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 May 12, 2017, provides a review of the financial results for the three months ended March 31, 2017 relative to the comparable period of 2016. The three-month period represents the first quarter ("Q1") of our 2017 fiscal year. This MD&A should be read in conjunction with Ten Peaks' condensed consolidated interim financial statements for the period ended March 31, 2017, as well as the amended and restated audited consolidated financial statements for the year ended December 31, 2016, 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

For the three months ended March 31, 2017, our gross profit, operating income, net income and EBITDA were all up compared to the same period last year. A summary of our financial results is shown in the table below:

In $000s except per share amounts (unaudited)		3 months ended March 31, 2017		3 months ended March 31, 2016
Sales	$	19,223	$	20,653
Gross Profit		3,035		3,017
Operating Income		1,267		1,162
Net Income		1,435		1,188
EBITDA [1]		1,677		1,263
Earnings per share, [2] basic	$	0.16	$	0.13
Earnings per share, [2] diluted	$	0.08	$	0.13

[1] EBITDA is defined under 'Non-IFRS Measures' of this MD&A.
[2] Per-share calculations are based on the weighted average number of shares outstanding during the period.

The improved financial results reflect margin expansion, lower expenses and a fair value adjustment, as further discussed below.

A key metric for our business is shipped volumes. Total shipments in the quarter were flat, year-over-year. However, a large amount of orders were shipped in the last week of the month, and those with 'delivered' terms[1] were not recognized in revenue in the quarter. These orders represented 6% of total volumes for the year-to-date.

Shipments to importers rose by 24% in Q1 2017, while shipments to roasters decreased by 9%. A decline in shipments to large roasters weighed on the period's overall volume growth. Volumes for our commercial accounts fell by 5% year-over-year, while volumes to specialty accounts rose by 9%. We believe that much of the decline in commercial volumes in the period is simply a timing difference.

Revenue for Q1 2017 was $19.2 million, down by 7% on a year-over-year basis. The decrease in revenue reflects the timing of shipments due to revenue cut-off procedures. By category, process revenue and green coffee cost recovery revenue ("green revenue") were lower, while distribution revenue increased in the quarter.

In spite of lower revenues, our gross profit was up marginally for the quarter, due to margin expansion in all revenue categories.

Operating expenses declined by 5% in the quarter, due to lower staff and staff-related expenses, as well as lower professional fees.

Operating income was up by 9% to $1.3 million for the quarter, reflecting the period's lower expenses.

[1] Contract terms in which title does not transfer until the shipment is received by the customer.

Net income for the first quarter increased by 21% to $1.4 million compared to the same period last year. A fair value adjustment on the embedded option associated with our convertible debenture boosted net income, which was partially offset by increased finance expenses and a loss on risk management activities.

EBITDA for the first quarter rose by 33% to $1.7 million, compared to the same period in 2016. As with operating income, lower cash expenses drove the increase.

BUSINESS OVERVIEW

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

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

As at March 31, 2017, the condensed consolidated interim financial statements of Ten Peaks included the accounts of Ten Peaks; our wholly owned subsidiaries SWDCC and Seaforth; and two wholly owned subsidiaries of SWDCC, Swiss Water Decaffeinated Coffee Company USA, Inc., and Swiss Water Process Marketing Services Inc. Inter-company accounts and transactions have been eliminated on consolidation.

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

Swiss Water Decaffeinated Coffee Company’s Business

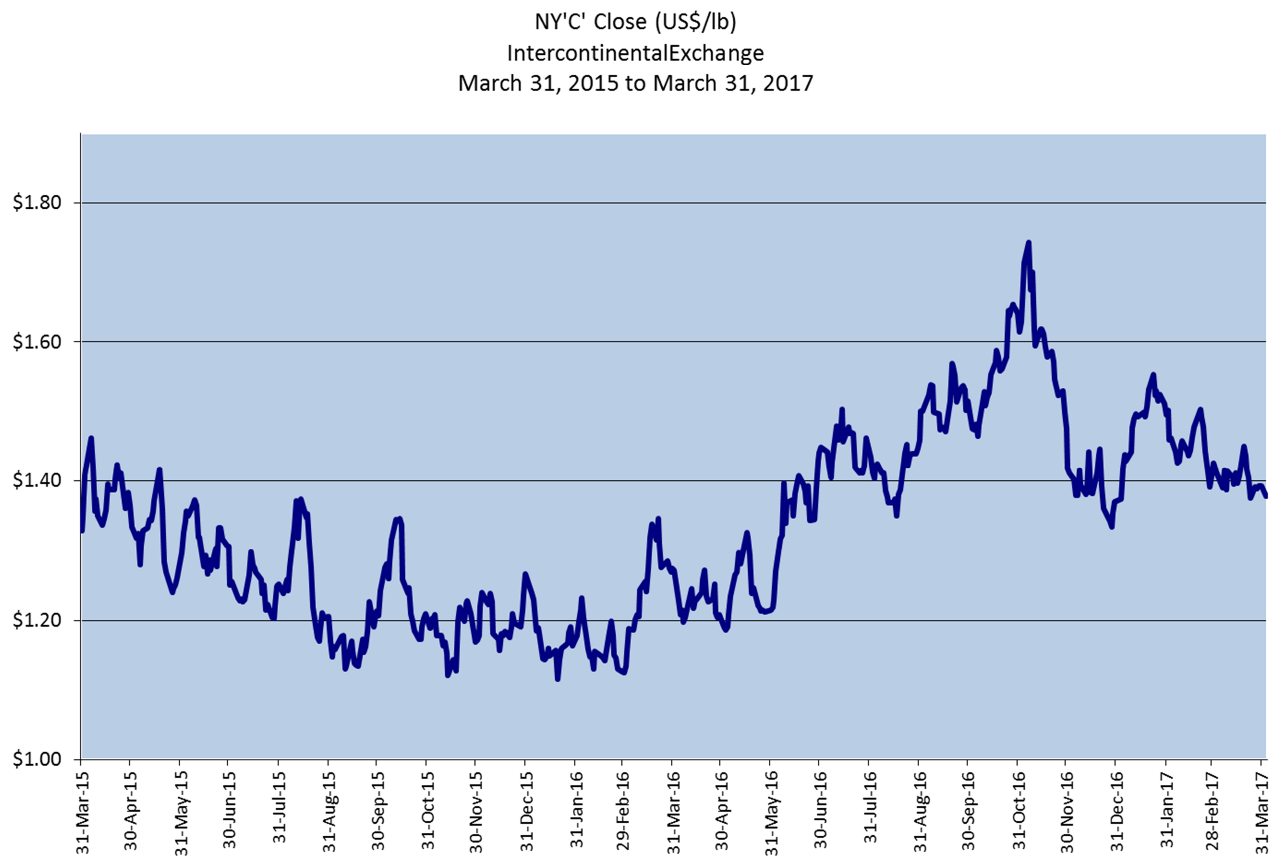
We carry an inventory of premium-grade Arabica coffees that we purchase from the specialty green coffee trade, decaffeinate and then sell to our customers (our “regular” or “non-toll” business). Revenue from our regular business includes both processing revenue and green coffee cost recovery revenue.

We also decaffeinate coffee owned by our customers for a processing fee under toll arrangements (our “toll” business). The value of the coffee processed under toll arrangements does not form part of our inventory, our revenue or our cost of sales. Revenue from toll arrangements consists entirely of processing revenue. For the first three months of the year, approximately 16% of the coffee we processed was under toll arrangements, with the balance being regular business.

Our cost of sales is comprised primarily of the cost of green coffee purchased for our regular business, and the plant labour and other processing costs directly associated with our production facility. This incorporates an allocation of fixed overhead costs, which includes depreciation of our production equipment and amortization of our proprietary process technology.

For our regular business, we work with coffee importers to source premium-grade green coffees from coffee-producing countries located in Central and South America, Africa and Asia. The purchase price is based on the New York ‘C’ (“NY‘C’”) coffee 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.

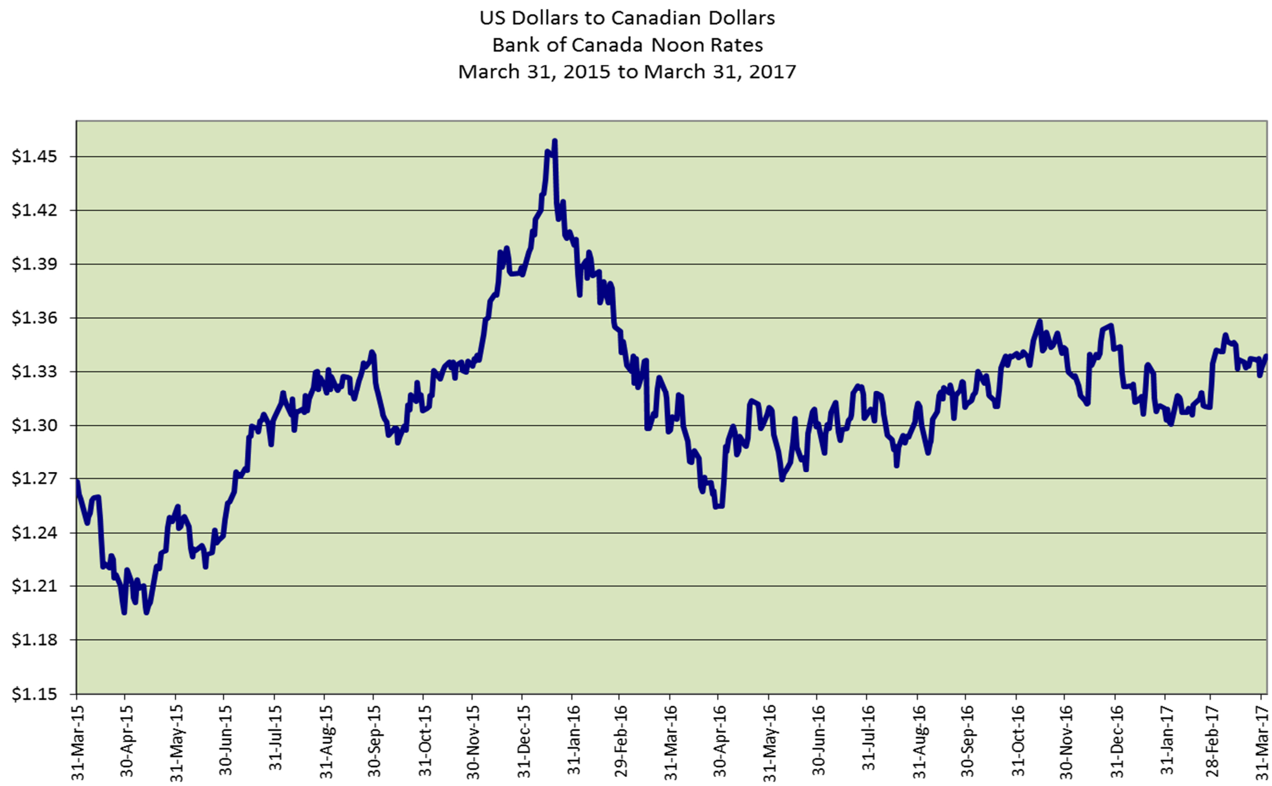
The chart below shows the movement in the NY’C’ for the last eight quarters:



The NY’C’ averaged US$1.45/lb in Q1 2017, up by 21% compared to US$1.20 in the same period last year. This mirrors the overall increase in the coffee futures price that we saw last year. As is shown in the chart above, the NY’C’ rose from $US1.24/lb at January 4, 2016 peaked at $US1.74/lb on November 7, 2016 and then dropped to $US1.37/lb at the end of the year. The futures price then rebounded somewhat in January 2017 before declining for the balance of the first quarter.

Coffee is traded in US$, as buyers and sellers reference the NY’C’ futures price when entering into contracts. As a result, the majority of our revenues are denominated in US$, while a significant portion of our expenses and cash outflows occur in Canadian dollars. Therefore, our financial results are affected by fluctuations in US$/C$ exchange rates.

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



The US$ averaged $1.32 in Q1 2017, a decrease of 4% over the same period last year. In the current quarter, the exchange rate was relatively stable, starting and ending the period at C$1.34. In Q1 2016, the US$ declined by 7% from C$1.40 to C$1.30. With the adoption of hedge accounting in 2016, the impact of volatility in the US$/C$ exchange rate on our financial results has been reduced.

HEDGE ACCOUNTING

We adopted the hedge accounting provisions of IFRS 9 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 for coffee sales in C$ ("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 reclassified to the statement of financial position until such coffee is sold, at which time the gains/losses on our commodity hedges are recognized in cost of sales. In this way, gains/losses on our commodity hedges are matched to our sales in the period.

Revenue Hedges:

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

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

Customer Specific Hedges:

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

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

OPERATING RESULTS

Processing Volumes and Revenue

Our total volumes shipped for the first quarter were unchanged from the same period last year. Shipments to our commercial accounts declined by 5%, while shipments to our specialty accounts increased by 9%. We also categorize our customers by the nature of their business (either coffee importer or roasters). Coffee importers act like grocery stores to roasters, sourcing and importing green coffee from various origins and carrying a selection of different origins and quality levels for roasters to choose from. Importers buy from us in order to resell our coffees to roasters when and where they need it. Roasters are in the business of roasting and packaging coffee for sale to consumers in their own coffee shops, or for home or office use. Roasters either buy directly from SWDCC, or they buy from an importer. Roasters generally carry lower inventories, as they tend to take delivery of green coffee shortly before roasting it. Volumes shipped to importers rose by 24% in the first quarter, while shipments to roasters declined by 9%. Declines in shipments to large roasters offset other volume gains. We believe that much of this decline reflects timing of orders, and that the volumes to these roasters will increase later in the year.

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 volumes increase. “Green coffee cost recovery revenue” (or “green revenue”) is the amount we charge our customers for the green coffee we purchase for decaffeination. “Distribution revenue” consists of shipping, handling and warehousing charges billed to our customers. It typically rises with processing volumes and with the growth of Seaforth’s business.

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

(In $000s)
(unaudited)

		3 months ended March 31, 2017		3 months ended March 31, 2016
Process revenue	$	4,796	$	4,958
Green revenue		13,330		14,724
Distribution revenue		1,097		972
Total	$	19,223	$	20,653

Our first quarter sales totaled $19.2 million, a decrease of $1.4 million, or 7%, over the same quarter last year. The majority of this decline relates to orders shipped in the quarter and not recognized in revenue. Process revenue declined by 3%, due to our sales mix and timing of shipments. Green revenue decreased by $1.4 million, or 9%, reflecting orders that were price fixed at a lower NY’C’, the timing of shipments, and a sales mix shift to toll orders in Q1 2017. Distribution revenue (the amount we charge customers for shipping, handling and storing coffee), increased by 13%, due to margin enhancement initiatives.

Cost of Sales

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

During the first quarter, our cost of sales totaled $16.2 million, down by 8% compared to the same period last year. The decrease reflects lower green coffee costs and reduced repairs and maintenance costs. This was partially offset by increased depreciation, which related to the capacity expansion project we completed at our Burnaby, BC facility at the end of Q1 2016.

Gross Profit

Gross profit for the first quarter increased 1%, compared to the same period last year, as lower cost of sales more than offset a decrease in our revenue.

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.

First quarter sales and marketing expenses were $0.6 million, down marginally from the same period a year ago.

Occupancy Expenses

Occupancy expenses include the cost of renting offices for sales, marketing and administrative use. Occupancy costs were unchanged compared to the same periods in 2016.

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 decreased by 5% to $1.1 million for the first quarter of 2017, compared to $1.2 million for the same period last year. The decrease was mainly due to lower professional fees as well as staff and staff-related expenses, partially offset by higher stock-based compensation expense.

Finance Income / Expenses

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

Net finance expenses were $0.2 million in the first quarter, compared to net finance income of $0.1 million in the same period last 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 interest is paid on this loan at a rate of 6.85%. Finance expenses of $0.3 million were partially offset by finance income of $0.1 million in the first quarter of 2017.

Gain and Losses on Risk Management Activities

With the adoption of hedge accounting, most 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, '(Loss) gain on risk management activities' includes only those gains and losses on derivative financial instruments that are not designated as hedging instruments, as well as gains/losses on the ineffective portions of our hedging instruments.

For the three months ended March 31, 2017, we recorded a loss of $0.4 million, compared to a gain of $0.1 million in the same period a year ago.

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 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:

Key Inputs	**At March 31, 2017**	**At Inception**
Share price	\$6.48	\$7.37
Exercise price	\$8.25	\$8.25
Option life	6.53 years	7 years
Volatility	40%	39%
Risk-free interest rate	1.31%	0.92%
Dividend yield	3.86%	3.39%

In the first quarter of 2017, this revaluation resulted in a gain of \$0.9 million being recorded in income in the period.

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 first quarter, we recorded a gain on foreign exchange of \$0.05 million, down from a gain of \$0.25 million in the same period a year ago.

Income Before Taxes and Net Income

In the first quarter, we recorded income before taxes of \$1.6 million, unchanged from the same period in 2016. Current and deferred income taxes reduced our net income by \$0.1 million for the quarter, compared to \$0.4 million in Q1 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 recorded net income of \$1.4 million for the quarter, compared to net income of \$1.2 million for the same period 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 quarter ended March 31, 2017, basic earnings per share was \$0.16 per share and diluted earnings per share were \$0.08, compared to Q1 2016 where basic and diluted earnings per share were both \$0.13. As the potential common shares were anti-dilutive in Q1, 2016, there was no difference between basic and diluted earnings under IFRS. In the first quarter of 2017, the basic weighted average number of shares outstanding was 9,038,832 and diluted weighted average number of shares outstanding was 10,857,044. This compares to Q1 2016 when both basic and diluted weighted average number of shares outstanding were 9,011,566.

Other Comprehensive Income

Gains or losses on our revenue hedges that will mature in future periods are recorded in other comprehensive income, net of income tax expense. Other comprehensive income net of tax for the quarter was $0.6 million compared to $1.9 million in the same period last year. This amount will fluctuate with the closing US$/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)
(unaudited)

	3 months ended March 31, 2017	3 months ended March 31, 2016
Income for the period	$ 1,435	$ 1,188
Income taxes	144	407
Income before tax	1,579	1,595
Finance (income) expense	205	(74)
Depreciation & amortization	533	398
Unrealized (gain) loss on foreign exchange forward contracts	238	(218)
Fair value adjustment on embedded option	(850)	-
(Gain) loss on foreign exchange	(47)	(254)
Share-based compensation	19	(184)
EBITDA	**$ 1,677**	**$ 1,263**

EBITDA for the three months ended March 31, 2017 was $1.7 million, up by 33% from $1.3 million in Q1 2016. Lower cash operating expenses drove the increase.

Quarterly Information / Seasonality

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

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

	12 Quarter Average	8 Quarter Average	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015
Sales	19,791	20,406	19,223	22,448	20,752	18,074	20,653	21,401	20,454	20,242
Gross profit	2,971	2,975	3,035	3,216	3,219	2,601	3,017	3,166	3,563	1,986
Operating income	1,254	1,168	1,267	1,526	1,330	999	1,162	753	2,110	198
EBITDA [1]	1,869	1,555	1,677	1,998	1,515	1,000	1,263	1,043	2,974	967
Net income (loss)	891	768	1,435	1,328	879	758	1,188	(572)	818	311
Per share [2]										
Net income (loss) - basic	0.11	0.09	0.16	0.15	0.10	0.08	0.13	(0.06)	0.10	0.05
Net income (loss) - diluted	0.11	0.08	0.08	0.15	0.10	0.08	0.13	(0.06)	0.10	0.05

[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 three months ended March 31, 2017, we used $1.5 million in net cash from operations, compared to cash generation of $1.4 million in 2016. Investments in inventory used $2.8 million in cash in the quarter (generated $2.1 million in Q1 2016), while increases in accounts receivable used $0.5 million (used $2.1 million in Q1 2016).

Investing Activities

Capital expenditures for the first quarter were $0.8 million, compared to $1.7 million in the same period last year. Capital costs for both periods included investments in support of our expansion plans (see the 'Outlook' section below for more information). Q1 2016 also included costs related to the capacity upgrades at our current facility to accommodate increased forecasted demand.

Financing Activities

During the three months ended March 31, 2017 we paid $0.6 million in dividends to shareholders, unchanged from the same period last year.

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 March 31, 2017.

Inventory

Our inventory increased 32% by volume and 24% by value between December 31, 2016 and March 31, 2017. The increase reflects growth in both finished goods and raw materials inventory in the current period. By comparison, inventory levels declined in the first quarter of 2016 due to a planned, month-long shut down of one production line in Q1 2016, in order to increase the production capacity of that line.

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 March 31, 2017 was a loss of $0.6 million, compared to a gain of $0.2 million in the same period a year ago.

Accounts Receivable

Our accounts receivable have increased by $0.5 million, or 4%, between December 31, 2016 and March 31, 2017. This compares to an increase of $2.1 million, or 29%, in the same period last year. In both periods, the increase reflects a trend in the coffee industry, in which large coffee roasters are demanding longer accounts payable terms from their suppliers. As a result, we have extended payment terms to a number of our larger customers, such that our days sales outstanding has increased to 57 days from 41 days at the end of March, 2016.

Contractual Obligations

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

(In $000s)
(unaudited)

	Total	Less than 1 year	1-3 Years	4-5 Years	Over 5 Years
Long-term debt [(1)]	15,000	$ -	$ -	$ -	$ 15,000
Financing leases [(2)]	5,891	98	2,357	2,357	1,080
Operating leases [(3)]	1,977	1,013	964	-	-
Purchase obligations [(4)]	36,196	35,514	682	-	-
Total contractual obligations	$ 59,064	$ 36,625	$ 4,002	$ 2,357	$ 16,080

[1] Long-term debt represents the principal amount of the convertible debenture.
[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. After 2018, the lease on the decaffeination facility can be renewed at SWDCC's option for one additional five -year term.

Seaforth leases a warehouse for its primary operations; this lease expires on June 30, 2019.

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

In Q3 2016, SWDCC signed a lease agreement for a build-to-suit production facility. The lease has an initial term of five years, and can be renewed at SWDCC's option in five-year increments up to a total of 30 years. The lease will commence the earlier of the date of opening of the SWDCC business in any part of the premises, and the date of expiry of the fixturing period, which is estimated to be March 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 this portion of the building, with loan payments commencing on the earlier of substantial completion of construction and January 1, 2019. The loan is repayable in equal monthly installments over 15 years, and can be prepaid without penalty at any time. There is no loan outstanding as at the date of this MD&A.

Off-Balance Sheet Arrangements

Ten Peaks has no off-balance sheet arrangements.

Related Party Transactions

We provide toll decaffeination services and/or sell finished goods to, and purchase raw material inventory from, companies that are related to Ten Peaks Director Roland Veit.

The following tables summarize related party sales and purchases during the three-month period ending March 31, 2017:

(In $000s)
(unaudited)

	3 months ended March 31, 2017	3 months ended March 31, 2016
Sales - Roland Veit	$ 202	$ 58
Purchases - Roland Veit	$ 2,077	$ 1,026

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 March 31, 2017, our accounts receivable balances with these companies were $0.06 million (December 31, 2016 – $0.1 million) and our accounts payable balances with these companies were $0.1 million (December 31, 2016 - $0.1 million).

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.

OUTLOOK

In 2017, we are focused on executing our expansion plan, while growing our market share in the US and internationally. Overall, we expect volumes to increase in 2017, with volume growth skewed to the second half of the year.

We are excited by the results of recent market research from STUDYLOGIC[2] which shows that decaffeinated coffee is the fastest growing segment of the coffee market! Total decaffeinated coffee sales are up year-over-year, and specialty decaffeinated coffee sales are particularly strong, especially in out-of-home markets. In fact, growth in the sales of decaffeinated coffee is offsetting declines in regular (caffeinated) coffees.

Another study by the National Coffee Association[3] indicates that younger consumers are driving this trend, with consumption in the 18-25 age group showing the strongest growth. This same study shows that all consumers are very conscious of their caffeine consumption, particularly the younger demographic. This supports what we have been saying for some time: when consumers become aware that they can have Amazing Coffee Without Caffeine any time of the day or night, they choose to drink more coffee. In turn, this enables roaster retailers to extend their coffee sales later into the day and thus grow their business.

These trends support management's confidence that our business will continue to grow over the coming months and years. The "premiumization" of the coffee market is a natural fit with our exceptional quality coffees. In addition, the growth in consumer demand for higher quality and chemical free ingredients, and the response of food companies to address this demand, play naturally into our value proposition. Our commitment to sustainability also fits well with this trend. In 2017, we will be sharing our sustainability initiatives with our customers and consumers, in order to drive additional demand for our products.

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

As we've noted previously, we are preparing to build a state-of-the-art production facility which will enable us to meet this growing demand. During the third quarter of 2016, we finalized a lease for a build-to-suit facility to be located in Delta, BC. Importantly, the site is large enough to accommodate growth well into the future. Construction of the new facility began in May 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,

[2] STUDYLOGIC report March 2017

[3] National Coffee Association, National Coffee Drinking Trends, 2017

competition from new entrants with alternate processing methods or agricultural technologies, environmental and regulatory risks, terms of credit agreements, commodity futures losses, ability to maintain organic certification, adequacy of insurance, dependence on key personnel, product liability, uncollectable debts, and general economic downturns. The future effect of these risks and uncertainties cannot be quantified or predicted. In addition, SWDCC leases the building that houses its decaffeination lines. The lease is renewable at its option under an additional term which, if exercised, would expire in 2023. The lease also provides for an additional 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).

CRITICAL ACCOUNTING ESTIMATES

Information on our critical accounting estimates is disclosed in our 2016 amended and restated annual MD&A. There have been no material changes to our critical accounting estimates from what was disclosed at that time.

CHANGES IN ACCOUNTING STANDARDS

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 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 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.

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

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

- We have early adopted the new accounting standard *IFRS 9 – Financial Instruments (2014)* with a date of initial application of January 1, 2016. This new financial instruments standard replaces IAS 39 for classification and measurement of financial assets and liabilities, and provides new standards for hedge accounting. We have implemented hedge accounting concurrent with the implementation of IFRS 9.
- *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. It is effective for annual periods beginning on or after January 1, 2018.
- *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 deposits made on inventory purchases or

advances received for revenue in a foreign currency. The impact on the initial measurement of inventory and revenue would depend on the movements in exchange rates. It is effective for annual periods beginning on or after January 1, 2018.

- *IFRS 16: Leases:* introduces new requirements for the classification and measurement of leases. Management is currently assessing the impact of the new standard on its consolidated financial statements. 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 March 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 March 31, 2017, Ten Peaks' ICFR were not effective.

In April 2017, the Company identified a material weakness in the review controls over financial reporting as follows: subsequent to the issuance of the audited consolidated financial statements for the 2016 fiscal year, management determined that the unrealized gain on derivative financial instruments had been added in the calculation of cash from operating activities before changes in non-cash working capital accounts, when it should have been subtracted. The correction resulted in a decrease in cash from operating activities before changes in non-cash working capital accounts, and a corresponding increase in changes in non-cash working capital relating to operating activities. The correction did not impact net cash from operating activities, nor did it impact the consolidated statements of financial position, income, comprehensive income or the changes in equity for the period. The Company filed amended and restated audited consolidated financial statements for the 2016 fiscal year on April 24, 2017. Based on this finding and the criteria discussed above, we concluded that our review control over the statement of cash flows was not properly designed to provide reasonable assurance that there would not be a material misstatement.

As of April 21, 2017, the material weakness has been remediated. Management has updated the review control within the Company's ICFR to ensure that all gains/losses on derivative instruments are accurately recorded on all financial statements and related disclosure documents. The updated review control was applied in the preparation of the condensed consolidated interim financial statements for the period ended March 31, 2017.

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 March 31, 2017, Ten Peaks' disclosure controls and procedures were not effective.

As there is a substantial overlap between the definitions of ICFR and disclosure controls and procedures, the CEO and CFO concluded that, as of March 31, 2017, the material weakness in Ten Peaks' ICFR, as more further described above, also represented a weakness that is significant to Ten Peaks' disclosure controls and procedures. As of April 21, 2017 the weakness has been remediated. Management has updated the Company's disclosure procedures to ensure that all material amounts are accurately recorded on all financial statements and related disclosure documents. The updated disclosure procedures were applied in the preparation of the disclosure documents for the period ended March 31, 2017 prior to finalizing the documents for filing.

There were no changes in our ICFR that occurred during the period beginning on January 1, 2017 and ended on March 31, 2017 that have materially affected, or are reasonably likely to materially affect, Ten Peaks' ICFR. The changes in our ICFR as noted above occurred after March 31, 2017.

SUBSEQUENT EVENTS

Payment of Dividend

Ten Peaks paid an eligible dividend of $0.0625 per share on April 17, 2017 to shareholders of record on March 31, 2017.