17,965

## 14. BASIC AND DILUTED EARNINGS PER SHARE

	3 months ended September 30, 2017	3 months ended September 30, 2016	9 months ended September 30, 2017	9 months ended September 30, 2016
<b>Basic EPS:</b>				
Net income attributable to shareholders	\$ 1,385	879	\$ 4,541	\$ 2,820
Weighted average number of shares	9,038,862	9,016,313	9,038,862	9,013,160
<b>Basic EPS</b>	<b>\$ 0.15</b>	<b>\$ 0.10</b>	<b>\$ 0.50</b>	<b>\$ 0.31</b>
<b>Diluted EPS:</b>				
Net income attributable to shareholders	\$ 1,385	\$ 879	\$ 4,541	\$ 2,820
After tax effect of diluted securities if debenture converted:				
Interest on convertible debenture	-	-	770	-
Loss (gain) on fair value adjustment of embedded option	-	-	(909)	-
Net income after effect of diluted securities	\$ 1,385	\$ 879	\$ 4,402	\$ 2,820
Weighted average number of shares - basic	9,038,862	9,016,313	9,038,862	9,013,160
Effect of diluted securities: convertible debenture	-	-	1,818,182	-
Weighted average number of shares - diluted	9,038,862	9,016,313	10,857,044	9,013,160
<b>Diluted EPS</b>	<b>\$ 0.15</b>	<b>\$ 0.10</b>	<b>\$ 0.41</b>	<b>\$ 0.31</b>

The following potential common shares are anti-dilutive in one or more periods and are therefore excluded from the weighted average number of common shares outstanding for the purposes of calculating the diluted earnings per share for such periods:

	3 months ended September 30, 2017	3 months ended September 30, 2016	9 months ended September 30, 2017	9 months ended September 30, 2016
Weighted average number of RSUs granted	857	51,019	43,426	51,019
Effect of diluted securities: convertible debenture	1,818,182	-	-	-

# TEN PEAKS COFFEE COMPANY INC.

## Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2017

(Tabular amounts in thousands of Canadian dollars except per share amounts)

(Unaudited)

### 15. 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.

#### 15.1 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 September 30, 2017, the Company had futures contracts to buy 1,800,000 lbs of green coffee with a notional value of US\$2.3 million, and contracts to sell 4.5 million lbs of green coffee with a notional value of US\$5.8 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 September 30, 2017 was approximately US\$3.4 million.

The Company estimated a 1 percent change in the mark-to-market rate applied to the futures contracts as, at September 30, 2017, would have resulted in an estimated C\$42,000 change in income before taxes.

The following tables provide a summary of amounts related to future contacts designated as hedging instruments at September 30, 2017:

	Nominal amount of the hedging instruments (In US\$000s)	Carrying amount of the hedging instruments		Line item in the statement of financial position where the hedging instrument is located	Changes in fair value used for calculating hedge ineffectiveness for 2017
		Assets	Liabilities		
<b>Fair value hedges</b>					
<b>Commodity price risk</b>					
-Coffee futures	3,401	\$ 731	\$ -	Derivative assets and inventories	\$ -

# TEN PEAKS COFFEE COMPANY INC.

## Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2017

(Tabular amounts in thousands of Canadian dollars except per share amounts)

(Unaudited)

	Accumulated amount of fair value hedge adjustment on the hedged items included in the carrying amount of the hedged items		Line item in the statement of financial position where the hedged item is located	Changes in fair value used for calculating hedge ineffectiveness for 2017	Cashflow hedge reserve	
	Nominal amount of the hedged item (In 000s lbs)	Assets				Liabilities
<b>Fair value hedges</b>						
- Purchase commitments and coffee inventory	2,726	\$ -	\$ 3	Derivative assets and inventories	\$ -	N/A

### 15.2 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 September 30, 2017, the Company had forward currency contracts to buy US\$6.8 million and sell US\$42.8 million (December 31, 2016: buy US\$9.5 million and sell US\$42.7 million) from October 2017 through to August 2021 at various Canadian exchange rates ranging from \$1.2147 to \$1.3837. The net notional value of the contracts outstanding at September 30, 2017 was approximately US\$36.0 million.

The Company estimates a 100 basis point change in the US\$ exchange rate relative to the Canadian dollar under forward foreign exchange contracts would have resulted in an estimated US\$0.3 million change in income before taxes.

The following tables provide a summary of amounts related to foreign currency forward contracts designated as hedging instruments at September 30, 2017:

	Carrying amount of the hedging instruments		Line item in the statement of financial position where the hedging instrument is located	Changes in fair value used for calculating hedge ineffectiveness for 2017	
	Nominal amount of the hedging instruments (In US\$000s)	Assets			Liabilities
<b>Fair value hedges</b>					
<b>Foreign exchange risk</b>					
- Designated foreign currency purchase forwards	6,181	\$ -	\$ 495	Derivative liabilities and inventories	\$ (66)
<b>Cashflow hedges</b>					
<b>Foreign exchange risk</b>					
- Foreign currency forwards	32,035	\$ 1,524	\$ 80	Derivative assets and derivative liabilities	\$ -

## TEN PEAKS COFFEE COMPANY INC.

### Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2017

(Tabular amounts in thousands of Canadian dollars except per share amounts)

(Unaudited)

	Accumulated amount of fair value hedge adjustment on the hedged items included in the carrying amount of the hedged items				Line item in the statement of financial position where the hedged item is located	Changes in fair value used for calculating hedge ineffectiveness for 2017	Cashflow hedge reserve
	Nominal amount of the hedged item (In US\$000s)	Assets	Liabilities				
<b>Foreign exchange risk</b>							
- Purchase commitments and coffee inventory	6,181	\$ 612	\$ -		Derivative assets, derivative liabilities and inventories	\$ (66)	N/A
<b>Cashflow hedges</b>							
<b>Foreign exchange risk</b>							
- Foreign currency forwards	N/A	N/A	N/A	N/A	N/A	\$ -	\$ 2,464

### 15.3 Credit risk

The Company is exposed to credit risk with respect to its cash and cash equivalents, short-term investments, accounts receivable and derivative financial instruments.

The Company does not have significant credit risk related to cash and cash equivalents and short-term investments as amounts are held with major financial institutions.

The Company follows a program of credit evaluations of customers and limits the amount of credit extended when deemed necessary. For the nine months ended September 30, 2017, revenues from three major customers of \$17.4 million (2016: \$16.6 million) represented 37% (2016: 28%) of total revenues for the period. These customers represented 39% of total accounts receivable as at September 30, 2017 (December 31, 2016: 34%).

The Company had 13% of its accounts receivable past due but not impaired as at September 30, 2017 (December 31, 2016: 13%). Of the accounts receivable past due, 98% are 1-30 days, 2% are 31-60 days and none are over 60 days past due.

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

### 15.4 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.



# TEN PEAKS COFFEE COMPANY INC.

## Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2017

(Tabular amounts in thousands of Canadian dollars except per share amounts)

(Unaudited)

### 15.5 Fair value of financial instruments

Financial instruments that are measured at fair value through profit or loss ("FVTPL") are categorized as follows:

	September 30, 2017	Level 1	Level 2	Level 3
<b>Financial assets at FVTPL</b>				
Cash, cash equivalents and short-term investments	\$ 21,413	\$ 21,413	\$ -	\$ -
Derivative assets	2,510	1,052	1,458	-
	\$ 23,923	\$ 22,465	\$ 1,458	\$ -
<b>Financial liabilities at FVTPL</b>				
Derivative liabilities	\$ 177	\$ -	\$ 177	\$ -
Fair value adjustment on embedded option	2,405	-	2,405	-
Other liabilities	592	-	592	-
	\$ 3,174	\$ -	\$ 3,174	\$ -
<b>December 31, 2016</b>				
<b>Financial assets at FVTPL</b>				
Cash, cash equivalents and short-term investments	\$ 25,197	\$ 25,197	\$ -	\$ -
Derivative assets	95	95	-	-
	\$ 25,292	\$ 25,292	\$ -	\$ -
<b>Financial liabilities at FVTPL</b>				
Derivative liabilities	\$ 1,397	\$ -	\$ 1,397	\$ -
Fair value adjustment on embedded option	3,314	-	3,314	-
Other liabilities	569	-	569	-
	\$ 5,280	\$ -	\$ 5,280	\$ -

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

### 16. SUPPLEMENTAL CASH FLOW INFORMATION

#### Changes in non-cash working capital

	9 months ended September 30, 2017	9 months ended September 30, 2016
Inventories	\$ (2,038)	\$ 3,346
Accounts receivable	(123)	(4,088)
Prepaid expenses and other receivables	33	(100)
Derivative assets at fair value through profit or loss	(2,415)	(370)
Other assets and liabilities	316	(1)
Accounts payable and accrued liabilities	2,308	228
Derivative liabilities at fair value through profit or loss	(439)	(2,187)
	\$ (2,358)	\$ (3,172)

## TEN PEAKS COFFEE COMPANY INC.

---

### Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2017

(Tabular amounts in thousands of Canadian dollars except per share amounts)

(Unaudited)

#### 17. SUBSEQUENT EVENTS

On October 16, 2017, the Company paid the third quarterly dividend of \$0.0625 per share, totaling \$0.6 million, to shareholders on record on September 29, 2017.

Following quarter-end, Seaforth entered into an agreement to sub-lease 80,100 square feet of warehouse facility for a two-year period, commencing on November 15, 2017. The additional warehouse facility will allow Seaforth to meet significant growth in demand for third-party coffee storage.