



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

**For the Six Months Ended June 30, 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	June 30, 2018	December 31, 2017
<b>Assets</b>			
Current assets			
Cash and cash equivalents		\$ 7,243	\$ 9,486
Accounts receivable	4	14,321	12,127
Inventories	5	15,413	14,671
Short-term investments	6	-	7,067
Prepaid expenses and other receivables		869	1,031
Current income tax assets		118	-
Derivative assets and hedged firm commitments	7, 21	884	1,244
Total current assets		38,848	45,626
Non-current assets			
Receivables		234	230
Plant and equipment	8	34,217	23,341
Intangible assets		1,297	1,427
Deferred tax assets		1,903	1,484
Derivative assets	7, 21	56	740
Total non-current assets		37,707	27,222
Total assets		\$ 76,555	\$ 72,848
<b>Liabilities and shareholders' equity</b>			
Current liabilities			
Accounts payable		\$ 5,366	\$ 2,639
Accrued liabilities		1,414	1,844
Income tax payable		-	105
Other liabilities	10	491	591
Dividend payable	14	566	565
Derivative liabilities	7, 21	331	229
Total current liabilities		8,168	5,973
Non-current liabilities			
Convertible debenture	11	11,862	11,658
Other liabilities	10	68	45
Construction loan	12	3,372	844
Asset retirement obligation		802	802
Deferred tax liabilities		3,371	3,426
Derivative liabilities	7, 11, 21	2,713	2,722
Total non-current liabilities		22,188	19,497
Total liabilities		30,356	25,470
Shareholders' equity			
Share capital		\$ 43,591	\$ 43,496
Retained earnings		2,907	2,257
Accumulated other comprehensive income		(391)	1,485
Share-based compensation reserve		92	140
Total equity		46,199	47,378
Total liabilities and shareholders' equity		\$ 76,555	\$ 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 June 30, 2018	3 months ended June 30, 2017	6 months ended June 30, 2018	6 months ended June 30, 2017
<b>Revenue</b>	16	\$ 22,658	\$ 21,915	\$ 43,873	\$ 41,138
Cost of sales		(18,706)	(18,551)	(37,080)	(34,739)
Gross profit		3,952	3,364	6,793	6,399
Operating expenses					
Administration expenses		(1,445)	(1,215)	(2,964)	(2,358)
Sales and marketing expenses		(935)	(646)	(1,688)	(1,235)
Occupancy expenses		(44)	(33)	(58)	(67)
Total operating expenses		(2,424)	(1,894)	(4,710)	(3,660)
Operating income		1,528	1,470	2,083	2,739
Non-operating or other					
(Loss) gain on risk management activities		62	1,076	(23)	696
Fair value gain on embedded option	11	426	115	883	965
Finance income		97	165	248	303
Finance expense		(365)	(348)	(722)	(692)
(Loss) gain on foreign exchange		(223)	65	(235)	112
Total non-operating or other		(3)	1,073	151	1,384
Income before tax		1,525	2,543	2,234	4,123
Income tax expense		(231)	(823)	(453)	(967)
<b>Net income</b>		<b>\$ 1,294</b>	<b>\$ 1,720</b>	<b>\$ 1,781</b>	<b>\$ 3,156</b>
Basic earnings per share	19	\$ 0.14	\$ 0.19	\$ 0.20	\$ 0.35
Diluted earnings per share	19	\$ 0.10	\$ 0.17	\$ 0.13	\$ 0.25

## 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 June 30, 2018	3 months ended June 30, 2017	6 months ended June 30, 2018	6 months ended June 30, 2017
<b>Net income</b>	\$ 1,294	\$ 1,720	\$ 1,781	\$ 3,156
<b>Other comprehensive income, net of tax</b>				
Items that may be subsequently reclassified to income:				
Unrealized (loss) gain				
Derivatives designated as cash flow hedges - currency risk hedges on US\$ future revenue	(1,114)	343	(2,034)	1,188
Items reclassified to income:				
Realized gains				
Derivatives designated as cash flow hedges				
- currency risk hedges on US\$ future revenue, recognized in revenue	(240)	(167)	(543)	(167)
Other comprehensive income related to hedging activities	(1,354)	176	(2,577)	1,021
Tax on other comprehensive income relating to hedging activities	365	(89)	696	(309)
Cumulative translation adjustment	2	-	5	-
<b>Other comprehensive income, net of tax</b>	(987)	87	(1,876)	712
<b>Net income and other comprehensive income</b>	\$ 307	\$ 1,807	\$ (95)	\$ 3,868

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

		Share capital		Share-based compensation reserve	Accumulated other comprehensive income	Retained earnings	Total equity
	Note	Shares	Amount				
Balance at December 31, 2016		9,038,862	\$ 43,496	\$ 63	\$ 419	\$ 357	\$ 44,335
Share-based compensation		-	-	18	-	-	18
Dividends	14	-	-	-	-	(1,130)	(1,130)
Net income and other comprehensive income		-	-	-	712	3,156	3,868
Balance at June 30, 2017		9,038,862	\$ 43,496	\$ 81	\$ 1,131	\$ 2,383	\$ 47,091
Balance at December 31, 2017		9,038,862	43,496	140	1,485	2,257	47,378
Shares issued for restricted share units		22,348	95	(95)	-	-	-
Share-based compensation		-	-	47	-	-	47
Dividends	14	-	-	-	-	(1,131)	(1,131)
Net income and other comprehensive income		-	-	-	(1,876)	1,781	(95)
Balance at June 30, 2018		9,061,210	\$ 43,591	\$ 92	\$ (391)	\$ 2,907	\$ 46,199

# 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 June 30, 2018	3 months ended June 30, 2017	6 months ended June 30, 2018	6 months ended June 30, 2017
<b>Operating activities</b>					
Net income		\$ 1,294	\$ 1,720	\$ 1,781	\$ 3,156
Items not affecting cash:					
Depreciation and amortization		418	525	850	1,058
Share-based compensation expense		47	34	166	53
Unrealized gain on risk management activities		(182)	(870)	(96)	(632)
Unrealized gain on fair value adjustment of embedded option		(426)	(89)	(883)	(965)
Finance income		(97)	(165)	(248)	(303)
Finance expense		365	348	723	690
Income taxes expense		231	823	453	967
		1,650	2,326	2,746	4,024
Change in non-cash working capital relating to operating activities	18	(1,651)	193	(2,941)	(3,010)
<b>Net cash (used in) generated from operations</b>		<b>(1)</b>	<b>2,519</b>	<b>(195)</b>	<b>1,014</b>
Interest received		119	112	305	250
Interest paid		(261)	(256)	(519)	(505)
Income taxes paid		(35)	(22)	(454)	(14)
<b>Net cash (used in) generated from operating activities</b>		<b>(178)</b>	<b>2,353</b>	<b>(863)</b>	<b>745</b>
<b>Investing activities</b>					
Proceeds from short-term investments		-	4,989	7,067	4,960
Additions to plant and equipment		(4,050)	(1,831)	(7,317)	(2,633)
<b>Net cash (used in) generated from investing activities</b>		<b>(4,050)</b>	<b>3,158</b>	<b>(250)</b>	<b>2,327</b>
<b>Financing activities</b>					
Dividends paid		(565)	(565)	(1,130)	(1,130)
<b>Net cash used in financing activities</b>		<b>(565)</b>	<b>(565)</b>	<b>(1,130)</b>	<b>(1,130)</b>
<b>(Decrease) increase in cash and cash equivalents</b>		<b>(4,793)</b>	<b>4,946</b>	<b>(2,243)</b>	<b>1,942</b>
<b>Cash and cash equivalents, beginning of the period</b>		<b>12,036</b>	<b>9,493</b>	<b>9,486</b>	<b>12,497</b>
<b>Cash and cash equivalents, end of the period</b>		<b>\$ 7,243</b>	<b>\$ 14,439</b>	<b>\$ 7,243</b>	<b>\$ 14,439</b>

# TEN PEAKS COFFEE COMPANY INC.

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## Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 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 and six months ended June 30, 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.

### Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 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 June 30, 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 and six months ended June 30, 2018, the cost of inventories recognized in cost of sales was \$16.8 million (2017: \$16.1 million) and \$33.8 million (2017: \$32.2 million). The hedge accounting component represents the derivative gain (loss) on designated hedges for inventory on hand as at each period end.

	June 30, 2018	December 31, 2017
Raw materials	\$ 9,770	\$ 8,147
Finished goods	5,481	6,072
Carbon	330	397
Packaging	156	32
Hedge accounting component	(324)	23
	\$ 15,413	\$ 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:

	June 30, 2018	December 31, 2017
Coffee futures contracts, net	\$ 506	\$ 247
US Dollar forward contracts, current	170	(3)
US Dollar forward contracts, long term	(146)	(13)
Derivative financial liability, convertible debenture	(1,826)	(2,709)
	\$ (1,296)	\$ (2,478)

#### 8. PLANT AND EQUIPMENT

For the three months ended June 30, 2018, depreciation expense of \$0.32 million (2017: \$0.43 million) was charged to cost of sales and \$0.03 million (2017: \$0.03 million) was included in administrative expenses.

## TEN PEAKS COFFEE COMPANY INC.

### Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 2018

(Tabular amounts are in thousands of Canadian dollars)

(Unaudited)

For the six months ended June 30, 2018, depreciation expense of \$0.65 million (2017: \$0.87 million) was charged to cost of sales and \$0.07 million (2017: \$0.06 million) was included in administrative expenses.

There was no impairment loss recognized for the three and six months periods ended June 30, 2018 (2017: Nil).

	Machinery and equipment	Leasehold improvements	Computer equipment	Furniture and fixtures	Construction in progress	Total
<b>Cost</b>						
Balance at January 1, 2018	\$ 33,744	\$ 5,113	\$ 1,204	\$ 189	\$ 10,660	\$ 50,910
Additions	164	2	53	-	11,378	11,597
Disposals	(61)	-	-	-	-	(61)
Balance at June 30, 2018	\$ 33,847	\$ 5,115	\$ 1,257	\$ 189	\$ 22,038	\$ 62,446
<b>Accumulated depreciation</b>						
Balance at January 1, 2018	\$ (23,061)	\$ (3,501)	\$ (862)	\$ (145)	\$ -	\$ (27,569)
Depreciation	(497)	(149)	(69)	(6)	-	(721)
Disposals	61	-	-	-	-	61
Balance at June 30, 2018	\$ (23,497)	\$ (3,650)	\$ (931)	\$ (151)	\$ -	\$ (28,229)
<b>Balance at June 30, 2018</b>	<b>\$ 10,350</b>	<b>1,465</b>	<b>326</b>	<b>38</b>	<b>22,038</b>	<b>34,217</b>
<b>Cost</b>						
Balance at January 1, 2017	\$ 33,557	\$ 5,052	\$ 1,062	\$ 181	\$ 2,083	\$ 41,935
Additions	187	61	142	8	8,577	8,975
Balance at December 31, 2017	\$ 33,744	\$ 5,113	\$ 1,204	\$ 189	\$ 10,660	\$ 50,910
<b>Accumulated depreciation</b>						
Balance at January 1, 2017	\$ (21,546)	\$ (3,227)	\$ (750)	\$ (134)	\$ -	\$ (25,657)
Depreciation	(1,515)	(274)	(112)	(11)	-	(1,912)
Balance at December 31, 2017	\$ (23,061)	\$ (3,501)	\$ (862)	\$ (145)	\$ -	\$ (27,569)
<b>Balance at December 31, 2017</b>	<b>\$ 10,683</b>	<b>1,612</b>	<b>342</b>	<b>44</b>	<b>10,660</b>	<b>23,341</b>

## 9. CREDIT FACILITIES

The Company had no outstanding bank debt as at June 30, 2018, or December 31, 2017. As at June 30, 2018, the following credit facilities were available to the Company:

- 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
- 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 June 30, 2018, the Company was in compliance with its debt covenants.



# TEN PEAKS COFFEE COMPANY INC.

## Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 2018

(Tabular amounts are in thousands of Canadian dollars)

(Unaudited)

### 10. OTHER LIABILITIES

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

		June 30, 2018	December 31, 2017
Other liabilities, current	\$	491	\$ 591
Other liabilities, non-current		68	45
	\$	559	\$ 636

### 11. CONVERTIBLE DEBENTURE

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.

		June 30, 2018	December 31, 2017
Balance, open	\$	11,658	\$ 11,283
Interest charged		714	1,403
Interest paid		(510)	(1,028)
Balance, end	\$	11,862	\$ 11,658

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 June 30, 2018, the derivative liabilities include the fair value of the derivative liability related to a convertible debenture in the amount of \$1.8 million (2017: \$2.7 million).

		June 30, 2018	December 31, 2017
Balance, open	\$	2,709	\$ 3,313
Change in fair valuation of derivative embedded option		(883)	(604)
Balance, end	\$	1,826	\$ 2,709

## TEN PEAKS COFFEE COMPANY INC.

### Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 2018

(Tabular amounts are in thousands of Canadian dollars)

(Unaudited)

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

	June 30, 2018	December 31, 2017
Share price	\$ 6.11	\$ 6.70
Exercise price	\$ 8.25	\$ 8.25
Option life	5.28 years	5.79 years
Volatility	37%	40%
Risk-free interest rate	2.06%	1.90%
Dividend yield	4.09%	3.73%

For the three and six months ended June 30, 2018, this revaluation resulted in a gain being recorded in the statement of income in the amount of \$0.4 million and \$0.9 million respectively (2017: gain of \$0.1 million; gain of \$1.0 million).

#### 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 June 30, 2018 the Company accrued \$3.4 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 June 30, 2018, there were 9,061,210 common shares issued and outstanding.

##### Deferred share units

The movement in DSUs for the six months period ended June 30, 2018, and the year ended December 31, 2017, is as follows:

## TEN PEAKS COFFEE COMPANY INC.

### Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 2018

(Tabular amounts are in thousands of Canadian dollars)

(Unaudited)

	Number of DSUs	Weighted average share price	Performance based
<b>Balance at January 1, 2017</b>	68,879	\$ 7.08	
DSUs issued	11,276	\$ 6.63	No
DSUs exercised	(9,581)	\$ 6.24	No
<b>Balance at December 31, 2017</b>	<b>70,574</b>	<b>\$ 6.60</b>	
<b>Balance at January 1, 2018</b>	70,574	\$ 6.60	
DSUs issued	9,725	\$ 6.46	No
<b>Balance at June 30, 2018</b>	<b>80,299</b>	<b>\$ 6.60</b>	

#### Restricted share units

The movement in RSUs for the six months period ended June 30, 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
<b>Balance at January 1, 2017</b>	<b>48,285</b>	<b>\$ 7.86</b>	<b>1.14</b>	
RSUs granted	52,480	\$ 6.15	2.15	
RSUs issued for dividends	3,522	\$ 6.30	1.06	No
RSUs forfeited	(3,504)	\$ 6.26	-	No
<b>Balance at December 31, 2017</b>	<b>100,783</b>	<b>\$ 6.58</b>	<b>1.15</b>	
<b>Balance at January 1, 2018</b>	<b>100,783</b>	<b>\$ 6.58</b>	<b>1.15</b>	
RSUs granted	91,000	\$ 6.35	2.65	No
RSUs issued for dividends	2,305	\$ 5.15	2.15	No
RSUs cash-settled	(28,304)	\$ 7.04	-	
RSUs exercised	(22,348)	\$ 7.04	-	
RSUs forfeited	(23,288)	\$ 6.25	-	No
<b>Balance at June 30, 2018</b>	<b>120,148</b>	<b>\$ 6.16</b>	<b>2.33</b>	

#### 14. DIVIDENDS

For the six months ended June 30, 2018, the Company declared quarterly eligible dividends to shareholders totaling \$1.1 million or \$0.0625 per share (2017: \$1.1 million or \$0.0625 per share). On July 16, 2018, the Company paid the second quarterly dividend in the amount of \$0.6 million.

#### 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.

# TEN PEAKS COFFEE COMPANY INC.

## Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 2018

(Tabular amounts are in thousands of Canadian dollars)

(Unaudited)

### Revenue

	3 months ended June 30, 2018	3 months ended June 30, 2017	6 months ended June 30, 2018	6 months ended June 30, 2017
Canada	\$ 7,730	6,926	\$ 15,117	\$ 16,368
United States	11,761	12,386	22,945	20,667
International and other	3,167	2,603	5,811	4,103
	\$ 22,658	\$ 21,915	\$ 43,873	\$ 41,138

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

	June 30, 2018	December 31, 2017
Canada	\$ 35,708	\$ 25,663
United States	96	75
	\$ 35,804	\$ 25,738

## 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:

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	3 months ended June 30, 2018	3 months ended June 30, 2017	6 months ended June 30, 2018	6 months ended June 30, 2017
Decaffeinated coffee sales	\$ 19,992	\$ 19,487	\$ 39,153	\$ 36,724
Decaffeination services	1,279	1,252	2,087	2,141
Distribution	1,387	1,176	2,633	2,273
	\$ 22,658	\$ 21,915	\$ 43,873	\$ 41,138

### 16.2 Contract balances

As at June 30, 2018 accounts receivable balance of \$14.3 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.

### 17. EMPLOYEE BENEFITS EXPENSES

Expenses recognized for employee benefits are detailed below:

	3 months ended June 30, 2018	3 months ended June 30, 2017	6 months ended June 30, 2018	6 months ended June 30, 2017
Short-term benefits	\$ 2,220	\$ 1,919	\$ 4,063	\$ 3,609
Long-term benefits	50	2	174	53
Post-employment benefits	192	182	403	386
	\$ 2,462	\$ 2,103	\$ 4,640	\$ 4,048

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 June 30, 2018	3 months ended June 30, 2017	6 months ended June 30, 2018	6 months ended June 30, 2017
Accounts receivable	\$ (2,380)	\$ 292	\$ (2,193)	\$ (189)
Inventories	88	472	(393)	(2,324)
Other assets and liabilities	(34)	341	(39)	341
Prepaid expenses and other receivables	(201)	36	105	(153)
Accounts payable and accrued liabilities	1,237	661	385	1,566
Derivative assets at fair value through profit or loss	467	(669)	(3)	(1,130)
Derivative liabilities at fair value through profit or loss	(828)	(940)	(803)	(1,121)
	\$ (1,651)	\$ 193	\$ (2,941)	\$ (3,010)

During the six month period ended June 30, 2018, \$2.5 million addition to construction in progress was funded with a construction loan (June 2017: \$nil). These are financing and investing transactions which did not require the use of the Company's cash or cash equivalents. As at June 30, 2018, \$1.7 million addition to construction in progress was accrued in accounts payable. These are operating and investing transactions which did not require the use of the Company's cash or cash equivalents.

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### 19. BASIC AND DILUTED EARNINGS PER SHARE

	3 months ended June 30, 2018		3 months ended June 30, 2017		6 months ended June 30, 2018		6 months ended June 30, 2017	
<b>Basic EPS:</b>								
Net income attributable to shareholders	\$	1,294	\$	1,720	\$	1,781	\$	3,156
Weighted average number of shares		9,061,210		9,038,862		9,055,037		9,038,862
<b>Basic EPS</b>	<b>\$</b>	<b>0.14</b>	<b>\$</b>	<b>0.19</b>	<b>\$</b>	<b>0.20</b>	<b>\$</b>	<b>0.35</b>
	3 months ended June 30, 2018		3 months ended June 30, 2017		6 months ended June 30, 2018		6 months ended June 30, 2017	
<b>Diluted EPS:</b>								
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
<b>Diluted EPS</b>	<b>\$</b>	<b>0.10</b>	<b>\$</b>	<b>0.17</b>	<b>\$</b>	<b>0.13</b>	<b>\$</b>	<b>0.25</b>

The following potential common shares are anti-dilutive 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 June 30, 2018		3 months ended June 30, 2017		6 months ended June 30, 2018		6 months ended June 30, 2017	
Weighted average number of RSUs granted		91,915		855		92,851		37,639

### 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 June 30, 2018		3 months ended June 30, 2017		6 months ended June 30, 2018		6 months ended June 30, 2017	
Short-term benefits	\$	434	\$	400	\$	730	\$	705
Long-term benefits		38		12		154		39
Post-employment benefits		18		15		43		40
	<b>\$</b>	<b>490</b>	<b>\$</b>	<b>427</b>	<b>\$</b>	<b>927</b>	<b>\$</b>	<b>784</b>

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#### Trading transactions

During the three and six months periods ended June 30, 2018 and 2017, the Company entered into the following transactions with a company that is related to a director of the Company:

	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	\$	23	\$	186	\$	226
Purchases of raw materials	\$	1,777	\$	1,872	\$	3,738	\$	3,950

  

	June 30, 2018		December 31, 2017	
Accounts receivable	\$	7	\$	15
Accounts payable	\$	700	\$	-

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 June 30, 2018, the Company 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).

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

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Carrying amount of hedging instruments	June 30, 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)	\$ 3,609	\$ 2,804
Line item in the statement of financial position where hedging instrument is located	Derivative Assets	Derivative Assets
Assets	\$ 506	\$ 247
Liabilities	-	-
Changes in fair value used for calculating hedge ineffectiveness	-	-
<b>Accumulated amount of fair value hedge adjustment on hedged item included in the carrying amount of the hedged items</b>	<b>June 30, 2018</b>	<b>December 31, 2017</b>
Fair value hedge	Purchase commitments and coffee inventory	Purchase commitments and coffee inventory
Nominal amount of hedged item (in '000 lbs)	3,179	2,285
Line items in the statement of financial position where hedged item is located	Inventories & hedged firm commitments	Inventories & hedged firm commitments
Assets	\$ 251	\$ 28
Liabilities	323	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 June 30, 2018, the Company 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.

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 June 30, 2018, the Company designated as hedging instruments US\$6.4 million in forward contracts to buy US dollars, which relate to coffee purchases (2017: US\$7.0 million).

Carrying amount of hedging instruments	June 30, 2018	December 31, 2017
Fair value hedge	Foreign currency purchase forwards	Foreign currency purchase forwards
Nominal amount of hedging instruments (in US\$'000)	\$ 6,382	\$ 6,962
Line item in the statement of financial position where hedging instrument is located	Derivative assets	Derivative liabilities
Assets	\$ 240	\$ -
Liabilities	-	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	June 30, 2018	December 31, 2017
Fair value hedge	Firm purchase commitments & inventories	Firm purchase commitments & inventories
Nominal amount of hedged item (in US\$'000)	\$ 6,382	\$ 6,962
Line item in the statement of financial position where hedged item is located	Inventories & hedged firm commitments	Inventories & hedged firm commitments
Assets	-	380
Liabilities	259	-
Changes in fair value used for calculating hedge ineffectiveness	-	-

#### Currency risk on hedge of US\$ forecasted revenue

As at June 30, 2018, the Company designated as hedging instruments US\$39.5 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	June 30, 2018	December 31, 2017
Cashflow hedge	Currency risk Foreign currency forwards	Currency risk Foreign currency forwards
Nominal amount of hedging instruments (in US\$'000)	\$ 39,510	\$ 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	133	1,292
Liabilities	933	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	June 30, 2018	December 31, 2017
Cashflow hedge	Currency risk Foreign currency forwards	Currency risk Foreign currency forwards
Nominal amount of hedged item (in US\$'000)	39,510	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	(608)	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 June 30, 2018, revenues from three major customers of \$16.2 million (2017: \$14.7 million) represented 37% (2017: 36%) of total revenues for

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the period. These customers represented 40% of total accounts receivable as at June 30, 2018 (December 31, 2017: 47%).

The Company had 9% of its accounts receivable past due but not impaired as at June 30, 2018 (December 31, 2017: 16%). Of the past due accounts receivable, 75% are 1-30 days past due (December 31, 2017: 83%), and 2% are 31-60 days past due (December 31, 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			
	June 30, 2018		2018	2019 to 2020	2021 to 2022	Thereafter
Accounts payable	\$	5,366	\$ 5,366	\$ -	\$ -	\$ -
Other liabilities		559	491	68	-	-
Construction loan		3,372	56	450	450	2,416
Convertible debenture		11,862	-	-	-	15,000
Total	\$	21,159	\$ 5,913	\$ 518	\$ 450	\$ 17,416

#### 21.5 Fair value of financial instruments

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

	June 30, 2018		Level 1	Level 2	Level 3
<b>Financial assets</b>					
Cash, cash equivalents and short-term investments	\$	7,243	\$ 7,243	\$ -	\$ -
Derivative assets		948	506	442	-
	\$	8,191	\$ 7,749	\$ 442	\$ -
<b>Financial liabilities</b>					
Derivative liabilities	\$	3,044	\$ -	\$ 3,044	\$ -
Other liabilities		559	-	559	-
	\$	3,603	\$ -	\$ 3,603	\$ -
	December 31, 2017		Level 1	Level 2	Level 3
<b>Financial assets</b>					
Cash, cash equivalents and short-term investments	\$	16,553	\$ 16,553	\$ -	\$ -
Derivative assets		1,984	275	1,709	-
	\$	18,537	\$ 16,828	\$ 1,709	\$ -
<b>Financial liabilities</b>					
Derivative liabilities	\$	2,951	\$ -	\$ 2,951	\$ -
Other liabilities		636	-	636	-
	\$	3,587	\$ -	\$ 3,587	\$ -

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During the six months period ended June 30, 2018, there were no transfers between level 1 and level 2 financial instruments.

## 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. 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 June 30, 2018 is as follows:

Minimum lease payments due:		
No later than 1 year	\$	3,160
Later than 1 year and no later than 5 years		6,674
Later than 5 years		196
	\$	10,030

### 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 June 30, 2018, these contracts related to the purchase of green coffee in the amount of \$34.6 million (2017: \$33.0 million), and natural gas purchase commitments in the amount of \$0.2 million (2017: \$0.2 million). Of these contracts, \$34.0 million will become payable within 12 months from June 30, 2018. Also, as at June 30, 2018 capital purchase commitments are \$14.0 million.

## 23. SUBSEQUENT EVENTS

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

These consolidated financial statements for the period ended June 30, 2018 were approved for issuance on August 7, 2018.