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 August 14, 2017, provides a review of the financial results for the three and six months ended June 30, 2017 relative to the comparable periods of 2016. The three-month period represents the second quarter ("Q2") 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 June 30, 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 and six months ended June 30, 2017, our revenue, gross profit, operating income, net income and EBITDA were all up compared to the same periods last year. A summary of our financial results is shown in the table below:

In $000s except per share amounts (unaudited)	3 months ended June 30, 2017	3 months ended June 30, 2016	6 months ended June 30, 2017	6 months ended June 30, 2016
Sales	$ 21,915	$ 18,074	$ 41,138	$ 38,726
Gross Profit	3,364	2,601	6,399	5,616
Operating Income	1,470	999	2,739	2,161
Net Income	1,720	758	3,156	1,944
EBITDA [1]	2,235	1,000	3,914	2,261
Earnings per share, [2] basic	$ 0.19	$ 0.08	$ 0.35	$ 0.22
Earnings per share, [2] diluted	$ 0.17	$ 0.08	$ 0.25	$ 0.22

[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 higher volumes, margin expansion and a fair value adjustment, as discussed further below.

A key metric for our business is shipped volumes. Total shipments in the second quarter and for the first half of this year were up by 19% and 10%, respectively, compared to 2016. Two percent of total volumes shipped for the year-to-date were not recognized in revenue during the second quarter, as title for those orders had not transferred to our customers. Shipments to importers rose by 22% in the first half of 2017, while shipments to roasters increased by 4%. Six-month volumes shipped to our commercial and specialty accounts increased by 12% and 6%, respectively, year-over-year.

Higher volumes boosted revenues in both the second quarter and first half of 2017. Quarterly revenue was $21.9 million, up by 21%, and six-month revenue was $41.1 million, up by 6%. In both periods, we recorded gains in all three of our revenue categories.

Gross profit rose by 29% to $3.4 million in the second quarter and by 14% to $6.4 million for the year-to-date. Higher process revenue on increased volumes, as well as increased margins on distribution revenues, drove the year-over-year increases.

Operating expenses rose by 18% in the second quarter and by 6% in the first half. The increase in costs reflects our sales and marketing team's work to support the company's marketing strategy, advertisement campaigns and social responsibility programs. Higher research and development expenses and stock-based compensation also contributed to the year-over-year increase in operating costs for both periods.

Operating income was up by 47% to $1.5 million for the second quarter and by 27% to $2.7 million for the year-to-date. In both periods, higher gross profit more than offset increased operating expenses.

Net income for the second quarter increased by 127% to $1.7 million and by 62% to $3.2 million for the year-to-date, compared to the same periods last year. Higher operating income, gains on risk management activities and a fair value adjustment boosted net income in both periods.

EBITDA for the second quarter rose by 124% to $2.2 million and by 73% to $3.9 million for the year-to-date. In both periods, higher operating income and improved performance on our risk management activities contributed to the year-over-year 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 June 30, 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

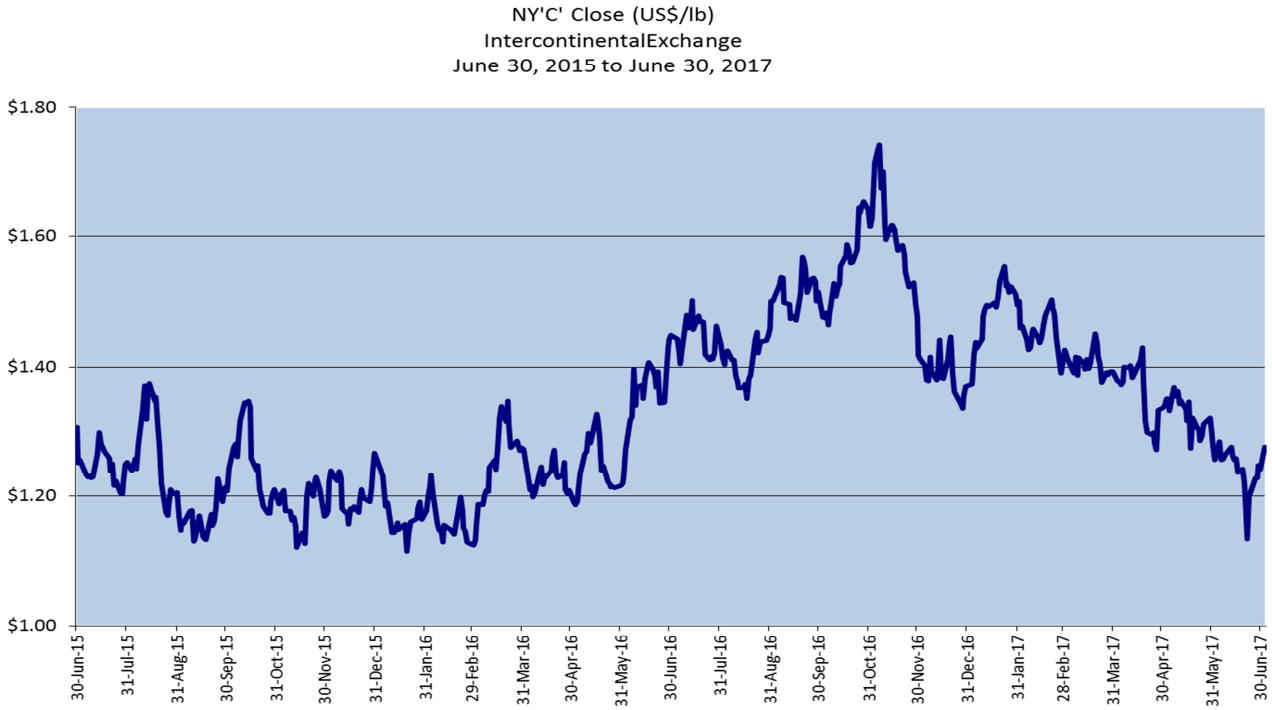
We carry an inventory of premium-grade Arabica coffees that we purchase from the specialty green coffee trade, decaffeinate and then sell to our customers (our "regular" or "non-toll" business). Revenue from our regular business includes both processing revenue and green coffee cost recovery revenue.

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 six months of this year, approximately 19% 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.

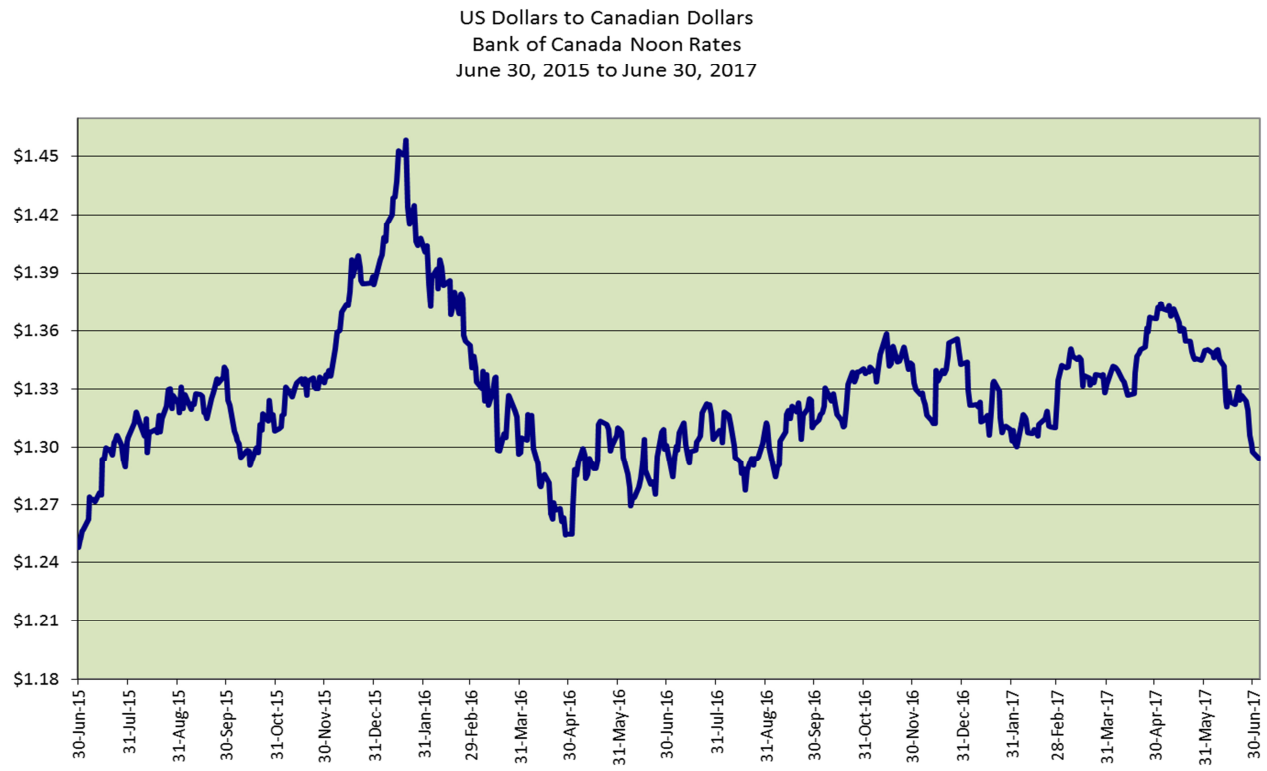
The chart below shows the movement in the NY'C' for the last eight quarters:



In Q2 2017, the NY'C' averaged US$1.31/lb, up by 2% from US$1.28/lb in the same period last year. For the year-to-date, the NY'C' averaged US$1.38/lb, compared to US$1.24/lb in the first six months of 2016. While the NY'C' was higher on average this year than last year, it generally trended downward during the first half of 2017. This had a positive impact on our business and contributed to our higher year-over-year volumes. When the NY'C' declines over a sustained period, our customers tend to add to their inventories. In 2016, sales orders declined when the NY'C' started rising, as our customers chose to consume inventories rather than build them.

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:



In Q2 2017, the US$ averaged $1.35 Canadian, an increase of 4% over the same period last year. In the first half of this year, the US$ averaged $1.33 Canadian, which was unchanged from the same period a year ago. The declining trend in the US$/C$ exchange rate in the first half of 2016 reduced our gross margin on green coffee revenues, as coffee was purchased at a higher US$ than it was sold at. This was not the case in the first half of 2017. However, if the recent weakness in the US$ is sustained in the second half of this year, we expect that margins on sales of our decaffeinated green coffee will be compressed.

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 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 12-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 reclassified to other comprehensive income. When a revenue hedge matures, the realized gain/loss on that contract is reallocated 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

Compared to the same periods last year, our total volumes shipped increased by 19% for the second quarter and by 10% for the year-to-date. Shipments to our commercial accounts for the first half of the year grew by 12%, while shipments to our specialty accounts grew by 6%. 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 22% for the first half of this year, while shipments to roasters increased by 4%. During the first half of last year, a rising NY'C' prompted importers in particular to reduce their inventories and delay buying. As a result, our volumes for that period were down. As the NY'C' was relatively stable during the first half of this year, this has not been a significant factor in the current year-to-date.

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 June 30, 2017	3 months ended June 30, 2016	6 months ended June 30, 2017	6 months ended June 30, 2016
Process revenue	$ 5,610	$ 4,865	$ 10,406	$ 9,823
Green revenue	15,129	12,180	28,459	26,902
Distribution revenue	1,176	1,029	2,273	2,002
Total	$ 21,915	$ 18,074	$ 41,138	$ 38,726

Our second quarter sales totaled $21.9 million, an increase of $3.8 million, or 21%, over the same quarter last year. Process revenue increased by 15% due to higher volumes, which was partially offset by lower processing rates due to the sales mix. Green revenue increased by 24%, reflecting higher volumes and the higher average NY'C' year-over-year. Distribution revenue rose by 14%, due to our higher volumes and growth in Seaforth's business.

First half sales totaled $41.1 million, an increase of $2.4 million, or 6%, over the same period last year. Process revenue and green revenue both increased by 6% due to higher volumes. 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, 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.

Cost of sales increased with volumes in the second quarter, rising by 20% to $18.6 million. For the first half, our cost of sales was $34.7 million, up by $1.6 million, or 5%. The increase was driven by higher volumes and higher depreciation expenses, which rose following the expansion of capacity at our Burnaby, BC facility in

Q1 2016. These increases were partially offset by lower labour and repairs and maintenance costs in the current period.

Gross Profit

Gross profit increased by 29% in the second quarter and by 14% in the first half of 2017 compared to the same periods last year, as higher revenues more than offset the increases in cost of sales.

Sales and Marketing Expenses

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

Sales and marketing expenses were $0.6 million and $1.2 million for the three and six months ended June 30, 2017, respectively, which is a year-over-year increase of $0.2 million in each period. In the first half of this year, we have invested in increased marketing activities in support of SWDCC's growth initiatives. This is largely a timing difference, as expenses are expected to be lower in the second half of this year.

Occupancy Expenses

Occupancy expenses include the cost of renting offices for sales, marketing and administrative use. Occupancy costs for the second quarter and first half 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 increased by 10% to $1.2 million for the second quarter of 2017, compared to $1.1 million for the same period last year. Administration expenses for the first half increased by 2% to $2.4 million. In both periods, the increases reflect higher share-based compensation expenses and higher research and development expenses in the current year.

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 and $0.4 million for the three and six months ended June 30, 2017, compared to net finance income of $0.1 million in the same periods 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%.

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 (loss) 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 June 30, 2017, we recorded a gain of $1.1 million, compared to a loss of $0.1 million for the same period in 2016. For the year-to-date, we recorded a gain of $0.7 million. Effectively no gain or loss was reported for the same period last year.

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 gain of $0.1 million in the second quarter of 2017 and a gain of $1.0 million for the year-to-date. The gains were recorded in income for each of the respective periods.

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 second quarter, we recorded a gain on foreign exchange of $0.1 million, compared to no effective gain or loss in the same period a year ago. For the year-to-date, we recorded a foreign exchange gain of $0.1 million, compared to a gain of $0.2 million for the same period last year.

Income Before Taxes and Net Income

In the second quarter, we recorded income before taxes of $2.5 million, which is more than double the pre-tax income recorded in the same period in 2016. Current and deferred income taxes reduced our net income by $0.8 million for the quarter, compared to $0.2 million in Q2 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 $1.7 million for the quarter, compared to net income of $0.8 million for the same period in 2016.

For the first half of 2017, we recorded pre-tax income of $4.1 million, up from $2.6 million in the first half of 2016. This was reduced by income tax expenses of $1.0 million, compared to income taxes of $0.6 million in the same period last year. Overall, we recorded net income of $3.2 million in the year-to-date, which is an increase of $1.2 million or 62% compared to the same period a year ago.

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).

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

	Three months ended June 30, 2017	Three months ended June 30, 2016	Six months ended June 30, 2017	Six months ended June 30, 2016
Basic EPS:				
Net income attributable to shareholders	$ 1,720	758	$ 3,156	$ 1,944
Weighted average number of shares	9,038,862	9,011,566	9,038,862	9,011,566
Basic EPS	**$ 0.19**	**$ 0.08**	**$ 0.35**	**$ 0.22**
Diluted EPS:				
Net income attributable to shareholders	$ 1,720	$ 758	$ 3,156	$ 1,944
After tax effect of diluted securities if debenture converted:				
Interest on convertible debenture	258	-	507	-
Gain on fair value adjustment of embedded option	(115)	-	(965)	-
Net income after effect of diluted securities	$ 1,863	$ 758	$ 2,698	$ 1,944
Weighted average number of shares - basic	9,038,862	9,011,566	9,038,862	9,011,566
Effect of diluted securities: convertible debenture	1,818,182	-	1,818,182	-
Weighted average number of shares - diluted	10,857,044	9,011,566	10,857,044	9,011,566
Diluted EPS	**$ 0.17**	**$ 0.08**	**$ 0.25**	**$ 0.22**

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 $0.3 million compared to a loss of $0.1 million in the same period last year. For the year-to-date, we reported a gain of $0.9 million, compared to a gain of $1.7 million in the first half of 2016. This amount fluctuates with the closing US$/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)
(unaudited)

	3 months ended June 30, 2017	3 months ended June 30, 2016	6 months ended June 30, 2017	6 months ended June 30, 2016
Income for the period	$ 1,720	$ 758	$ 3,156	$ 1,946
Income taxes	823	200	967	$ 606
Income before tax	2,543	958	4,123	2,552
Finance (income) expense	183	(64)	388	(139)
Depreciation & amortization	525	533	1,058	931
Unrealized (gain) loss on foreign exchange forward contracts	(870)	(411)	(632)	(628)
Fair value gain on embedded option	(115)	-	(965)	-
(Gain) loss on foreign exchange	(65)	27	(112)	(227)
Share-based compensation	34	(43)	53	(228)
EBITDA	**$ 2,235**	**$ 1,000**	**$ 3,914**	**$ 2,261**

EBITDA for the three months ended June 30, 2017 was $2.2 million, up by 124% from $1.0 million in Q2 2016. For the six months ended June 30, 2017 EBITDA was $3.9 million, up by 73% from $2.3 million for the same period in 2016. In both periods, higher operating income and improved performance on our risk management activities contributed to the year-over-year increase. Notably, gains on our revenue hedges that mature in 2017 are boosting our results in the current period; these contracts were included in accumulated other comprehensive income in 2016, and the gains or losses are reallocated to revenue when the hedging instruments mature.

In order to facilitate understanding of our financial results, the following table shows the reconciliation of Operating Income to EBITDA:

(In $000s)
(unaudited)

	3 months ended June 30, 2017	3 months ended June 30, 2016	6 months ended June 30, 2017	6 months ended June 30, 2016
Operating income for the period	$ 1,470	$ 999	$ 2,739	$ 2,161
Add back:				
Depreciation & amortization	$ 525	$ 533	$ 1,058	$ 931
Share-based compensation	$ 34	$ (43)	$ 53	$ (228)
Gain (loss) on risk management activities	$ 1,076	$ (78)	$ 696	$ 25
Deduct:				
Unrealized (gain) loss on undesignated hedging instruments	$ (870)	$ (411)	$ (632)	$ (628)
EBITDA	**$ 2,235**	**$ 1,000**	**$ 3,914**	**$ 2,261**

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	Q2 2017	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016	Q4 2015	Q3 2015
Sales	20,284	20,615	21,915	19,223	22,448	20,752	18,074	20,653	21,401	20,454
Gross profit	3,058	3,148	3,364	3,035	3,216	3,219	2,601	3,017	3,166	3,563
Operating income	1,193	1,327	1,470	1,267	1,526	1,330	999	1,162	753	2,110
EBITDA [1]	1,847	1,713	2,235	1,677	1,998	1,515	1,000	1,263	1,043	2,974
Net income (loss)	874	944	1,720	1,435	1,328	879	758	1,188	(572)	818
Per share [2]										
Net income (loss) - basic	0.11	0.11	0.19	0.16	0.15	0.10	0.08	0.13	(0.06)	0.10
Net income (loss) - diluted	0.10	0.09	0.17	0.08	0.15	0.10	0.08	0.13	(0.06)	0.10

[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 six months ended June 30, 2017, we generated $0.7 million in net cash from operations, compared to cash generation of $2.2 million in 2016. Investments in inventory used $2.3 million in cash in the period (generated $1.4 million in 2016), while increases in accounts receivable used $0.2 million (used $2.1 million in 2016).

Investing Activities

Capital expenditures for the first half were $2.6 million, compared to $3.9 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). The first half of 2016 also included costs related to the capacity upgrades at our current facility to accommodate increased forecasted demand.

During the period, short-term investments valued at $5.0 million matured and were added to cash. No similar change in short-term investments occurred in the first half of 2016.

Financing Activities

During the six months ended June 30, 2017 we paid $1.1 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 June 30, 2017.

Inventory

Our inventory increased 27% by volume and 20% by value between December 31, 2016 and June 30, 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 half of 2016. This was due to a planned, month-long shut down of one production line in Q1 2016, which was required 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 June 30, 2017 was a loss of $0.6 million, compared to a gain of $1.2 million for the same period last year.

Accounts Receivable

Our accounts receivable have increased by $0.2 million, or 2%, between December 31, 2016 and June 30, 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 53 days from 44 days at the end of June, 2016.

Contractual Obligations

The following table sets forth our contractual obligations and commitments as at June 30, 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	393	2,357	2,357	786
Operating leases [3]	1,723	988	735	-	-
Purchase obligations [4]	35,302	34,327	975	-	-
Total contractual obligations	$ 57,917	$ 35,708	$ 4,066	$ 2,357	$ 15,786

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

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

(In $000s)
(unaudited)

	3 months ended June 30, 2017	3 months ended June 30, 2016	6 months Ended June 30, 2017	6 months Ended June 30, 2016
Sales - Roland Veit	$ 23	$ 101	$ 226	$ 159
Purchases - Roland Veit	$ 1,872	$ 1,316	3,950	2,342

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 June 30, 2017, our accounts receivable balance with this company was nil (December 31, 2016 – $0.1 million) and our accounts payable balance with this company was $0.2 million (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

For the balance of 2017, we will continue to focus on executing our capacity expansion plan, and growing our market share in the US and internationally. Overall, we expect our annual volumes to increase by between 3% and 7% over 2016. If the recent weakness in the US$ continues, our margins may be reduced in the second half.

A number of factors support an expectation of future growth in our business. The most recent market research from STUDYLOGIC[1] continues to show that decaffeinated coffee is the fastest growing segment of the US coffee market. Total decaffeinated coffee sales are up year-over-year, with specialty decaffeinated coffee sales being particularly strong, especially in out-of-home markets. In fact, growth in the sales of decaffeinated coffee is offsetting declines in regular (caffeinated) coffees.

We believe this is due, in part, to growing consumer awareness of premium decaffeinated coffees which enable them to drink great-tasting coffee all day long, without worrying about the potential side effects of caffeine. Additionally, the "premiumization" of the coffee market, which has seen consumers become increasingly sophisticated in their coffee tastes, is a natural fit with our exceptional quality coffees.

Our organically certified SWISS WATER® Process coffees also address increased consumer desire for higher quality and chemical free ingredients. This has helped grow our business as many food companies now employ our branded coffees to help them respond to this growing demand.

At the same time, our commitment to sustainability responds to heightened awareness from consumers regarding how their food is produced. The SWISS WATER® Process is inherently sustainable and we pay close attention to coffee sourcing sustainability, community involvement, a healthy workplace and sustainable manufacturing. You can read more about initiatives like these in our first-ever sustainability report, which is located on SWDCC's website at www.swisswater.com.

In addition to consumer-driven trends, changes in the global decaffeination market are enhancing our growth prospects. Certain older decaffeination plants in Europe have closed recently, reducing the available third-party decaffeinators. We anticipate winning some additional business from coffee companies affected by these shut downs, as they seek alternative providers.

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 will be located in Delta, B.C., began in May 2017 and is expected to be completed in mid-2018. Initially, this facility will house one new production line, although the site is large enough for expansion well into the future. Construction of the new production line is expected to be completed in early 2019 and commissioned in the first half of 2019. The additional capacity that was added in Q1 2016 at our current Burnaby, B.C. facility is expected to be sufficient to meet 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 – and 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 2017 and beyond.

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

[1] STUDYLOGIC report July 6, 2017

risks. These risks may include, but are not limited to, foreign exchange fluctuations, labour relations, coffee prices (notwithstanding hedging programs, as exact hedging correlation is not attainable), the availability of coffee, competition from existing chemical and other natural or chemical free coffee decaffeinators, competition from new entrants with alternate processing methods or agricultural technologies, environmental and regulatory risks, terms of credit agreements, commodity futures losses, ability to maintain organic certification, adequacy of insurance, dependence on key personnel, product liability, uncollectable debts, and general economic downturns. The future effect of these risks and uncertainties cannot be quantified or predicted. In addition, SWDCC leases the building that houses its decaffeination lines. The lease is renewable at its option under an additional term which, if exercised, would expire in 2023. The lease also provides for an additional 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 June 30, 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 June 30, 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 June 30, 2017, Ten Peaks' disclosure controls and procedures were effective.

Changes in our ICFR that occurred during the period beginning on April 1, 2017 and ended on June 30, 2017 have materially affected, or are reasonably likely to materially affect, Ten Peaks' ICFR. As previously disclosed, in April 2017, we identified a material weakness in our review controls related to the statement of cash flows. At the time, management determined that the controls were not properly designed to provide reasonable assurance that there would not be a material misstatement. This weakness was remediated in the quarter ended June 30, 2017. Specifically, management updated the review controls within Ten Peak's ICFR to ensure that all gains/losses on derivative instruments are accurately recorded on all financial statements and related disclosure documents. In addition, during the quarter management implemented additional procedures to ensure that revenue is recognized in the correct period. This may be considered a

change which is reasonably likely to materially affect Ten Peaks' ICFR.

SUBSEQUENT EVENTS

Payment of Dividend

Ten Peaks paid an eligible dividend of $0.0625 per share on July 17, 2017 to shareholders of record on June 30, 2017.