



CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(unaudited)

For the Three Months Ended March 31, 2018

TEN PEAKS COFFEE COMPANY INC.

Condensed Consolidated Interim Statements of Financial Position as at

(Tabular amounts are in thousands of Canadian dollars)

(Unaudited)	Note	March 31, 2018	December 31, 2017
Assets			
Current assets			
Cash and cash equivalents		\$ 12,036	\$ 9,486
Accounts receivable	4	11,941	12,127
Inventories	5	15,152	14,671
Short-term investments	6	-	7,067
Prepaid expenses and other receivables		740	1,031
Current income tax assets		212	-
Derivative assets and hedged firm commitments	7, 21	1,001	1,244
Total current assets		41,082	45,626
Non-current assets			
Receivables		233	230
Plant and equipment	8	28,749	23,341
Intangible assets		1,362	1,427
Deferred tax assets		1,985	1,484
Derivative assets	7, 21	326	740
Total non-current assets		32,655	27,222
Total assets		\$ 73,737	\$ 72,848
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable		\$ 3,496	\$ 2,639
Accrued liabilities		1,591	1,844
Income tax payable		-	105
Other liabilities	10	484	591
Dividend payable	14	566	565
Derivative liabilities	7, 21	131	229
Total current liabilities		6,268	5,973
Non-current liabilities			
Other liabilities	10	53	45
Convertible debenture	11	11,758	11,658
Construction loan	12	2,040	844
Asset retirement obligation		802	802
Deferred tax liabilities		3,816	3,426
Derivative liabilities	7, 11, 21	2,570	2,722
Total non-current liabilities		21,039	19,497
Total liabilities		27,307	25,470
Shareholders' equity			
Share capital		\$ 43,591	\$ 43,496
Retained earnings		2,180	2,257
Accumulated other comprehensive income		596	1,485
Share-based compensation reserve		63	140
Total equity		46,430	47,378
Total liabilities and shareholders' equity		\$ 73,737	\$ 72,848

Commitments (Note 22)

Subsequent events (Note 23)

Approved on behalf of the Board

(signed) "David Rowntree", Director

(signed) "Frank Dennis", Director

TEN PEAKS COFFEE COMPANY INC.

Condensed Consolidated Interim Statements of Income

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

(Unaudited)

for the	Note	3 months ended March 31, 2018	3 months ended March 31, 2017
Revenue	16	\$ 21,215	\$ 19,223
Cost of sales		(18,373)	(16,188)
Gross profit		2,842	3,035
Operating expenses			
Administration expenses		(1,519)	(1,144)
Sales and marketing expenses		(753)	(590)
Occupancy expenses		(15)	(34)
Total operating expenses		(2,287)	(1,768)
Operating income		555	1,267
Non-operating or other			
(Loss) on risk management activities		(84)	(380)
Fair value gain on embedded option	11	458	850
Finance income		152	138
Finance expense		(357)	(343)
(Loss) gain on foreign exchange		(12)	47
Total non-operating or other		157	312
Income before tax		712	1,579
Income tax expense		(223)	(144)
Net income		\$ 489	\$ 1,435
Basic earnings per share	19	\$ 0.05	\$ 0.16
Diluted earnings per share	19	\$ 0.03	\$ 0.08

TEN PEAKS COFFEE COMPANY INC.

Condensed Consolidated Interim Statements of Comprehensive Income and Condensed Consolidated Interim Statements of Changes in Equity

(Tabular amounts are in thousands of Canadian dollars)

(Unaudited)

Condensed Consolidated Interim Statements of Comprehensive Income for the

	3 months ended March 31, 2018	3 months ended March 31, 2017
Net income	\$ 489	\$ 1,435
Other comprehensive income, net of tax		
Items that may be subsequently reclassified to income:		
Unrealized (loss) gain		
Derivatives designated as cash flow hedges - currency risk hedges on US\$ future revenue	(920)	844
Items reclassified to income:		
Realized gains		
Derivatives designated as cash flow hedges - currency risk hedges on US\$ future revenue, recognized in revenue	(303)	-
Other comprehensive income related to hedging activities	(1,223)	844
Tax on other comprehensive income relating to hedging activities	330	(219)
Cumulative translation adjustment	4	-
Other comprehensive income, net of tax	(889)	625
Net income and other comprehensive income	\$ (400)	\$ 2,060

Condensed Consolidated Interim Statements of Changes in Equity

	Note	Share capital		Share-based compensation reserve	Accumulated other comprehensive income	Retained earnings	Total equity
		Shares	Amount				
Balance at December 31, 2016		9,038,862	\$ 43,496	\$ 63	\$ 419	\$ 357	\$ 44,335
Share-based compensation		-	-	21	-	-	21
Dividends	14	-	-	-	-	(565)	(565)
Net income and other comprehensive income		-	-	-	625	1,435	2,060
Balance at March 31, 2017		9,038,862	\$ 43,496	\$ 84	\$ 1,044	\$ 1,227	\$ 45,851
Balance at December 31, 2017		9,038,862	43,496	140	1,485	2,257	43,378
Shares issued for restricted share units		22,348	95	(95)	-	-	-
Share-based compensation		-	-	18	-	-	18
Dividends	14	-	-	-	-	(566)	(566)
Net income and other comprehensive income		-	-	-	(889)	489	(400)
Balance at March 31, 2018		9,061,210	\$ 43,591	\$ 63	\$ 596	\$ 2,180	\$ 42,430

– The accompanying notes form an integral part of these consolidated financial statements. –

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TEN PEAKS COFFEE COMPANY INC.

Condensed Consolidated Interim Statements of Cash Flows

(Tabular amounts are in thousands of Canadian dollars)

(Unaudited)

for the	Note	3 months ended March 31, 2018	3 months ended March 31, 2017
Operating activities			
Net income		\$ 489	\$ 1,435
Items not affecting cash:			
Depreciation and amortization		432	533
Share-based compensation expense		118	19
Unrealized gain on risk management activities		87	237
Unrealized gain on fair value adjustment of embedded option		(458)	(850)
Finance income		(152)	(138)
Finance expense		357	343
Income taxes expense		223	144
		<u>1,096</u>	<u>1,723</u>
Change in non-cash working capital relating to operating activities	18	(1,290)	(3,227)
Net cash used in operations		(194)	(1,504)
Interest received		186	138
Interest paid		(257)	(249)
Income taxes paid		(420)	7
Net cash used in operating activities		(685)	(1,608)
Investing activities			
Proceeds from (purchase of) short-term investments		7,067	(29)
Additions to plant and equipment		(3,267)	(802)
Net cash generated from (used in) investing activities		3,800	(831)
Financing activities			
Dividends paid		(565)	(565)
Net cash used in financing activities		(565)	(565)
Increase (decrease) in cash and cash equivalents		2,550	(3,004)
Cash and cash equivalents, beginning of the period		9,486	12,497
Cash and cash equivalents, end of the period		\$ 12,036	\$ 9,493

TEN PEAKS COFFEE COMPANY INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2018

(Tabular amounts are in thousands of Canadian dollars)

(Unaudited)

1. NATURE OF BUSINESS

Ten Peaks Coffee Company Inc. (“Ten Peaks” or the “Company”) is a company incorporated under the Canada Business Corporations Act. The common shares of the Company are listed on the Toronto Stock Exchange under the symbol ‘TPK’. The Company’s registered office is located at 3131 Lake City Way, Burnaby, British Columbia, V5A 3A3.

Ten Peaks is a leading specialty coffee company that owns all of the interests of Swiss Water Decaffeinated Coffee Company Inc. (“SWDCC”), a British Columbia company, and Seaforth Supply Chain Solutions Inc. (“Seaforth”), a company incorporated under the Canada Business Corporations Act.

2. BASIS OF PREPARATION

The Company’s condensed consolidated interim financial statements for the three months ended March 31, 2018 have been prepared in accordance with International Accounting Standards 34 – Interim Financial Reporting (“IAS 34”) as issued by the International Accounting Standards Board (“IASB”). Accordingly, certain disclosures included in the annual financial statements prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the IASB have been condensed or omitted. These condensed consolidated interim financial statements should be read in conjunction with the Company’s audited consolidated financial statements for the year ended December 31, 2017.

The accounting policies applied in the preparation of these condensed consolidated interim financial statements are consistent with those applied and disclosed in the Company’s audited consolidated financial statements for the year ended December 31, 2017, except for those policies disclosed below.

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

The following amendments to accounting standards became effective for annual periods beginning on or after January 1, 2018. The adoption of these revised standards by the Company did not have a material impact on its condensed consolidated interim financial statements.

- *IFRS 15: Revenue from Contracts with Customers*: The Company has evaluated the impact of applying IFRS 15 by analyzing revenue recognition from the following revenue streams: decaffeinated coffee sales, decaffeination services, and distribution. The Company concluded that there is no material change in the timing of revenue recognized under the new standard as the point of transfer of risk and reward for goods and services and transfer of control occurs at the same time. Accordingly, the Company has applied IFRS 15 retrospectively with no impact of transitioning to IFRS 15 on retained earnings as at January 1, 2018.

3. CAPITAL MANAGEMENT

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

TEN PEAKS COFFEE COMPANY INC.

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For the three months ended March 31, 2018

(Tabular amounts are in thousands of Canadian dollars)

(Unaudited)

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

4. RECEIVABLES

Accounts receivable as of March 31, 2018 and December 31, 2017 are recorded net of expected credit losses of nil. Non-current accounts receivable includes a \$0.1 million balance due from a related party, refer to Note 20.

5. INVENTORIES

During the three months ended March 31, 2018, the cost of inventories recognized in cost of sales was \$17.0 million (2017: \$16.0 million). The hedge accounting component represents the derivative gain (loss) on designated hedges for inventory on hand as at each period end.

	March 31, 2018	December 31, 2017
Raw materials	\$ 10,016	\$ 8,147
Finished goods	4,966	6,072
Carbon	380	397
Packaging	88	32
Hedge accounting component	(298)	23
	\$ 15,152	\$ 14,671

6. SHORT-TERM INVESTMENTS

Short-term investment, which consisted of a guaranteed investment certificate, matured and was reclassified to cash and cash equivalents.

7. DERIVATIVE FINANCIAL INSTRUMENTS

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

	March 31, 2018	December 31, 2017
Coffee futures contracts, net	\$ 412	\$ 247
US Dollar forward contracts, current	64	(3)
US Dollar forward contracts, long term	(44)	(13)
Derivative financial liability, convertible debenture	(2,252)	(2,709)
	\$ (1,820)	\$ (2,478)

8. PLANT AND EQUIPMENT

For the three months ended March 31, 2018, depreciation expense of \$0.33 million (2017: \$0.44 million) was charged to cost of sales and \$0.04 million (2017: \$0.03 million) was included in administrative expenses. There was no impairment loss recognized for the period (2017: Nil).

TEN PEAKS COFFEE COMPANY INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2018

(Tabular amounts are in thousands of Canadian dollars)

(Unaudited)

	Machinery and equipment	Leasehold improvements	Computer equipment	Furniture and fixtures	Construction in progress	Total
Cost						
Balance January 1, 2018	\$ 33,744	\$ 5,113	\$ 1,204	\$ 189	\$ 10,660	\$ 50,910
Additions	28	2	25	-	5,719	5,774
Disposals	(50)	-	-	-	-	(50)
Balance March 31, 2018	\$ 33,722	\$ 5,115	\$ 1,229	\$ 189	\$ 16,379	\$ 56,634
Accumulated depreciation						
Balance January 1, 2018	\$ (23,061)	\$ (3,501)	\$ (862)	\$ (145)	\$ -	\$ (27,569)
Depreciation	(253)	(74)	(36)	(3)	-	(366)
Disposals	50	-	-	-	-	50
Balance March 31, 2018	\$ (23,264)	\$ (3,575)	\$ (898)	\$ (148)	\$ -	\$ (27,885)
Balance, March 31, 2018	\$ 10,458	1,540	331	41	16,379	28,749
Cost						
Balance January 1, 2017	\$ 33,557	\$ 5,052	\$ 1,062	\$ 181	\$ 2,083	\$ 41,935
Additions	187	61	142	8	8,577	8,975
Balance December 31, 2017	\$ 33,744	\$ 5,113	\$ 1,204	\$ 189	\$ 10,660	\$ 50,910
Accumulated depreciation						
Balance January 1, 2017	\$ (21,546)	\$ (3,227)	\$ (750)	\$ (134)	\$ -	\$ (25,657)
Depreciation	(1,515)	(274)	(112)	(11)	-	(1,912)
Balance December 31, 2017	\$ (23,061)	\$ (3,501)	\$ (862)	\$ (145)	\$ -	\$ (27,569)
Balance, December 31, 2017	\$ 10,683	1,612	342	44	10,660	23,341

9. CREDIT FACILITIES

The Company had no outstanding bank debt as at March 31, 2018, or December 31, 2017. As at March 31, 2018, the Company had the following credit facilities:

- a. a \$14.5 million revolving operating line of credit which bears interest at the bank's prime lending rate plus 0.75% per annum; and
- b. a \$1.5 million swing operating line of credit which bears interest at the bank's prime lending rate plus 0.75% per annum.

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

In addition, the Company has a US\$8.0 million foreign exchange and commodity futures contract facility, which allows the Company to enter into spot, forward and other foreign exchange rate transactions and commodity futures transactions with the bank with a maximum term of up to 60 months.

These facilities are collateralized by a general security agreement over all of the assets of the Company and a floating hypothecation agreement over cash balances.

As at March 31, 2018, the Company was in compliance with its debt covenants.

10. OTHER LIABILITIES

The balance represents the fair value of the deferred share units ("DSUs") and of the cash-settled portion of the restricted share units ("RSUs") outstanding as follows:

TEN PEAKS COFFEE COMPANY INC.

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	March 31, 2018		December 31, 2017	
Other liabilities, current	\$	484	\$	591
Other liabilities, non-current		53		45
	\$	537	\$	636

11. CONVERTIBLE DEBENTURE

	March 31, 2018		December 31, 2017	
Balance, open	\$	11,658	\$	11,283
Interest charged		353		1,403
Interest paid		(253)		(1,028)
Balance, end	\$	11,758	\$	11,658

On October 11, 2016, the Company issued an unsecured subordinated convertible debenture for gross proceeds of \$15,000,000. The convertible debenture bears interest at a rate of 6.85% per annum to be paid quarterly in arrears and is due on October 11, 2023.

The convertible debenture is convertible into common shares of the Company at a conversion price of \$8.25 per common share. Under the terms of the agreement, Ten Peaks has the option to pay interest-in-kind for the first two years. If elected, this option will increase the principal sum by the interest owing.

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

The liability component was initially measured at a fair value of \$11.2 million, which represents the present value of the contractually determined stream of cash flows discounted at the prevailing market interest rate at that time applicable to instruments of comparable credit status and providing substantially the same cash flows, on the same terms, but without derivative components, of 12.15% per annum.

	March 31, 2018		December 31, 2017	
Balance, open	\$	2,709	\$	3,313
Change in fair valuation of derivative embedded option		(458)		(604)
Balance, end	\$	2,251	\$	2,709

The Company uses the residual value method to allocate the fair value of the convertible debentures between the liability component and the derivative liability. Under this method, as at balance sheet date, the derivative liabilities include the fair value of the derivative liability related to a convertible debenture in the amount of \$2.3 million (2017: \$2.7 million). The fair value of the derivative liability was determined using the Black-Scholes Option Pricing Model. The variables and assumptions used in computing the fair value are based on management's best estimate. The value varies with different variables of certain subjective assumptions.

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

	March 31, 2018	December 31, 2017
Share price	\$ 6.60	\$ 6.70
Exercise price	\$ 8.25	\$ 8.25
Option life	5.54 years	5.79 years
Volatility	36%	40%
Risk-free interest rate	2.00%	1.90%
Dividend yield	3.79%	3.73%

12. CONSTRUCTION LOAN

On August 26, 2016, SWDCC signed a lease agreement, which includes a construction management agreement to build a highly specialized building to house the production plant. The landlord will finance a portion of the building, with loan payments commencing on the earlier of substantial completion of construction and January 1, 2019.

The loan is repayable in equal monthly installments over fifteen years and can be repaid without penalty at any time. Interest is calculated monthly on the total expended cost, at an annual rate of Royal Bank of Canada's prime commercial lending rate for commercial loans in Canada plus 1.5%, compounded semi-annually, up to the date of substantial completion of construction or up to December 31, 2018, whichever is earlier. Subsequently, the interest rate will be 8% per annum, compounded semi-annually. As at March 31, 2018 the Company accrued \$2.0 million (2017: \$0.8 million) for the construction loan related to work done to date, plus interest in the amount of \$0.03 million (2017: \$0.01 million). Interest is capitalized during the construction phase.

13. SHARE CAPITAL

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

As of March 31, 2018, there were 9,061,210 common shares issued and outstanding.

Deferred share units

The movement in DSUs for the period ended March 31, 2018, and the year ended December 31, 2017, is as follows:

	Number of DSUs	Weighted average share price	Performance based
Balance at January 1, 2017	68,879	\$ 7.08	
DSUs issued	11,276	\$ 6.63	No
DSUs exercised	(9,581)	\$ 6.24	No
Balance at December 31, 2017	70,574	\$ 6.60	
Balance at January 1, 2018	70,574	\$ 6.60	
DSUs issued	2,728	\$ 6.63	No
Balance at March 31, 2018	73,302	\$ 6.60	

TEN PEAKS COFFEE COMPANY INC.

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For the three months ended March 31, 2018
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(Unaudited)

Restricted share units

The movement in RSUs for the period ended March 31, 2018, and the year ended December 31, 2017, is as follows:

	Number of RSUs	Volume based weighted average share price	Average remaining vesting period (years)	Performance based
Balance at January 1, 2017	48,285	\$ 7.86	1.14	
RSUs granted	52,480	\$ 6.15	2.15	No
RSUs issued for dividends	3,522	\$ 6.30	1.06	No
RSUs forfeited	(3,504)	\$ 6.26	-	No
Balance at December 31, 2017	100,783	\$ 6.58	1.15	
Balance at January 1, 2018	100,783	\$ 6.58	1.15	
RSUs issued for dividends	911	\$ 6.91	1.90	No
RSUs forfeited	(2,600)	\$ 6.91	-	No
RSUs cash-settled	(28,304)	\$ 7.04	-	No
RSUs exercised	(22,348)	\$ 7.04	-	No
Balance at March 31, 2018	48,442	\$ 6.27	1.90	

14. DIVIDENDS

The Company declared quarterly eligible dividends to shareholders totaling \$0.6 million or \$0.0625 per share (2017: \$0.6 million or \$0.0625 per share). On April 16, 2018, the Company paid this dividend.

15. SEGMENT REPORTING

The Company's sales are primarily generated in a single segment (decaffeination of green coffee) and in three geographic areas – Canada, United States and other international markets. The Company's revenue from external customers and its non-current assets by location are detailed below.

Revenue

	3 months ended March 31, 2018		3 months ended March 31, 2017	
Canada	\$	7,387	\$	7,934
United States		11,184		9,525
International and other		2,644		1,764
	\$	21,215	\$	19,223

Non-current assets (not including deferred tax assets)

	March 31, 2018		December 31, 2017	
Canada	\$	30,595	\$	25,663
United States		75		75
	\$	30,670	\$	25,738

TEN PEAKS COFFEE COMPANY INC.

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16. REVENUE

Revenue from contracts with customers is disaggregated by geographical markets: Canada, United States, and international. Also, revenue is disaggregated by major products and services: decaffeinated coffee sales, decaffeination services, and distribution.

For all revenue contracts, no significant judgements are made with respect to evaluating the timing of satisfaction of performance obligations, transaction prices, and amounts allocated to performance obligations. Consideration amounts are not variable. Payment terms are typically between 30 and 60 days, with the exception of select customers where payment terms are extended. For contracts with extended payment terms, the Company charges customers an insignificant financing component. There are no warranties, returns or refunds that apply to the Company.

Decaffeinated coffee sales

Decaffeinated coffee sales are the amounts that are charged to customers for the sale of decaffeinated coffee. The performance obligation is satisfied at a point in time, when a customer obtains control of the product, which is when decaffeinated coffee is picked-up by or delivered to the customer.

Decaffeination services

Decaffeination services represents the amount charged to customers for the service to decaffeinate customer-owned coffee. The performance obligation is to provide the service. This performance obligation is satisfied over time.

Distribution

Distribution revenue consists of shipping, handling and warehousing charges billed to customers. The performance obligation is satisfied over time as services are provided, which is at the same time as these services are consumed.

16.1 Disaggregation of revenue

Revenue's geographic disaggregation is disclosed in Note 15. Revenue disaggregation by major products and services is as follows:

	3 months ended	3 months ended
	March 31, 2018	March 31, 2017
Decaffeinated coffee sales	\$ 19,160	\$ 17,237
Decaffeination services	808	889
Distribution	1,247	1,097
	\$ 21,215	\$ 19,223

16.2 Contract balances

As at March 31, 2018 accounts receivable balance of \$11.9 million (2017: \$12.1 million) consists of amounts due from customer contracts and reflects the Company's right to a consideration that is unconditional. The Company did not have other contract assets or liabilities from contracts with customers.

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17. EMPLOYEE BENEFITS EXPENSES

Expenses recognized for employee benefits are detailed below:

	3 months ended	
	March 31, 2018	
	3 months ended	
	March 31, 2017	
Short-term benefits	\$ 1,843	\$ 1,690
Long-term benefits	124	51
Post-employment benefits	211	204
	\$ 2,178	\$ 1,945

Short-term benefits comprise of salaries, accrued bonuses, benefits and director fees. Long-term benefits comprise share-based compensation under the RSU Plan and the DSU Plan.

Post-employment benefits are contributions to employee retirement accounts, as well as statutory remittances related to post-employment benefits. These are recognized as an expense when employees have rendered service entitling them to the contributions.

18. SUPPLEMENTAL CASH FLOW INFORMATION

	3 months ended	
	March 31, 2018	
	3 months ended	
	March 31, 2017	
Inventories	\$ (481)	\$ (2,796)
Accounts receivable	187	(482)
Other assets and liabilities	(5)	-
Accounts payable and accrued liabilities	(854)	881
Prepaid expenses and other receivables	307	(189)
Derivative assets at fair value through profit or loss	(469)	(460)
Derivative liabilities at fair value through profit or loss	25	(181)
	\$ (1,290)	\$ (3,227)

The construction loan was used to fund a \$1.2 million addition to construction in progress. These are financing and investing transactions which did not require the use of the Company's cash or cash equivalents. As at March 31, 2018, \$1.3 million of construction in progress was accrued in accounts payable.

19. BASIC AND DILUTED EARNINGS PER SHARE

	3 months ended	
	March 31, 2018	
	3 months ended	
	March 31, 2017	
Basic EPS:		
Net income attributable to shareholders	\$ 489	\$ 1,435
Weighted average number of shares	9,048,794	9,038,862
Basic EPS	\$ 0.05	\$ 0.16

TEN PEAKS COFFEE COMPANY INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2018

(Tabular amounts are in thousands of Canadian dollars)

(Unaudited)

	3 months ended March 31, 2018	3 months ended March 31, 2017
Diluted EPS:		
Net income attributable to shareholders	\$ 489	\$ 1,435
Interest on convertible debenture	261	250
Loss (gain) on fair value adjustment of embedded option	(458)	(850)
Net income after effect of diluted securities	\$ 292	\$ 835
Weighted average number of shares - basic	9,048,794	9,038,862
Effect of diluted securities: convertible debenture	1,818,182	1,818,182
Weighted average number of shares - diluted	10,866,976	10,857,044
Diluted EPS	\$ 0.03	\$ 0.08

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

	3 months ended March 31, 2018	3 months ended March 31, 2017
Weighted average number of RSUs granted	911	21,346

20. RELATED PARTY TRANSACTIONS

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

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

Key management personnel

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

	3 months ended March 31, 2018	3 months ended March 31, 2017
Short-term benefits	\$ 296	\$ 305
Long-term benefits	116	27
Post-employment benefits	25	25
	\$ 437	\$ 357

Trading transactions

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

	3 months ended March 31, 2018	3 months ended March 31, 2017
Sales	\$ 164	\$ 202
Purchases of raw materials	\$ 1,961	\$ 2,077

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	March 31, 2018	December 31, 2017
Accounts receivable	\$ 6	\$ 15
Accounts payable	\$ 489	-

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

Promissory note

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. The promissory note is accrued in accounts receivable.

21. FINANCIAL RISK MANAGEMENT

The Company's risk management program focuses on the unpredictability of commodity prices and foreign exchange rates and seeks to minimize potential adverse effects on the Company's financial performance and cash flows. The Company uses derivative financial instruments to hedge these risk exposures. In addition, the Company monitors other financial risks on a regular basis.

Risk management is carried out under policies approved by the Board of Directors. The Company's exposure to and management of financial risks is discussed in more detail below.

21.1 Commodity price risk

Commodity price risk is the risk that the fair value of inventory or future cash flows will fluctuate as a result of changes in commodity prices. The Company utilizes futures contracts to manage its commodity price exposure. The Company buys and sells futures contracts for coffee on the IntercontinentalExchange in order to offset its inventory position and fix the input cost of green coffee. As at March 31, 2018, the Company had futures contracts to buy 2.3 million lbs of green coffee with a notional value of US\$2.8 million, and contracts to sell 4.9 million lbs of green coffee with a notional value of US\$5.7 million. The furthest contract matures in May 2019 (December 31, 2017: buy 2.2 million lbs of green coffee with a notional value of US\$2.7 million, and contracts to sell 4.5 million lbs of green coffee with a notional value of US\$5.5 million).

The following tables provide a summary of commodity hedges designated as hedging instruments:

Carrying amount of hedging instruments	March 31, 2018	December 31, 2017
Fair value hedge	Commodity price risk Coffee futures	Commodity price risk Coffee futures
Nominal amount of hedging instruments (in US\$'000)	\$ 2,939	\$ 2,804
Line item in the statement of financial position where hedging instrument is located	Derivative Assets	Derivative Assets
Assets	\$ 412	\$ 247
Liabilities	-	-
Changes in fair value used for calculating hedge ineffectiveness	-	-

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Accumulated amount of fair value hedge adjustment on hedged item included in the carrying amount of the hedged items	March 31, 2018	December 31, 2017
Fair value hedge	Purchase commitments and coffee inventory	Purchase commitments and coffee inventory
Nominal amount of hedged item (in '000 lbs)	2,541	2,285
Line items in the statement of financial position where hedged item is located	Inventories & hedged firm commitments	Inventories & hedged firm commitments
Assets	\$ 322	\$ 28
Liabilities	404	128
Changes in fair value used for calculating hedge ineffectiveness	-	-

21.2 Foreign currency risk

The Company realizes a significant portion of its sales in US\$, and purchases green coffee in US\$ which is, in some cases, sold to customers in Canadian dollars. The Company enters into forward foreign currency contracts to manage its exposure to currency rate fluctuations and to minimize the effect of exchange rate fluctuations on business decisions. These contracts relate to the Company's future net cash flows in US\$ from sales. In addition, the Company enters into forward contracts to buy US\$ for coffee that it resells in Canadian dollars.

At March 31, 2018, the Company had forward currency contracts to buy US\$5.9 million and sell US\$57.2 million (December 31, 2017: buy US\$7.2 million and sell US\$46.2 million) from April 2018 through to March 2023 at various Canadian exchange rates ranging from \$1.2147 to \$1.3837.

The following tables provide a summary of amounts related to foreign currency forward contracts designated as hedging instruments.

Currency risk hedges on US\$ purchases

As at March 31, 2018, the Company designated as hedging instruments US\$5.9 million in forward contracts to buy US dollars, which relate to coffee purchases (2017: US\$7.0 million).

Carrying amount of hedging instruments	March 31, 2018	December 31, 2017
Fair value hedge	Foreign currency purchase forwards	Foreign currency purchase forwards
Nominal amount of hedging instruments (in US\$'000)	\$ 5,912	\$ 6,962
Line item in the statement of financial position where hedging instrument is located	Derivative assets and Derivative liabilities	Derivative liabilities
Assets	\$ 134	\$ -
Liabilities	15	229
Changes in fair value used for calculating hedge ineffectiveness	-	-

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Accumulated amount of fair value hedge adjustment on hedged item included in the carrying amount of the hedged items	March 31, 2018	December 31, 2017
Fair value hedge	Firm purchase commitments & inventories	Firm purchase commitments & inventories
Nominal amount of hedged item (in US\$'000)	\$ 5,912	\$ 6,962
Line item in the statement of financial position where hedged item is located	Inventories & hedged firm commitments	Inventories & hedged firm commitments
Assets	\$ 92	\$ 380
Liabilities	119	-
Changes in fair value used for calculating hedge ineffectiveness	-	-

Currency risk on hedge of US\$ forecasted revenue

As at March 31, 2018, the Company designated as hedging instruments US\$40.9 million in forward contracts to sell US dollars, which relate to highly probable forecasted sales revenue, (2017: US\$34.0 million).

Carrying amount of hedging instruments	March 31, 2018	December 31, 2017
Cashflow hedge	Currency risk Foreign currency forwards	Currency risk Foreign currency forwards
Nominal amount of hedging instruments (in US\$'000)	\$ 40,870	\$ 34,015
Line items in the statement of financial position where hedging instrument is located	Derivative assets and Derivative liabilities	Derivative assets and Derivative liabilities
Assets	\$ 560	\$ 1,292
Liabilities	302	13
Changes in fair value used for calculating hedge ineffectiveness	-	-

Accumulated amount of fair value hedge adjustment on hedged item included in the carrying amount of the hedged items	March 31, 2018	December 31, 2017
Cashflow hedge	Currency risk Foreign currency forwards	Currency risk Foreign currency forwards
Nominal amount of hedged item (in US\$'000)	\$ 40,870	\$ 34,015
Line items in the statement of financial position where hedged item is located	Accumulated other comprehensive income	Accumulated other comprehensive income
Assets	n/a	n/a
Liabilities	n/a	n/a
Changes in fair value used for calculating hedge ineffectiveness	-	-
Cashflow hedge reserve	\$ 746	\$ 1,969

21.3 Credit risk

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

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

The Company follows a program of credit evaluations of customers and limits the amount of credit extended when deemed necessary. For the period ended March 31, 2018, revenues from three major customers of \$8.0 million (2017: \$6.9 million) represented 38% (2017: 36%) of total revenues

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for the period. Major customers represented 44% of total accounts receivable as at March 31, 2018 (December 31, 2017: 47%).

The Company had 10% of its accounts receivable past due but not impaired as at March 31, 2018 (December 31, 2017: 16%). Of the past due accounts receivable, 95% are 1-30 days past due (2017: 83%), and 5% are 31-60 days past due (2017: 17%).

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

21.4 Liquidity risk

The Company has in place a planning and budgeting process to assist in determining the funds required to support the Company's normal operating requirements on an ongoing basis and its future plans. The Company ensures that there are sufficient committed financing facilities to meet its short-term business requirements, taking into account its anticipated cash flows from operations, its existing bank indebtedness and additional borrowing capacity. Non-derivative financial liabilities are as follows:

	Carrying Amount		Contractual Cash Flows			
	March 31, 2018		2018	2019 to 2020	2021 to 2022	Thereafter
Accounts payable	\$	3,496	\$ 3,496	\$ -	\$ -	\$ -
Other liabilities		537	484	53	-	-
Construction loan		2,040	68	272	272	1,428
Convertible debenture		11,758	-	-	-	15,000
Total	\$	17,831	\$ 4,048	\$ 325	\$ 272	\$ 16,428

21.5 Fair value of financial instruments

Financial instruments that are measured at fair value are categorized as follows:

	March 31, 2018		Level 1	Level 2	Level 3
Financial assets					
Cash, cash equivalents and short-term investments	\$	12,036	\$ 12,036	\$ -	\$ -
Derivative assets		1,139	412	727	-
	\$	13,175	\$ 12,448	\$ 727	\$ -
Financial liabilities					
Derivative liabilities	\$	2,701	\$ -	\$ 2,701	\$ -
Other liabilities		537	-	537	-
	\$	3,238	\$ -	\$ 3,238	\$ -
	December 31, 2017		Level 1	Level 2	Level 3
Financial assets					
Cash, cash equivalents and short-term investments	\$	16,553	\$ 16,553	\$ -	\$ -
Derivative assets		1,984	275	1,709	-
	\$	18,537	\$ 16,828	\$ 1,709	\$ -
Financial liabilities					
Derivative liabilities	\$	2,951	\$ -	\$ 2,951	\$ -
Other liabilities		636	-	636	-
	\$	3,587	\$ -	\$ 3,587	\$ -

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

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22. COMMITMENTS

22.1 Operating lease commitments

SWDCC leases a facility which houses its decaffeination plant and offices. SWDCC has exercised a renewal option such that the lease will expire in 2023. Beyond 2023, the landlord has to approve any subsequent renewal of the lease.

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

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

On August 26, 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 June 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.

A summary of future minimum payments for operating leases as at March 31, 2018 is as follows:

Minimum lease payments due:	
No later than 1 year	\$ 2,910
Later than 1 year and no later than 5 years	6,868
Later than 5 years	128
	<u>\$ 9,906</u>

22.2 Other commitments

The Company has provided a standby letter of credit in the amount of \$0.3 million as security to the landlord.

The Company has, in the normal course of business, entered into various contracts. As at March 31, 2018, these contracts related to the purchase of green coffee in the amount of \$34.5 million (2017: \$33.0 million), and natural gas purchase commitments in the amount of \$0.2 million (2017: \$0.2 million). \$34.6 million of these contracts will become payable within 12 months from March 31, 2018.

23. SUBSEQUENT EVENTS

On April 11, 2018, the Company granted 81,000 RSUs pursuant to the Restricted Share Unit Plan.

On April 16, 2018, the Company paid an eligible dividend in the amount of \$0.6 million (\$0.0625 per share) to shareholders of record on March 29, 2018.

These consolidated financial statements for the period ended March 31, 2018 were approved for issuance on May 7, 2018. There were no significant non-adjusting events that occurred between the reporting date and the date of authorization.