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 7, 2018, provides a review of the financial results for the three and six months ended June 30, 2018 relative to the comparable period of 2017. The three-month period represents the second quarter ("Q2") of our 2018 fiscal year. This MD&A should be read in conjunction with Ten Peaks' condensed consolidated interim financial statements for the six months ended June 30, 2018, as well as the audited consolidated financial statements for the year ended December 31, 2017, which are available at www.sedar.com.

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

FORWARD-LOOKING STATEMENTS

This MD&A contains forward-looking statements, including statements regarding the future success of our business and market opportunities. Forward-looking statements typically contain words such as "believes", "expects", "anticipates", "continue", "could", "indicates", "plans", "will", "intends", "may", "projects", "schedule", "would" or similar expressions suggesting future outcomes or events, although not all forward-looking statements contain these identifying words. Examples of such statements include, but are not limited to, statements concerning: (i) expectations regarding Ten Peaks' future success in various geographic markets; (ii) future financial results, including anticipated future sales and processing volumes; (iii) future dividends; (iv) the expected actions of the third parties described herein; (v) factors affecting the coffee market including supplies and commodity pricing; (vi) the expected cost to complete the production facility and production line currently under construction; and (vii) 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; (v) the availability and expected terms and conditions of debt facilities; and (vi) 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, 2018, we recorded higher volumes and revenues compared to the same periods last year. We continued to gain market share against our competitors, increased our existing capacities, and improved our operational efficiencies while remaining focused on producing high-quality premium decaffeinated coffee. In anticipation of future growth, our plans include expanding our presence in Europe and growing our brand by targeting specific customer groups in North America. A summary of our financial results is shown in the table below:

In $000s except per share amounts (unaudited)	3 months ended June 30, 2018	3 months ended June 30, 2017	6 months ended June 30, 2018	6 months ended June 30, 2017
Sales	$ 22,658	$ 21,915	$ 43,873	$ 41,138
Gross Profit	3,952	3,364	6,793	6,399
Operating income	1,528	1,470	2,083	2,739
Net income	1,294	1,720	1,781	3,156
EBITDA[1]	1,868	2,235	2,975	3,914
Net income - basic[2]	$ 0.14	$ 0.19	$ 0.20	$ 0.35
Net income - diluted[2]	$ 0.10	$ 0.17	$ 0.13	$ 0.25

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

Operational highlights

- Our total shipped volumes in the second quarter and for the first half of this year grew by 8% and 13%, respectively, compared to 2017. We continued to gain new business and win more business with existing customers.
- Shipments to roasters in the second quarter and for the first half of this year improved by 12% and 19%, respectively, compared to the same periods in 2017. Shipments to importers in Q2 and for the first six months of the year remained flat. The growth in roaster volumes reflects gains in market share, due in part to the shutdown of a competitor in 2017.
- Volumes shipped to our specialty accounts grew by 9% and 15% in the second quarter and first six months of 2018, respectively, compared to the same periods in 2017.
- Shipments to our commercial accounts increased by 8% and 11% for the three and six months ended June 30, 2018, respectively, compared to the same periods last year.
- As expected, our largest geographical market by volume for the first half of the year was the United States, followed by Canada, and other international markets. By dollar value, 52% of our sales were to customers located in the United States, 35% were to Canada, and the remaining 13% were to other countries. As we continue to expand our business in Europe, we anticipate our revenues from our international markets will increase.

Financial highlights

- Quarterly revenue increased by 3% over Q2 2017 to $22.7 million and six-month revenue improved by 7% to $43.9 million. The increases were due to growth in our volumes, partially offset by a lower commodity price ("NY'C'") and a lower US dollar ("US$").
- Gross profit margin for Q2 2018 was $4.0 million (17.4%). This is an improvement in margins from $2.8 million (13.4%) in Q1 2018 and $3.4 million (15.4%), in Q2 2017. The increase in second quarter gross

profit was due in part to increased process volumes and management's efforts to review and reduce Ten Peaks' operating costs, in response to margin compression in Q1 2018. Year-to-date gross profit margin remained fairly consistent in both years at $6.8 million (15.5%) in the first half of 2018 compared to $6.4 million (15.6%) in the same period last year. At present, management is actively pursuing margin maintenance and improvements following a period of bearing inflationary cost increases. Management is also seeking variable and fixed cost reduction activities without sacrificing the quality of our product.

- Operating expenses increased by 28% to $2.4 million in the second quarter of this year and by 29% to $4.7 million for the first half of 2018, compared to the same periods last year. In both periods, the increase was due to higher staffing and staff-related expenses as we lay the foundation to quickly fill new capacity coming online in 2019.
- Operating income increased by $0.1 million, or 4%, to $1.5 million in the second quarter of this year and decreased by $0.7 million, or 24%, to $2.1 million for the first half of 2018.
- We recorded quarterly net income of $1.3 million, compared to $1.7 million in Q2 2017 and year-to-date net income of $1.8 million compared to $3.2 million in the same period of 2017. Increases in our operating costs (as discussed above), foreign exchange losses in 2018 (as opposed to gains in 2017) and a reduced gain on the embedded option from the convertible debenture contributed to the decline.
- EBITDA decreased by $0.4 million, or 16%, to $1.9 million in Q2 2018 and by $0.9 million to $3.0 million for the first half of 2018, compared to the same periods in 2017. In both periods, the decline is related to increased operating costs and reduced gains on our risk management activities, coupled with infrastructure investments for future growth.

OUTLOOK

Management continues to expect to record a double-digit increase in our annual volumes in 2018. In the first half of this year, we saw growth in volumes shipped to roasters, specialty and commercial accounts. This reflects the fact that we have won business with new roasters and increased business with existing customers who have grown their distribution, locations or expanded their product offerings. Some of our new business is from roasters who previously obtained their decaffeinated coffees from a recently decommissioned CO_2 plant in Europe, while other account wins are related to the upcoming closure of a CO_2 plant in Houston, TX this summer. Overall, we continue to gain market share, particularly in the premium decaffeination market.

Management has been reviewing the operations of both Swiss Water Decaffeinated Coffee Company Inc. ("SWDCC") and Seaforth Supply Chain Solutions Inc. ("Seaforth") in detail to ensure that both companies provide net positive contributions to Ten Peaks' financial results by the end of this year. As part of the evaluation of our cost structure, we are reviewing our cost structure to increase our margins for both subsidiaries. Although Seaforth's operating costs rose substantially in the first quarter of this year, we have seen good early turnarounds in operating costs in Q2. SWDCC's margins also improved in the second quarter.

The market for decaffeinated coffee continues to be strong. On a year-over-year basis, the growth rate of the decaffeinated coffee market has increased and it continues to outpace growth in the US coffee market as a whole. Sales of specialty decaffeinated coffee are also increasing year-over-year, and the specialty decaf segment is gaining share in the total coffee market.[1]

[1] STUDYLOGIC report, April 2018

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

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

More importantly, various media sources[3] have recently underscored the health and environmental hazards associated with methylene chloride (the primary chemical used by our competitors to decaffeinate coffee). We believe this rise in consumer awareness is driving demand for our coffees, and we will continue to proactively employ positive messaging to accentuate the benefits of our amazing coffees without caffeine.

As announced previously, a European $C0_2$ decaffeination plant was recently closed and this summer, a second $C0_2$ decaffeination plant, located in Houston, TX, will close. We believe that the closures have caused tightness in the chemical free decaffeination coffee market and the resulting drop in available decaffeination services will allow us to more rapidly utilize the additional production capacity that we have coming online in 2019. Construction of our new SWISS WATER® Process decaffeination facility, which is located in Delta, BC, is progressing well. Initially, this facility will house one new production line, although the site is large enough for expansion well into the future. The new production line is expected to be commissioned in the third quarter of 2019.

In anticipation of more immediate growth in demand, we recently completed an efficiency enhancement project at our current facility which increased our capacity. These changes, together with the capacity that was added at SWDCC's Burnaby, BC facility in Q1 2016, are expected to be sufficient to meet anticipated growth in demand for our premium SWISS WATER® Process coffees over the next 12 months until the new production line is operational.

Over the next two years, our primary focus will be to position SWDCC for steady future growth. Currently, we are in the process of setting up a European subsidiary and opening a European sales office to better serve customers in the largest decaffeinated coffee market in the world. In addition, we are expanding our ability to target specific customer groups by selectively adding to our sales and marketing team in the United States. While developing our European and US sales teams will increase our expenses somewhat, we expect these initiatives to generate increased sales orders before the end of this year and, in the longer term, to drive major account wins. As converting large customers to SWISS WATER® Process coffees typically takes several

[2] National Coffee Association 2017 Coffee Drinking Trends

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

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

quarters, we believe building our sales teams now is a critical part of our preparation to ramp up orders and win new business as we add significant capacity with our new facility in 2019.

At the end of this year, we will be changing our business name from Ten Peaks to "Swiss Water Decaffeinated Coffee Inc." SWDCC will be merged into Ten Peaks and the resulting entity will bear the new name. This simplified structure will allow for shareholders and potential investors to more readily associate the investment opportunity with our proprietary SWISS WATER® Process. The change will also modestly decrease our future compliance costs.

BUSINESS OVERVIEW

Ten Peaks is a leading specialty coffee company doing business through two wholly owned subsidiaries, SWDCC and Seaforth.

SWDCC is a premium green coffee decaffeinator located in Burnaby, BC, Canada. SWDCC employs the proprietary SWISS WATER® Process to decaffeinate green coffee without the use of chemicals, leveraging science-based systems and controls to produce coffee that is 99.9% caffeine free. We believe that the SWISS WATER® Process is the world's only 100% chemical free water process for third-party coffee decaffeination. It is certified organic by the Organic Crop Improvement Association and is the world's only consumer-branded decaffeination process. Decaffeinating without the use of chemicals is our primary business and the financial results of Ten Peaks are dependent upon the results of SWDCC.

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

Ten Peaks' shares trade on the Toronto Stock Exchange under the symbol 'TPK'. As at the date of this report 9,061,210 shares were issued and outstanding.

Swiss Water Decaffeinated Coffee Company's Business

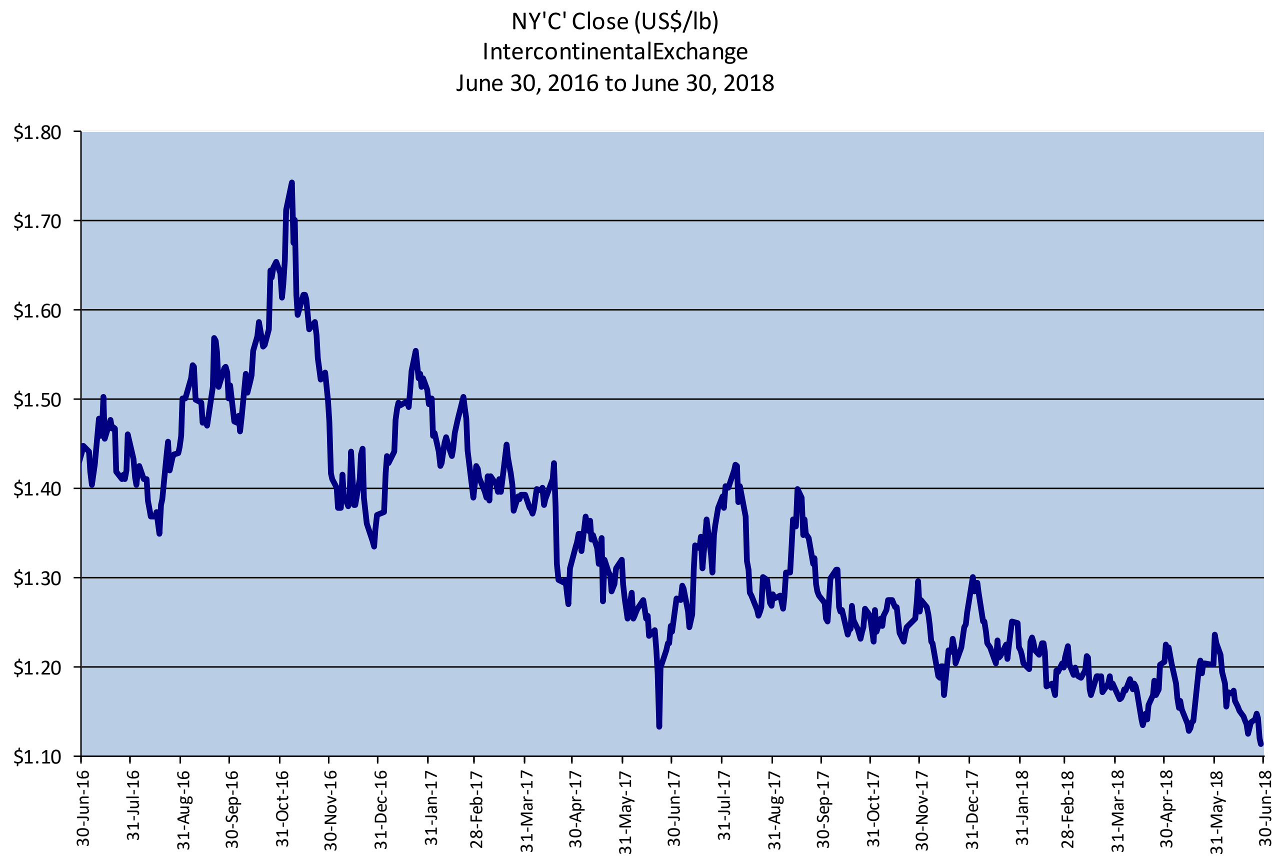
We carry an inventory of premium-grade Arabica coffees that we purchase from the specialty green coffee trade, decaffeinate and then sell to our customers (our "regular" or "non-toll" business). Revenue from our regular business includes both processing revenue and green coffee cost recovery revenue.

We also decaffeinate coffee owned by our customers for a processing fee under toll arrangements (our "toll" business). The value of the coffee processed under toll arrangements does not form part of our inventory, our revenue or our cost of sales. Revenue from toll arrangements consists entirely of processing revenue.

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

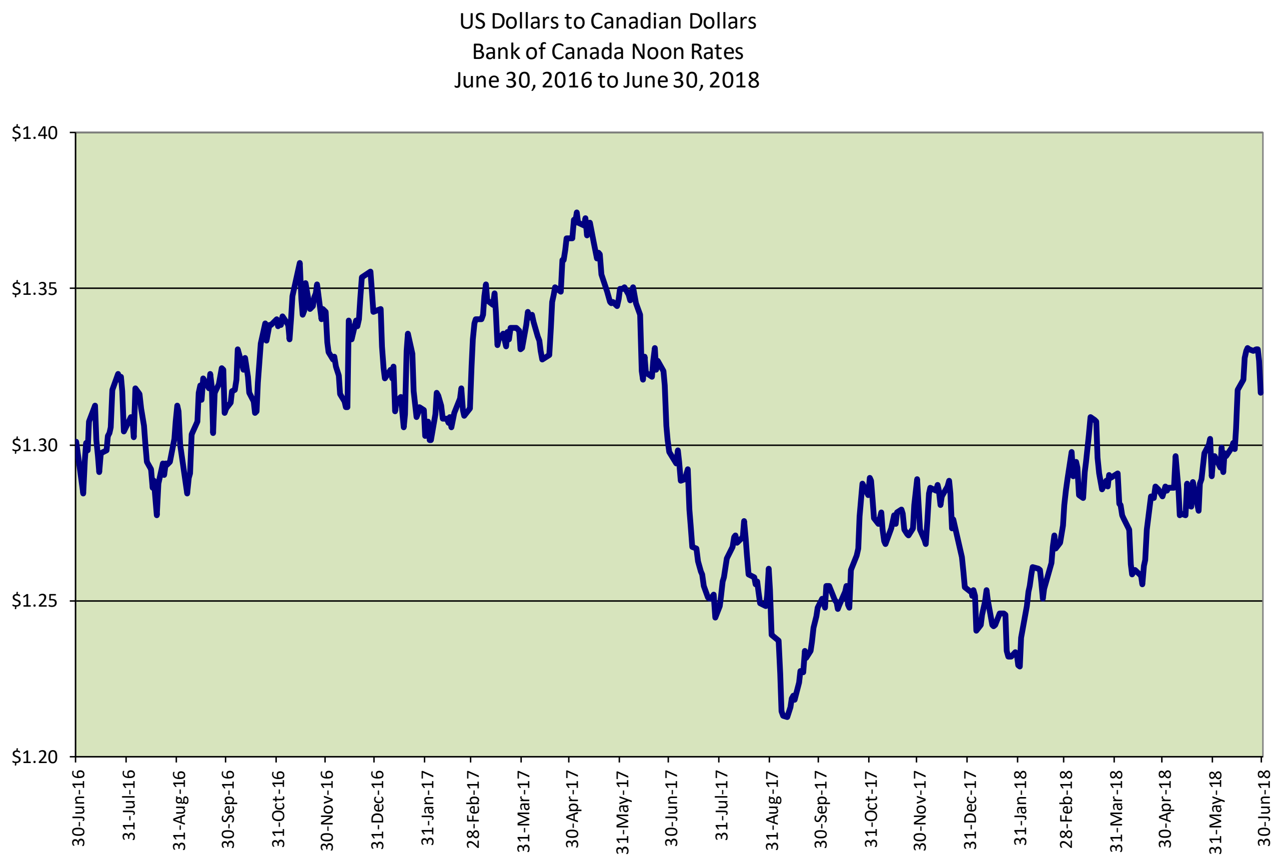
For our regular business, we work with coffee importers to source premium-grade green coffees from coffee-producing countries located in Central and South America, Africa and Asia. The purchase price is based on the NY'C' coffee futures price on the IntercontinentalExchange, plus a quality differential. The NY'C' component typically makes up more than 80% of the total cost of green coffee, while the quality differential typically accounts for less than 20%. Both the NY'C' price and the quality differential fluctuate in response to fundamental commodity factors that affect supply and demand.

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



In Q2 2018, the NY'C' averaged US$1.17/lb compared to an average of US$1.31/lb in Q2 2017. For the first half of 2018, the NY'C averaged US$1.19/lb, compared to US$1.38/lb for the first six months of 2017. The rise and fall of the NY'C' affects our volume of shipments, our revenues and our cost of sales. In an upward trending market, our customers tend to consume their inventories rather than build them. When the NY'C' declines over a sustained period (as it has for the past 12 months), our customers tend to add to their inventories.

The chart below illustrates the US$ to Canadian dollar ("C$") exchange rates for the last eight quarters:



In Q2 2018, the US$ averaged C$1.29, a decrease of 4% over the same period in 2017. In the first half of this year, the US$ averaged C$1.28, also a decrease of 4% over the same period last year. While the year-over-year change is small, the US$ to C$ exchange rate has been quite volatile during the first half of 2018. On January 1, 2018, the US$ opened at C$1.25, declined for a few weeks, and then rose to C$1.29 by the end Q1. It then declined in April to C$1.26, steadily increased to a high of $1.33 in mid-June and then dropped back down to C$1.32 at the end of Q2. In the first half of 2017, the US$ ranged between C$1.30-C$1.37. In the first six months of this year, it ranged between C$1.23 to C$1.33. When the US$ depreciates (appreciates), it decreases (increases) our gross profit on green coffee revenues.

OPERATING RESULTS

Revenue

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

We also 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 our processing volumes and with the growth of Seaforth's business.

Our revenue by category for the indicated periods was:

(In $000s)	3 months ended June 30		6 months ended June 30	
(unaudited)	2018	2017	2018	2017
Process revenue	$ 6,074	$ 5,610	$ 11,445	$ 10,406
Green revenue	$ 15,196	15,129	$ 29,793	28,459
Distribution revenue	1,388	1,176	2,635	2,273
	$ 22,658	$ 21,915	$ 43,873	$ 41,138

For the quarter ended June 30, 2018 sales totaled $22.7 million, an increase $0.7 million, or 3%, compared to the same quarter in 2017.

Looking at our sales by category during Q2 2018:

- Process revenue increased in Q2 by $0.4 million, or 8%, reflecting the increase in our processing volumes, partially offset by a lower US$.
- Green revenue increased slightly by $0.1 million, or 0.4%. Higher volumes were offset by a lower NY'C' in the period.
- Distribution revenue rose by $0.2 million, or 18%, due to growth in Seaforth's business and our processing volumes.

Sales for the first six months of 2018 totaled $43.9 million, an increase of $2.7 million, or 7%, over the same period last year.

- Process revenue and green revenue increased by 10% and 5%, respectively, due to higher volumes.
- Distribution revenue rose by 16%, with the increase driven by higher volumes and growth in Seaforth's business.

Cost of Sales

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

Our second quarter cost of sales increased slightly by $0.2 million, or 1%, to $18.7 million this year compared to the same period in 2017. For the first half of 2018, our cost of sales was $37.0 million, up by $2.3 million, or 7%, over the same period last year. The increase during the first half of the year is consistent with the improvement in revenues we recorded for the period. While higher freight charges and variable production costs associated with the significant growth in our volumes accounted for some of the increase, green coffee costs, which is a significant portion of our cost of sales, also increased. Swings in the US$/C$ exchange rate can create negative margins on green coffee revenue between the time we bring green coffee into inventory and the time it is sold.

Gross Profit

Gross profit increased by 17% to $4.0 million for the second quarter of this year, as higher revenues more than offset the increases in our cost of sales. Gross profit for the first half of 2018 increased by 6% to $6.8 million, compared to the same period last year. The improvements are largely related to efforts by management to proactively review Ten Peaks' cost structure and also to actively seek ways to improve the company's margin, without sacrificing the quality of our coffee.

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 for Q2 2018 totaled $1.4 million. This was an increase of $0.2 million, or 19%, compared to the same period last year, but a reduction of $0.1 million compared to Q1 2018. Administration expenses for the first half of 2018 increased by 26% to $3.0 million. In both periods, the increase largely reflects costs incurred to support strategic growth initiatives for 2018, including staffing and employee-related expenses and recruitment expenses to establish and expand our teams in Europe and the United States in anticipation of our growth.

Sales and Marketing Expenses

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

Sales and marketing expenses were up by $0.3 million, or 45%, to $0.9 million in Q2 2018 and by $0.5 million, or 37%, to $1.7 million during the first half of the year. The increases are due to our expansion into Europe and Food Services, and increased brand awareness activities in support of SWDCC's strategic growth initiatives.

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 largely unchanged from the prior year.

Finance Expenses and Income

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

Net finance expenses were $0.3 million and $0.5 million for the three and six months ended June 30, 2018, respectively, compared to net finance expense of $0.2 million and $0.4 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 the contractual interest paid on this loan is at a rate of 6.85%. Due to this difference, the amortization of the bond discount changes over time, which resulted in a slightly higher interest expense in Q2 2018 compared to the same period a year ago.

Gains and Losses on Risk Management Activities

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

For the three months ended June 30, 2018, we recorded a gain of $0.1 million, compared to a gain of $1.1 million for the same period in 2017. Effectively no gain or loss was reported for the first half of 2018, compared to a gain of $0.7 million in the first half of 2017.

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 $0.4 million in the second quarter of 2018 and a gain of $0.9 million for the year-to-date, compared to $0.1 million and $1.0 million, respectively, in the same periods of last year.

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 loss on foreign exchange of $0.2 million, compared to $0.1 million gain in the same period a year ago. For the year-to-date, we recorded a foreign exchange loss of $0.2 million, compared to a gain of $0.1 million for the same period last year.

Income Before Taxes and Net Income

In the second quarter of 2018, we recorded income before taxes of $1.5 million, compared to $2.5 million in the same period in 2017. Current and deferred income taxes reduced our net income by $0.2 million for the quarter, compared to $0.8 million in Q2 2017. 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 $1.3 million for the second quarter, compared to net income of $1.7 million for the same period in 2017.

For the first half of 2018, we recorded pre-tax income of $2.2 million, down from $4.1 million in the first half of 2017. This was reduced by income tax expenses of $0.5 million, compared to income taxes of $1.0 million in the same period last year. Overall, we recorded net income of $1.8 million for the year-to-date, compared to $3.2 million 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).

In the second quarters and first half of 2018 and 2017, the potential common shares issuable under the Restricted Share Unit ("RSU") Plan are anti-dilutive, and as such they are excluded from the calculation of diluted earnings per share in the quarter.

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

(In 000s except for per share data)	3 months ended June 30		6 months ended June 30	
(unaudited)	2018	2017	2018	2017
Basic EPS				
Net income attributable to shareholders	$ 1,294	$ 1,720	$ 1,781	$ 3,156
Weighted average number of shares	9,061,210	9,038,862	9,058,149	9,038,862
Basic EPS	$ 0.14	$ 0.19	$ 0.20	$ 0.35
Diluted EPS				
Net income attributable to shareholders	1,294	1,720	1,781	3,156
Interest on convertible debenture	263	258	524	507
Loss (gain) on fair value adjustment of embedded option	(426)	(115)	(883)	(965)
Net income after effect of diluted securities	$ 1,131	$ 1,863	$ 1,422	$ 2,698
Weighted average number of shares – basic	9,061,210	9,038,862	9,055,037	9,038,862
Effect of diluted securities: convertible debenture	1,818,182	1,818,182	1,818,182	1,818,182
Weighted average number of shares - diluted	10,879,392	10,857,044	10,873,219	10,857,044
Diluted EPS	$ 0.10	$ 0.17	$ 0.13	$ 0.25

Other Comprehensive Income

Gains or losses on our designated revenue hedges that will mature in future periods are recorded in other comprehensive income, net of income tax expense. Other comprehensive income, net of tax, for the second quarter of 2018 was a loss of $1.0 million, compared to income of $0.1 million in the same period of 2017. Other comprehensive income, net of tax, for the first half of 2018 was a loss of $1.9 million, compared to income of $0.7 million in the same period of 2017. In both periods, the decreases are related to a decrease in the value of the Canadian dollar.

Non-IFRS Measures

EBITDA

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

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

The reconciliation of net income to EBITDA is as follows:

(In $000s)		3 months ended June 30				6 months ended June 30		
(unaudited)		2018		2017		2018		2017
Income for the period	$	1,294	$	1,720	$	1,781	$	3,156
Income taxes		231		823		453		967
Income before tax	$	1,525	$	2,543	$	2,234	$	4,123
Finance income		(97)		(165)		(248)		(303)
Finance expenses		365		348		722		692
Depreciation & amortization		418		525		850		1,058
Unrealized gain on foreign exchange forward contracts		(187)		(870)		(101)		(632)
Fair value loss (gain) on embedded option		(426)		(115)		(883)		(965)
(Gain) loss of foreign exchange		223		(65)		235		(112)
Share-based compensation		47		34		166		53
EBITDA	$	1,868	$	2,235	$	2,975	$	3,914

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

(In $000s)		3 months ended June 30				6 months ended June 30		
(unaudited)		2018		2017		2018		2017
Operating income for the period	$	1,528	$	1,470	$	2,083	$	2,739
Add back:								
Depreciation & amortization		418		525		850		1,058
Share-based compensation		47		34		166		53
(Gain) loss on risk management activities		62		1,076		(23)		696
Deduct:								
Unrealized gain on foreign exchange forward contracts		(187)		(870)		(101)		(632)
EBITDA	$	1,868	$	2,235	$	2,975	$	3,914

EBITDA for the three months ended June 30, 2018 was $1.9 million, down by 16% compared to Q2 2017. For the first half of the year, EBITDA decreased by 24% to $3.0 million, compared to the same period in 2017. The decrease was related to higher operating expenses and reduced gross profit, owing to incremental short term warehousing costs for Seaforth's business.

Quarterly Information / Seasonality

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

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

	8 Quarter Average	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016
Sales	21,354	22,658	21,215	20,662	21,955	21,915	19,223	22,448	20,752
Gross Profit	3,227	3,952	2,842	3,178	3,014	3,364	3,035	3,216	3,219
Operating income	1,219	1,528	555	958	1,117	1,470	1,267	1,526	1,330
EBITDA[1]	1,676	1,868	1,106	1,334	1,678	2,235	1,677	1,998	1,515
Net income (loss)	1,019	1,294	489	(380)	1,385	1,720	1,435	1,328	879
Per Share[2]									
Net income (loss) - basic	0.11	0.14	0.05	(0.04)	0.15	0.19	0.16	0.15	0.10
Net income (loss) - diluted	0.09	0.10	0.03	(0.04)	0.15	0.17	0.08	0.15	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

Operating activities

For the three months and six months ended June 30, 2018, we used $0.2 million and $0.9 million, respectively, in net cash from operating activities, compared to generating $2.3 million and $0.7 million in the same periods in 2017.

Inventory

Our inventory increased in value by 5% and in volume by 7% between December 31, 2017 and June 30, 2018. The increase reflects growth in raw materials inventory.

Under hedge accounting, gains/losses on derivative instruments for coffee to be sold in future periods are recorded in inventory. The hedge accounting component of inventory as at June 30, 2018 was a loss of $0.3 million compared to a loss of $0.6 million in Q2 2017.

Accounts Receivable

Our accounts receivable increased by $2.2 million, or 18%, between December 31, 2017 and June 30, 2018 compared to an increase of $0.2 million, or 2%, between December 31, 2016 and June 30, 2017. 91% of SWDCC accounts receivable is current as of June 30, 2018.

Investing Activities

Cash outflows in investing activities for Q2 2018 were $4.0 million, compared to cash inflows of $3.2 million in Q2 2017. Cash outflows from investing activities for the first half of 2018 were $0.3 million, compared to cash inflows of $2.3 million in the same period 2017. In Q2 and the first half of 2018, the majority of our cash outflows for capital expenditures of $4.1 million and $7.3 million related to our plant expansion in Delta, BC. This compares to cash outflows for capital expenditures of $1.8 million in Q2 2017 and $2.6 million during the first half of 2017, which also related to our expansion plans. During the six months ended June 30, 2018, short-term investments valued at $7.0 million matured and added to cash, compared to $5.0 million in the same period last year.

Financing Activities

During the six months ended June 30, 2018, we paid $1.1 million in dividends to shareholders. This is unchanged from 2017.

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, 2018.

Contractual Obligations

The following table sets forth our contractual obligations and commitments as at June 30, 2018:

(In $000s)
(unaudited)

	Total	Less than 1 year	2-3 years	4-5 years	Over 5 years
Long-term debt[1]	$ 18,373	$ 112	$ 450	$ 450	$ 17,361
Financing leases[2]	6,088	1,178	2,357	2,357	196
Operating leases[3]	3,943	1,982	1,147	814	-
Purchase obligations[4]	34,875	34,161	714	-	-
Total contractual obligations	$ 63,279	$ 37,433	$ 4,668	$ 3,621	$ 17,557

1 Long-term debt represents the principal amounts of the convertible debenture and construction loan.

2 Minimum obligations for our financing leases.

3 Minimum obligations for our operating leases.

4 Represents outstanding coffee and natural gas purchase commitments.

SWDCC leases a facility which houses its decaffeination plant and offices. The current lease term expires 2023.

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

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

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

The lease also includes a construction management agreement for the construction of a highly specialized building to house the production plant. The landlord will finance a portion of the building, with loan payments commencing on the earlier of substantial completion of construction and January 1, 2019. The loan is repayable in equal monthly installments over 15 years and can be prepaid without penalty at any time. As at June 30, 2018, Ten Peaks accrued a "Construction loan" to cover amounts due on work completed to date, including accrued interest, in the amount of $3.4 million (December 2017: $0.8 million).

As at June 30, 2018, our estimated costs to complete the production line and facility located in Delta, BC are $35.0 million. This amount includes costs for the production line, the construction of the specialized portion of the facility which will house the production equipment, leasehold improvements, and ancillary costs necessary to bring the production line into productive use. This is expected to be funded through cash on hand, working capital or other debt facilities, a construction loan from the builder, and cash from operations.

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 one of Ten Peaks' Directors, Roland Veit.

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

(In $000s)	3 months ended June 30		6 months ended June 30	
(unaudited)	2018	2017	2018	2017
Income for the period	$ 22	$ 23	$ 186	$ 226
Purchases of raw materials	$ 1,777	$ 1,872	$ 3,738	$ 3,950

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, 2018, our accounts receivable balance with this company was $0.01 million (December 31, 2017: $0.02 million) while our accounts payable balance with this company was $0.7 million (December 31, 2017: $nil).

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.

RISKS AND UNCERTAINTIES

Ten Peaks' ability to pay dividends is dependent upon the earnings and cash flow generated from SWDCC's operations, as well as our current and planned future investments in capital equipment. Cash from operations may fluctuate with the performance of the business, which can be susceptible to a number of risks. These risks may include, but are not limited to, foreign exchange fluctuations, labour relations, coffee prices (notwithstanding hedging programs, as exact hedging correlation is not attainable), the availability of coffee, competition from existing chemical and other natural or chemical free coffee decaffeinators, competition from new entrants with alternate processing methods or agricultural technologies, environmental and regulatory risks, terms of credit agreements, commodity futures losses, ability to maintain organic certification, adequacy of insurance, risks related to information technology, dependence on key personnel, product liability, uncollectable debts, and general economic downturns. The future effect of these risks and uncertainties cannot be quantified or predicted. In addition, SWDCC leases the building that houses two decaffeination lines. The option to renew this lease for an additional five-year term has been exercised, with the new lease term expiring in 2023. The lease also provides for an additional five-year renewal term (to 2028), subject to the express approval of the landlord. Any plans to relocate the production equipment would result in significant capital expenditures and the payment of the asset retirement obligation (currently recorded as a long-term liability on our financial statements).

CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES

Critical accounting judgments and estimates used in preparing our unaudited condensed consolidated interim financial statements are described in Ten Peaks' annual MD&A and annual consolidated financial statements for the year ended December 31, 2017. The preparation of consolidated financial statements in accordance with IFRS requires us to make both estimates and assumptions that could materially affect the amounts recognized in the financial statement. By their nature, judgments and estimates may change in light of new facts and circumstances in the internal and external environment. There have been no material changes to our critical accounting estimates and judgments during the six months ended June 30, 2018.

CHANGES IN ACCOUNTING STANDARDS

The following standards became effective for annual periods beginning on or after January 1, 2018, with earlier application permitted.

- *IFRS 15: Revenue from Contracts with Customers:* replaces IAS 11, IAS 18, IFRIC 13, IFRIC 15, IFRIC 18 and SIC-31. IFRS 15 establishes principles to address the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The core principle of IFRS 15 is that revenue related to the transfer of promised goods or services should be recognized when the control of the goods or services passes to customers. Ten Peaks has evaluated the impact of applying IFRS 15, analyzing its decaffeination services, decaffeinated coffee sales and distribution agreements. We concluded there is no material change in the timing of revenue recognized under the new standard as the point of transfer of risk and reward for goods and services and transfer of control occurs at the same time. In addition, IFRS 15 requires entities to apportion revenue earned from contracts to distinct performance obligations on a relative standalone selling price basis. The impact of this change on the amount of revenue recognized in a year is insignificant. IFRS 15 contains additional presentation and disclosure requirements which are more detailed than the current standards. It is effective for annual periods beginning on or after January 1, 2018.

We have adopted these amended standards and interpretations, and we assessed that there was no material impact on our consolidated financial statements. Additional disclosures have been included in Ten Peaks' condensed consolidated interim financial statements for the period ended June 30, 2018.

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

- *IFRS 16: Leases:* requires an application of control model to the identification of leases, distinguishing between a lease and a service contract. Also, IFRS 16 introduces significant changes to the accounting by lessees, introducing a single, on-balance sheet accounting model that is similar to the current finance lease accounting, with limited exceptions for short-term leases or leases of low-value assets. A lessee can choose to apply IFRS 16 using either a full retrospective or a modified retrospective approach. Ten Peaks plans to apply IFRS 16 at the date it becomes effective but has not yet selected a transition approach. It is effective for annual periods beginning on or after January 1, 2019.
- *IFRIC 23: Uncertainty over Income Tax Treatments*: clarifies the application of recognition and measurement requirements in IAS 12, Income taxes, where there is uncertainty over income taxes. It is effective for annual periods beginning on or after January 1, 2019.

We have not yet adopted any of these new and amended standards or interpretations, and we are currently assessing the impact of adoption.

HEDGE ACCOUNTING

We adopted the hedge accounting provisions of IFRS 9 on January 1, 2016 in order to reduce volatility in our financial results, by better matching our accounting practices to our hedging practices. We did ***not*** change our risk management strategies with the adoption of hedge accounting. The economic impact of our hedges is unchanged from before January 1, 2016, even though the accounting for these derivative instruments has changed.

We enter into three types of hedges:

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

Each type of hedge is discussed below.

Commodity Hedges:

When we enter into a purchase commitment to buy green coffee, the contract specifies that the purchase price will be based, in part, on the future (to-be-determined) coffee 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 risk by selling short a futures contract on the IntercontinentalExchange. When we later sell such coffee at a fixed price to a customer, we cover our short by going long on a futures contract on the IntercontinentalExchange. As we always have inventory on hand, we are always net short futures contracts.

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

Revenue Hedges:

We enter into forward contracts to sell US$ at future dates to hedge the foreign exchange cash flow variability of expected US$ processing fee revenue up to 60 months in advance. The hedged process revenue includes both process revenue from tolling arrangements (processing of customer-owned coffee) as well as the US$ processing fee layer of inventory sales agreements. This enables us to more reliably predict how much Canadian currency we will receive for our US$ process revenue. Cash flows in the immediate 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 recorded in other comprehensive income. When a revenue hedge matures, the realized gain/loss on that contract is reclassed 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 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.

FINANCIAL INSTRUMENTS

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

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

- Cash and cash equivalents and short-term investments are classified as assets at fair value and any period change in fair value is recorded through interest income in the consolidated statement of income, as applicable.

- Accounts receivable and other receivables are classified as assets at amortized cost using the effective interest rate method. Interest income is recorded in the consolidated statement of income, as applicable.
- Accounts payable, credit facilities, the debt portion of the convertible debenture and other liabilities are classified as other financial liabilities and are measured at amortized cost using the effective interest rate method. Interest expense is recorded in the consolidated statement of income, as applicable.

Commodity Price Risk

Commodity price risk is the risk that the fair value of inventory or future cash flows will fluctuate as a result of changes in commodity prices. Ten Peaks utilizes futures contracts to manage its commodity price exposure. We buy and sell futures contracts for coffee on the IntercontinentalExchange in order to offset our inventory position and fix the input cost of green coffee. As at June 30, 2018, we had futures contracts to buy 1.7 million lbs of green coffee with a notional value of US$1.9 million, and contracts to sell 4.9 million lbs of green coffee with a notional value of US$5.5 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).

Foreign Currency Risk

We realize a significant portion of our sales in US dollars, and purchase green coffee in US$ which is, in some cases, sold to customers in Canadian dollars. We enter into forward exchange contracts to manage our exposure to currency rate fluctuations and to minimize the effect of exchange rate fluctuations on business decisions. These contracts relate to our future net cash flows in US$ from sales. In addition, we enter into forward contracts to purchase US$ for coffee that we resell in Canadian dollars.

At June 30, 2018, we had forward currency contracts to buy US$6.4 million and sell US$57.6 million (December 31, 2017: buy US$7.2 million and sell US$46.2 million) from July 2018 through to March 2023 at various Canadian exchange rates ranging from $1.2147 to $1.3837.

INTERNAL CONTROLS OVER FINANCIAL REPORTING AND DISCLOSURE CONTROLS AND PROCEDURES

The Chief Executive Officer ("CEO") of Ten Peaks, who has also been performing the functions of the Chief Financial Officer ("CFO") since June 1, 2018, is 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, we conducted an evaluation of the design and effectiveness of our ICFR as of December 31, 2017, based on the updated framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO 2013"). Based on this assessment, the CEO concluded that, as of June 30, 2018, Ten Peaks' ICFR was effective.

The CEO is 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 Ten Peaks' management, including the CEO, as appropriate to allow timely decisions regarding required disclosure.

The CEO evaluated or caused to be evaluated under supervision, the effectiveness of our disclosure controls and procedures and based on this evaluation, the CEO concluded that, as of June 30, 2018, Ten Peaks' disclosure controls and procedures were effective.

There were no changes in our ICFR that occurred during the period beginning on January 1, 2018 and ended on June 30, 2018 that have materially affected, or are reasonably likely to materially affect, Ten Peaks' ICFR.

SUBSEQUENT EVENTS

On July 16, 2018, Ten Peaks paid an eligible dividend in the amount of $0.6 million ($0.0625 per share) to shareholders of record on June 29, 2018.