TEN PEAKS COFFEE COMPANY INC. REPORT TO SHAREHOLDERS

Q3/2012

For the period ended
September 30, 2012

COMPANY OVERVIEW

Ten Peaks is a leading specialty coffee company that owns all of the interests of the Swiss Water Decaffeinated Coffee Company Inc. (SWDCC), a premium green coffee decaffeinator located in Burnaby, BC. We also own and operate Seaforth Supply Chain Solutions Inc. (Seaforth), a new green coffee handling and warehousing business located in Metro Vancouver.

Our vision is to grow Ten Peaks into a global coffee company. To do that, we intend to focus on enhancing the business of SWDCC, while leveraging our significant knowledge of, and expertise in, the specialty coffee trade to expand into complementary markets.

Ten Peaks trades on the Toronto Stock Exchange under the symbol 'TPK'.

ABOUT SWDCC

Established in 2000, SWDCC is one of the world's few chemical free coffee decaffeinators. It employs the SWISS WATER® Process, a proprietary and technically advanced decaffeination method that is certified organic by the Organic Crop Improvement Association.

Because they are chemical-free, SWISS WATER® Process decaffeinated green coffees are distinct from the majority of the world's decaffeinated coffees, which are exposed to chemical solvents such as methylene chloride and ethyl acetate during the decaffeination process.

Additionally, the SWISS WATER® Process is the world's only branded decaffeination process and enjoys substantial recognition in the specialty coffee trade and with consumers.

SWISS WATER® Process decaffeinated green coffees are sold to many of North America's leading specialty roaster retailers, specialty coffee importers and commercial coffee roasters. SWDCC also sells coffees internationally through regional distributors.

ABOUT SEAFORTH

Located in Coquitlam, BC, Seaforth commenced operations in February 2012. It provides a complete range of green coffee handling and storage services, including devanning coffee received from origin; inspecting, weighing and sampling coffees; and storing, handling and preparing green coffee for outbound shipments locally and across North America.

Q3 2012 PERFORMANCE HIGHLIGHTS

In $000s except per share amounts (Unaudited)	3 Months Ended September 30, 2012	3 Months Ended September 30, 2011	9 Months Ended September 30, 2012	9 Months Ended September 30, 2011
Operations				
Sales	$ 13,983	$ 14,083	$ 44,994	$ 42,767
Gross Profit	1,151	1,321	3,167	5,159
EBITDA[(1)]	529	1,294	2,122	3,262
Net income (loss)	363	(5)	914	343
Per share amounts:				
EBITDA	$ 0.079	$ 0.194	$ 0.318	$ 0.489
Net income (loss)	0.054	(0.001)	0.137	0.051

During the third quarter of 2012, we:

- Grew our processing volumes by 10% compared to the same period in 2011. The increase was driven by higher volumes to our national accounts, which saw their businesses revive following a sharp drop in the NY'C' commodity coffee price. As a result, our processing volumes to these accounts rose by 17% over Q3 2011.
- Increased our net income to $0.4 million, up from zero net income for the third quarter of 2011.
- Continued serving several coffee importers and Metro Vancouver coffee companies through Seaforth Supply Chain Solutions Inc., a new green coffee handling and storage business located in Coquitlam, BC.

During the first three quarters of 2012, we:

- Grew our processing volumes by 4% on a year-over-year basis, despite a volatile commodity market and shrinking North American decaffeinated coffee market.
- Effectively managed our costs and working capital. This enabled us to reduce our net debt position by $1.5 million, while also paying out $1.3 million in dividends.
- Continued to record strong growth from our higher margin specialty regional accounts, with volumes to this market segment rising by 10% on a year-over-year basis.
- Worked to build awareness of SWISS WATER® Process decaffeinated coffees outside of Canada and the U.S. As a result of our efforts, volumes to our international accounts are up by 10% since the beginning of the year.
- Increased our sales revenue by 5% to $45.0 million, up from $42.8 million for the first nine months of 2011.
- Recorded net income of $0.9 million, compared to net income of $0.3 million for the same period last year.
- Recorded encouraging results from the test marketing of our Ten Peaks branded reduced caffeine coffees in Minneapolis, Minnesota.

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TO OUR SHAREHOLDERS:

The third quarter of 2012 was positive for Ten Peaks, with SWDCC's processing volumes up by 10% over the same period last year. Our nine-month volumes also grew, increasing by 4% over last year. The improved volumes were a result of several factors, including a lower NY'C', new customer conversion and our relatively recent work to develop markets for SWISS WATER® Process decaffeinated coffees in international coffee markets.

During 2011, the coffee commodity price, or NY'C', averaged US$2.53. This was up by more than 50% over the 2010 average, due largely to poor crop yields and speculative frenzy by commodity hedge funds. Through most of this year, the tight coffee supply began to ease. Global coffee stocks have increased due to improved yields, while global demand has fallen in response to the prolonged high commodity price. Additionally, some demand has shifted toward lower quality robusta coffees, driving up the London (robusta) market while easing pressure on the New York (arabica) market. As a result, the NY'C' fell by approximately 24% from the beginning of the year to the end of September, and is now reaching contract life lows at the time of this writing.

While a lower NY'C' is good news for all roasters, we've seen the most dramatic turnaround from our large national accounts. A high NY'C' impedes these businesses in two ways. First, it forces them to increase their retail prices to consumers, which reduces overall demand for their coffees. Second, it reduces their margins and discourages them from promoting their products in the grocery channel, further impacting demand.

Over the past three months, we have seen a marked revival in activity from our national customers, as the lower NY'C' has enabled them to renew their grocery flyer promotions and slowly reduce prices at the consumer level. These initiatives have successfully driven up demand for their products – and ours – with SWDCC's processing volumes to these accounts growing by 17% over the Q3 2011 level. The quarterly increase was enough to completely offset the 6% sales decline we recorded for these customers during the first half. As a result, our nine-month processing volumes to national accounts are now up by 1% over last year.

During 2012, we have also seen steady sales increases from our specialty regional accounts, which tend to be smaller, independently owned roasters and roaster-retailers. These specialty customers continue to be a strategic priority for us, as they recognize, and can benefit from, the major advances in coffee quality that we have achieved over the past few years. They also appreciate the many ways we work to add value – and help their business succeed. This high level of customer satisfaction has translated into strong sales growth, with nine-month volumes to our specialty accounts up by 10% over 2011.

We've also seen positive results from our recent efforts to build awareness of SWISS WATER® Process decaffeinated coffees outside of Canada and the U.S. As we've discussed previously, the North American decaffeinated coffee market has begun to contract. Therefore, in order to maximize our growth prospects, we have been actively working to develop international markets, where we see some interesting opportunities.

Asia, for example, is a growing market for coffee, including specialty and reduced caffeine selections. Decaffeinated coffee makes up just a tiny portion of this market today – but we believe it represents significant long-term growth potential for SWDCC.

To help us grow volumes in markets like these, we have been dedicating resources toward international sales development for more than a year. Today, we do business in 14 countries around the world. We've also recorded solid gains, with processing volumes to our international accounts up by 10% since the beginning of this year.

On the whole, we are encouraged by Ten Peaks' performance for the first three quarters of this year. Taken together, the increases to our national, specialty and international accounts propelled a 4% rise in our nine-month volumes. We view this as a solid achievement, given the fact that the North American decaffeinated coffee market as a whole is flat or declining. We also overcame a volatile commodity market and successfully managed our costs and working capital. This enabled us to reduce our net debt position by $1.5 million, while also paying out $1.3 million in dividends to our shareholders.

Looking ahead, we expect demand for our premium decaffeinated coffees to continue growing. Our large national accounts have reduced retail coffee prices and begun to increase promotional activity in grocery stores. This should help stimulate demand for SWDCC's products and services through the fourth quarter. Sales volumes to our higher margin specialty regional accounts are also expected to maintain their positive growth, as we work to promote the numerous benefits delivered by SWISS WATER® Process decaffeinated coffees.

We have also implemented two separate strategies to move beyond our base decaffeination business over the longer term. These initiatives both generated good results during the first three quarters of 2012, positioning us to utilize our team's well-established strengths, while extending Ten Peaks' reach along the coffee value chain.

The first of these saw us move upstream, where we saw the chance to take on some of the highly specialized coffee handling and storage services we had been contracting out to a third-party provider. This led to the establishment of Seaforth Supply Chain Solutions Inc., which began operating this past February. Our initial objective was simply for Seaforth to serve the needs of SWDCC, in order to generate some modest cost savings, before expanding into the broader market. I'm pleased to report that Seaforth has already outperformed our early projections, adding several outside customers over the past few months.

Our second initiative moves us down the coffee supply chain, closer to the consumer. In December 2011, we began test-marketing a Ten Peaks branded roasted coffee offering through a premium grocery chain in Minneapolis, Minnesota. Developed internally, and based on extensive market research we conducted in late 2010, the new specialty coffee blend comes in four different caffeine levels. To date, the Ten Peaks reduced caffeine coffees have shown encouraging results in this coffee-forward market. Since starting the sales trial, we've also accumulated considerable market insight by testing several different price points and marketing strategies. Based on these positive results, we're now planning to expand the product's distribution into other areas of Minnesota over the coming months. This should enable us to realize some cost savings, while providing a bigger volume base against which to develop the brand.

While these growth initiatives are relatively modest, they have allowed us to enter and test new markets without having to invest large amounts of money. They also represent our first strategic response to a changing marketplace. Our industry is constantly evolving, and we must evolve with it.

In closing, I would like to thank our employees for their hard work and ongoing contributions to our business. It is through their efforts that Ten Peaks has successfully established a leading market position as a consistent provider of great customer service and value. I would also like to extend our thanks to you, our shareholders, for your continued support and confidence in our business. We look forward to reporting on our progress in the months to come.

Frank A. Dennis
President and CEO
Ten Peaks Coffee Company Inc.

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 November 7, 2012, provides a review of the financial results for the three and nine months ended September 30, 2012 relative to the comparable periods of 2011. The three-month period represents the third quarter ("Q3") of our 2012 fiscal year. This MD&A should be read in conjunction with the Company's condensed consolidated interim financial statements and accompanying notes for the period ended September 30, 2012, as well as the audited consolidated financial statements for the year ended December 31, 2011, which are available at www.sedar.com.

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

FORWARD-LOOKING STATEMENTS

This MD&A contains forward-looking statements, including statements regarding the future success of our business and market opportunities. Forward-looking statements typically contain words such as "believes", "expects", "anticipates", "continue", "could", "indicates", "plans", "will", "intends", "may", "projects", "schedule", "would" or similar expressions suggesting future outcomes or events, although not all forward-looking statements contain these identifying words. Examples of such statements include, but are not limited to, statements concerning: (i) expectations regarding Ten Peaks' future success in various geographic markets; (ii) future financial results including anticipated future sales and processing volumes; (iii) future dividends; (iv) the expected actions of the third parties described herein; (v) factors affecting the coffee market including supplies and commodity pricing; and (vi) the business and financial outlook of Ten Peaks. In addition, this MD&A contains financial outlook information that is intended to provide general guidance for readers based on our current estimates, but which is based on numerous assumptions and may prove to be incorrect. Therefore, such financial outlook information should not be relied upon by readers. These statements are neither promises nor guarantees, but involve known and unknown risks and uncertainties that may cause our actual results, level of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed in or implied by these statements. These risks include, but are not limited to, risks related to processing volumes and sales growth, operating results, supply of coffee, general industry conditions, commodity price risks, technology, competition, foreign exchange rates, general economic conditions and those factors described herein under the heading 'Risks & Uncertainties'.

The forward-looking statements contained herein are also based on assumptions that we believe are current and reasonable, including but not limited to, assumptions regarding: (i) trends in certain market segments and the economic climate generally; (ii) the financial strength of our customers; (iii) the value of the Canadian dollar versus the US dollar; (iv) the expected financial and operating performance of Ten Peaks going forward; and (v) the expected level of dividends payable to shareholders. We cannot assure readers that actual results will be consistent with the statements contained in this MD&A. The forward-looking statements and financial outlook information contained herein are made as of the date of this MD&A and are expressly qualified in their entirety by this cautionary statement. Except to the extent required by applicable securities law, Ten Peaks undertakes no obligation to publicly update or revise any such statements to reflect any change in our expectations or in events, conditions, or circumstances on which any such statements may be based, or that may affect the likelihood that actual results will differ from those described herein.

EXECUTIVE SUMMARY

During the third quarter of 2012, our processing volumes rose by 10% compared to the same period last year, driven by much stronger orders from national accounts. As we expected, orders from national accounts rebounded in response to the sustained decrease in the coffee commodity prices, or NY'C'. The lower price allows national accounts to pass along price reductions to end-consumers, and to support their products through promotional activities in grocery stores, stimulating demand. Overall, our processing volumes are up by 4% over the first nine months of 2011, with specialty regional accounts up by 10% and national accounts up by 1% for the year-to-date.

The growth in our volumes resulted in higher nine-month revenues, which rose by 5% to $45.0 million. Process revenues increased in the nine-month period ended September 30, 2012, reflecting volume increases to our higher margin specialty regional accounts and a slightly stronger US dollar ("US$"). Other revenue categories were also up for the year-to-date.

Our cost of sales also rose, growing by $4.2 million, or 11%, compared to the first nine months of 2011. The increase was driven by higher green coffee costs (which reflect our historical costs and not the current NY'C'). As a result, our nine-month gross profit declined by $2.0 million to $3.2 million.

Partially offsetting this decline was a $0.9 million gain we recorded on our coffee commodity futures contracts, compared to a $0.1 million loss in the first three quarters of 2011. We enter into these contracts in order to offset changes in coffee commodity prices between the time we purchase coffee and the time we sell decaffeinated coffee to customers. While these contracts are effective in protecting our cash flow from changes in coffee commodity prices, we do not use hedge accounting, and as such, these gains are not reflected in our gross profit.

Our foreign exchange forward contracts did not generate any gain or loss during the nine months ended September 30, 2012, compared with $0.8 million in realized gains in the same period last year. Gains were higher in 2011 as those hedges were entered into when the US-Canadian dollar exchange rate was more favourable.

Sales and marketing and administration expenses declined by $0.5 million in the first nine months of 2012, partially offsetting the period's lower gross profit.

Overall, we recorded net income of $0.9 million in the first three quarters of 2012, compared to $0.3 million in the same period last year. Net income rose due to the combination of higher processing volumes, lower expenses, gains on derivative instruments and gains on foreign exchange.

EBITDA was $2.1 million, down from $3.2 million in the first nine months of 2011. Lower gains on foreign exchange forward contracts and reduced gross profit for the year-to-date were only partially offset by reduced operating expenses and gains on commodity futures contracts.

We generated $2.9 million in cash from operating activities in the first nine months of 2012, compared to cash usage of $0.4 million in the same period last year. Improved cash from operations, and reductions in inventory owing to the lower NY'C', allowed us to reduce our net debt (bank indebtedness less cash on hand) by $1.5 million compared to an increase in net debt of $1.9 million in the first nine months of 2011.

We paid dividends of $1.2 million in the first nine months of 2012, compared to $1.0 million paid to shareholders in the same period last year. Of the 2011 amount, $0.2 million was paid in January 2011 as the last distribution to the unitholders of the former income fund, and $0.8 million was paid as a dividend.

BUSINESS OVERVIEW

Ten Peaks is a leading specialty coffee company doing business through two wholly owned subsidiaries, Swiss Water Decaffeinated Coffee Company, Inc. ("SWDCC") and Seaforth Supply Chain Solutions Inc. ("Seaforth"). SWDCC is a premium green coffee decaffeinator located in Burnaby, BC. SWDCC uses the proprietary SWISS WATER® Process to decaffeinate green coffee without the use of chemicals. The SWISS WATER® Process is the world's only branded decaffeination process and enjoys substantial recognition in the specialty coffee trade, and with consumers. This is our primary business, and the financial results of Ten Peaks are dependent upon the results of SWDCC.

Seaforth commenced operations in February 2012. It provides a complete range of coffee handling services, including devanning coffee received from origin; inspecting, weighing and sampling coffees; green coffee storage; and preparing green coffee for outbound shipments locally and across North America. Initially established as a strategy to gain control over our supply chain, Seaforth meets SWDCC's green coffee handling needs, with modest cost savings expected in 2012. We expect to grow this business over time, adding customers and augmenting Ten Peaks' revenue stream as we move up the coffee value chain.

As at September 30, 2012, the condensed consolidated interim financial statements of Ten Peaks included the accounts of Ten Peaks; our wholly owned subsidiaries SWDCC and Seaforth; and two wholly owned subsidiaries of SWDCC, Swiss Water Decaffeinated Coffee Company USA, Inc., and Swiss Water Process Marketing Services Inc. Inter-company accounts and transactions have been eliminated on consolidation.

Ten Peaks' shares trade on the Toronto Stock Exchange under the symbol 'TPK'. As at the date of this report, 6,675,254 shares were issued and outstanding.

Our 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. During the nine months ended September 30, 2012, approximately 22% of the coffee we processed was for our toll customers down from 27% in the first nine months of 2011.

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

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

Commodity Futures

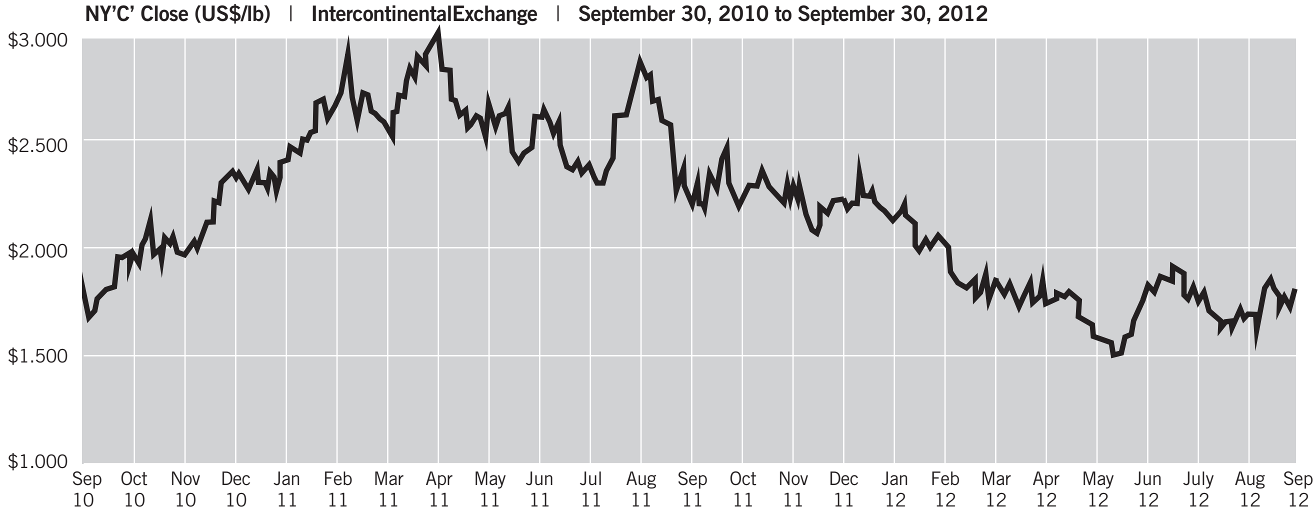
We use derivative instruments to help offset the effect of movements in the NY'C' component of coffee pricing between the time we purchase green coffee and the time we sell decaffeinated green coffee to our customers (approximately four months). Our commodity price risk mitigation strategy requires us to short sell a futures contract for one lot (37,500 lbs) of coffee on the IntercontinentalExchange whenever we agree to buy one lot of coffee from a supplier at a fixed price. The short sale protects us from changes in the price of coffee while we hold the coffee in inventory, as an increase (decrease) in the NY'C' price will generate an increase (decrease) in the value of the coffee we hold in inventory, and an equivalent decrease (increase) in the value of the derivative instrument. As coffee is sold, the short sales are covered by purchasing offsetting long contracts on the IntercontinentalExchange.

There is no open market to hedge the quality differential component of our green coffee cost. Therefore, in periods of rising differential markets, we may experience a differential cost recovery gain, and in periods of falling differential markets, we may experience a differential cost recovery loss.

Volatility in the NY'C' generates gains or losses on the derivative financial instruments that we hold. Although these gains and losses offset corresponding losses or gains in the value of the inventory we hold, International Financial Reporting Standards ("IFRS") do not allow us to mark our inventory to market. As such, gains in the value of our inventory that result from increases in the NY'C' are not reflected on our statement of financial position, nor in our profitability through our statement of operations, until sold. Conversely, under IFRS the fair value of the commodity futures contracts must be recorded on our statement of financial position, and changes in fair value from one period to the next are recorded as unrealized gains and losses on derivative instruments on our statement of operations. As a result, even though holding derivative financial instruments in respect of our commodity purchases is a prudent risk management strategy, it can result in significant swings in our reported income in any period, since a substantial portion of our current assets are invested in coffee commodities.

The chart below shows the movement in the NY'C' since September 30, 2010:

NY'C' Close (US$/lb) | IntercontinentalExchange | September 30, 2010 to September 30, 2012



The NY'C' averaged US$1.72 for the third quarter of 2012, down by 33% from an average of US$2.56 in Q3 2011. For the nine months ended September 30, 2012, the average NY'C' was US$1.82, down by 30% from US$2.61 for the same period last year. All else being equal, a lower average NY'C' price will decrease the value of green coffee cost recovery included in both our sales and our cost of sales. (The total value of green coffee cost recovery is also affected by the proportionate mix of our toll and regular business, the quality differentials for the specified coffees, and the US-Canadian dollar exchange rate.)

During 2010, the NY'C' rose rapidly in response to tight global supplies of Arabica coffee, which had been limited due to a series of climatic and agricultural issues in a number of coffee-producing regions. This trend continued into the third quarter of 2011, with the NY'C' rising to a 13-year high of over $3.00 per lb. More recently, however, the NY'C' has been falling, as improved crops have increased global coffee stocks while global demand has declined in response to the prolonged high commodity price and economic challenges in a number of coffee-consuming markets. As a result, the NY'C' fell by 24% between January 3, 2012 and September 30, 2012, effectively reducing our revenues and our gross profits for the first three quarters of this year. These decreases were partially offset by a net gain on our coffee commodity hedges, as discussed in more detail below.

Currency Forwards

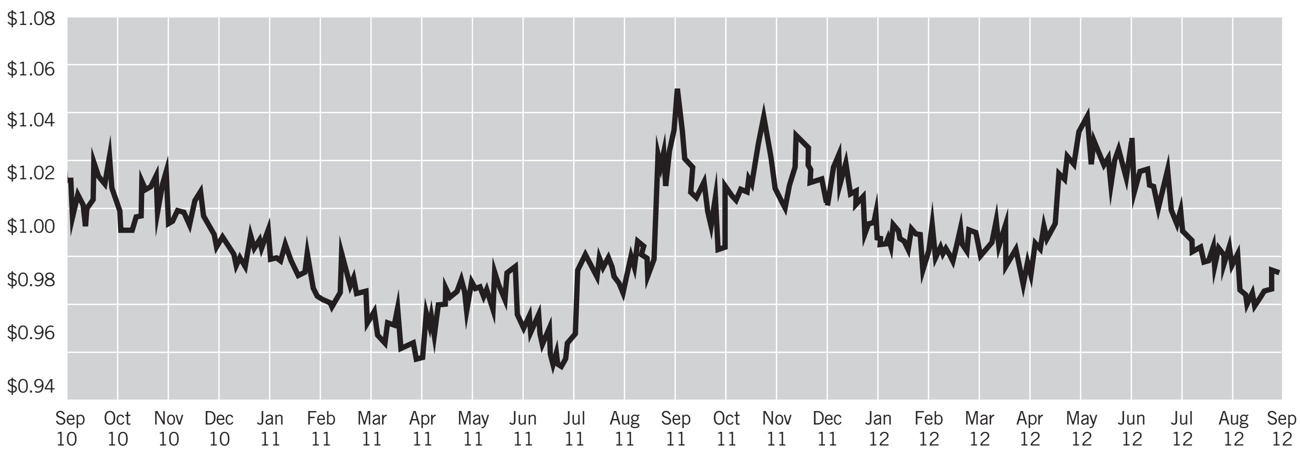
Coffee tends to be traded in US$, as buyers and sellers reference the NY'C' coffee price when entering into contracts. As a result, the majority of our revenues are denominated in US$, while a significant portion of our expenses and cash outflows occur in Canadian dollars. Therefore, our financial results are affected by any significant fluctuation in US-Canadian dollar exchange rates. In accordance with our foreign exchange risk management policy, we use financial instruments to manage our currency risk based on estimates of our net US$ cash flows up to 24 months in advance. We purchase forward contracts to sell US$ at fixed future dates and exchange rates. This enables us to reliably predict how much Canadian currency we will receive for our US$ sales. Cash flows in the immediate 12-month period are hedged at a higher percentage of expected future cash flows than those farther out, reflecting greater uncertainty in the 13 to 24-month period. As our assumptions about the timing and amount of US$ cash flows change over time, we enter into offsetting forward contracts to buy US$ as required to eliminate any over-hedged positions in accordance with our risk management policy. With cash flows hedged in this manner, we can make informed decisions about capital and operating expenditures.

In addition, our risk management policies allow us to enter into forward contracts to purchase US$ when we have large, predictable outlays of US$ for upcoming expenses or purchase commitments. This allows us to fix the exchange rate for purchases or expenses, as applicable, and better predict our cash flows for operating or capital expenditures.

As we do not use hedge accounting, our currency hedging practices can result in significant volatility in our reported net income. This is because our US$ revenues and expenses are recognized at the exchange rates in effect at the time sales are made or expenses incurred (rather than at the exchange rate implied by the derivative instrument). At the same time, IFRS requires us to mark our derivative instruments to market at each financial statement date, with changes in the value of these instruments being recognized in income during the period. This means that in an environment where the US$ has depreciated relative to the Canadian dollar, our revenue would decrease. Concurrently, we would recognize offsetting gains on our currency hedges, which appear on our statement of income and comprehensive income under 'Gain /(Loss) on derivative financial instruments'. Realized gains or losses on derivative financial instruments relate to contracts that have been settled in the period, while unrealized gains or losses relate to contracts which mature in future periods.

The chart below illustrates the US–Canadian dollar exchange rates since September 30, 2010:

US Dollars to Canadian Dollars | Bank of Canada Noon Rates | September 30, 2010 to September 30, 2012



The US$ averaged $1.00 for the three and nine months ended September 30, 2012, compared to $0.98 for the three and nine months ended September 30, 2011. These averages, however, mask considerable volatility during these periods, which can be seen in the chart above. In particular, during Q3 2012, the US$ weakened significantly, compared to a rapid increase during the third quarter of 2011. On average, however, this year's slightly stronger US$ helped increase our nine-month revenues, as 58% of our sales were generated in US$.

OPERATING RESULTS

Sales and Processing Volumes

Sales for the three months ended September 30, 2012 were $14.0 million, which is unchanged from the same quarter last year.

As is shown in the table on the following page, our process revenue for Q3 2012 was $3.0 million, up by $0.2 million, or 7%, over Q3 2011. Third quarter processing volumes grew by 10% compared to the same period last year, with the increases driven by higher processing volumes from our national accounts.

Green revenue for the third quarter of 2012 was $10.6 million. This represents a decrease of $0.4 million, or 4%, from Q3 2011, with the dip reflecting the period's lower NY'C'.

Distribution revenue, which consists of shipping, handling and warehousing charges billed to customers, grew by $0.1 million, or 33%, over Q3 2011. This reflects our increased processing volumes, as well as the addition of Seaforth.

Sales for the nine months ended September 30, 2012 were $45.0 million. This represents an increase of 5% over the first three quarters of last year, with all of our revenue categories showing year-over-year growth. Green revenue was $34.6 million, up by $1.6 million, or 5%, over the same period in 2011. The increase was driven by a rise in our regular sales, which was only partially offset by the lower coffee commodity price.

Process volumes for the first three quarters of 2012 grew by 4% compared to the same period in 2011. Process revenue also increased by 4% to $9.4 million.

Distribution revenue for the first nine months of 2012 was $1.0 million, up by 25% over the same period in 2011. The growth was related to the increased regular volumes, higher transportation rates and the addition of Seaforth.

(In $000s) (unaudited)	3 Months Ended September 30, 2012	3 Months Ended September 30, 2011	9 Months Ended September 30, 2012	9 Months Ended September 30, 2011
Process revenue	$ 3,017	$ 2,826	$ 9,365	$ 8,976
Green revenue	10,575	10,974	34,578	32,986
Distribution revenue	391	283	1,051	805
Total	$ 13,983	$ 14,083	$ 44,994	$ 42,767

Cost of Sales

Cost of sales for the three months ended September 30, 2012 was $12.8 million. As with our third quarter revenues, this was basically unchanged from the same period last year, as our higher sales volume was offset by the lower NY'C'.

Cost of sales for the nine months ended September 30, 2012 was $41.8 million, an increase of $4.2 million, or 11%, over $37.6 million for the same period last year. The increase was driven by higher green coffee costs, which reflect the historical cost of our green coffee inventories and not the current commodity price.

Gross Profit

Gross profit for the three months ended September 30, 2012 was $1.2 million, a decrease of $0.1 million, or 8%, from the $1.3 million reported in Q3 2011. Green revenue for the period fell by $0.4 million, which was mostly offset by higher process and distribution revenues.

Gross profit for the nine months ended September 30, 2012 was $3.2 million, a reduction of $2.0 million, or 38%, from $5.2 million for the same period last year. Our green coffee cost increased by $4.2 million, while our green revenue rose by only $1.6 million. Unless a customer contracts to purchase coffee over a set period of time at a fixed price, decaffeinated green coffee is sold at the then-current commodity price plus a processing fee. When the NY'C' declines rapidly, as it did in the first nine months of 2012, we may sell coffee at a lower commodity price than we purchased it for. This is offset by the commodity hedges that we enter into on the IntercontinentalExchange. However, as we do not use hedge accounting, the offsetting hedge gain is not recorded in our revenue or our costs of sales (rather, it is recorded as a gain on derivative instruments).

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 expenses, and related travel expenses.

For the three months ended September 30, 2012, sales and marketing expenses were $0.2 million. This was down by 50% from $0.4 million in Q3 2011. For the nine months ended September 30, 2012, sales and marketing expenses were $1.0 million. This is down by 29% from $1.4 million for the same period in 2011. In both periods, the savings came from reduced staffing and staff-related expenditures, as well as lower brand development and market research expenses.

Occupancy Expenses

Occupancy expenses include costs to rent administration offices. Occupancy costs were unchanged for the three and nine months ended September 30, 2012 compared to the same periods last year.

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 were $0.6 million for the three months ended September 30, 2012, which was down by 14% from $0.7 million in Q3 2011. For the first nine months of 2012, administration expenses were $2.1 million. This was down by $0.1 million, or 5%, compared to the same period of 2011, reflecting reduced professional fees.

Finance Income / Expenses

Finance income reflects the charges billed to customers for financing coffee inventories. Finance expenses include interest costs on bank debt and other borrowings, and the accretion expense on our asset retirement obligation.

Finance expenses totaled $63 thousand and $198 thousand respectively for the three and nine months ended September 30, 2012, down from $120 thousand and $297 thousand for the same periods in 2011. Interest expenses declined in 2012 due to reduced bank indebtedness and the use of LIBOR loans, which bear a lower interest rate than our operating line.

Gains and Losses on Derivative Financial Instruments

We enter into commodity futures and foreign exchange forward contracts to manage the effect of changes in commodity coffee prices and US dollar exchange rates on our business. We record both realized and unrealized gains and losses on foreign currency forward contracts and coffee commodity futures contracts as gains and losses on derivative financial instruments on our statement of income, based on marked-to-market calculations at the end of the relevant reporting period. Realized gains (losses) on derivative financial instruments are incurred when derivative financial instruments mature during the period. In contrast, unrealized gains and losses represent the change in the fair value of the derivative financial instruments that mature in future periods. The amount of any unrealized gain or loss may change before the underlying financial instrument is actually liquidated.

Realized gains (losses) on foreign exchange forward contracts increase (decrease) both our reported net income and our cash from operations in the relevant period. Unrealized gains and losses on foreign exchange derivative instruments are non-cash charges, and only affect our reported net income in the relevant period.

For commodity futures, it is the overall value of our derivative contracts on the IntercontinentalExchange (both realized and unrealized) that drives cash inflows and outflows in the period. Unlike foreign exchange forward contracts, decreases in the fair value of outstanding futures contracts generate unrealized losses which must be funded on a daily basis. These mark-to-market losses take the form of margin calls, which we fund through increased bank indebtedness. If a change in the underlying commodity price results in gains on these contracts, we can recoup the cash on account for the excess over the current margin requirements. Thus, realized and unrealized gains and losses on commodity futures contracts affect both our cash flows and our earnings in any reporting period.

In the third quarter of 2012, we recorded $0.1 million in realized gains on our commodity futures contracts that were settled in the period, compared with $0.6 million in realized losses in the same quarter last year. In addition, we recorded $0.1 million in unrealized losses on commodity futures in Q3 2012, compared to $1.2 million in unrealized gains in the third quarter of 2011. Overall, there was almost no gain or loss on commodity futures contracts, compared to net gains of $0.6 million in Q3 2011. Although our commodity price risk management practices are designed to offset the market risk of changing commodity prices, there can be a disconnect between when contracts mature (five times per year) and when coffee is sold out of inventory (on a daily basis). As a result, gains or losses on commodity futures contracts do not always match changes in the gross profit generated by our green coffee sales.

In Q3 2012, we recorded $0.1 million in realized losses on our foreign currency derivatives, compared with $0.1 million in realized gains in the third quarter of 2011. These derivatives are used to mitigate the cash flow impact of converting US$ revenue to Canadian dollars at lower exchange rates. The US$ was, on average, stronger in Q3 this year than in Q3 2011. As a result, we generated higher revenue upon conversion of US$ denominated sales but realized a loss on foreign currency derivatives.

We recorded no unrealized gain or loss on foreign exchange forward contracts in the three months ended September 30, 2012, compared to an unrealized loss of $0.5 million in Q3 2011. Unrealized gains or losses on foreign exchange contracts do not impact our cash flows in the period.

For the nine months ended September 30, 2012, we realized $1.9 million in gains on our commodity futures contracts, compared to realized losses of $3.5 million for the same period last year. We also recorded $1.0 million in unrealized losses on commodity futures, compared to $3.4 million in unrealized gains in the first nine months of 2011. The net effect was a gain on commodity futures contracts of $0.9 million for the year-to-date, compared to a net loss of $0.1 million for the same period last year. The gains on commodity hedges in the first three quarters of 2012 partially offset the lower gross profit that we realized on our coffee sales.

During the first nine months of this year, we recorded no realized or unrealized gains or losses on our foreign currency derivatives, compared to realized gains of $0.8 million and unrealized losses of $1.0 million for the same period in 2011.

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. We recorded foreign exchange gains of $0.3 million for the three months ended September 30, 2012, compared with losses of $0.4 million in Q3 2011.

We recorded foreign exchange gains of $0.3 million for the first three quarters of 2012, compared with losses of $0.6 million for the same period in 2011.

Income Before Taxes and Net Income

For the three months ended September 30, 2012, we recorded income before taxes of $0.4 million, compared to nil for the third quarter of 2011. During Q3 2012, our net income was reduced by deferred income taxes of $0.1 million. 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 adjusted for substantively enacted lower future tax rates, which are offset by the tax benefit of loss carry forwards recognized. As a result, we recorded net income of $0.4 million for the third quarter of 2012, compared to no net income or loss for the same period in 2011.

For the nine months ended September 30, 2012, we recorded income before taxes of $1.2 million, compared to $0.5 million for the same period in 2011. For the first three quarters of 2012, our net income was reduced by deferred income taxes of $0.3 million. As a result, we recorded net income of $0.9 million this year, compared to a net income of $0.3 million in 2011.

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 by the diluted weighted average number of shares outstanding. As there is only a small difference between the weighted average number of basic and diluted shares outstanding in each of 2012 and 2011, the basic and diluted earnings per share are the same.

For the quarter ended September 30, 2012, basic and diluted earnings per share were both $0.05, compared to $0.00 per share on a basic and diluted basis in Q3 2011. In the third quarter of 2012, the basic and diluted weighted average number of shares outstanding were 6,675,254 and 6,769,175, compared to 6,675,200 and 6,693,443 respectively in Q3 2011.

For the nine months ended September 30, 2012, basic and diluted earnings per share were $0.14, compared to $0.05 in the same period of 2011. In the first nine months of 2012, the basic and diluted weighted average number of shares outstanding were 6,675,254 and 6,767,404, compared to 6,675,200 and 6,681,348 respectively last year.

NON-IFRS MEASURES

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.

EBITDA

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, unrealized gains/losses on foreign exchange forward contracts and provision for income taxes. This definition was revised in the second quarter of 2012 in order to be more reflective of cash flows. Previously, all gains and losses on derivative instruments were excluded from EBITDA, even though we use these instruments to offset changes in coffee commodity prices and foreign exchange rates on our cash flows. We believe that the revised definition is a better measure of cash flows as it reflects realized gains and losses on foreign exchange forward contracts which offset the currency risk of our US$ denominated revenues. It also includes gains and losses on coffee as it is sold, together with the offsetting gains and losses on the commodity futures trading account. Under the new definition of EBITDA, only unrealized gains or losses on foreign exchange forward contracts are excluded from EBITDA, as these do not affect our cash flows in the current period. Prior periods have been restated for consistency.

The reconciliation of net income to EBITDA is as follows:

(In $000s) (unaudited)	3 Months Ended September 30, 2012	3 Months Ended September 30, 2011	9 Months Ended September 30, 2012	9 Months Ended September 30, 2011
Income (loss) for the period	$ 363	$ (5)	$ 914	$ 343
Income taxes	75	(9)	270	108
Income before tax	438	(14)	1,184	451
Finance income	(26)	(36)	(90)	(97)
Finance expenses	63	120	198	297
Depreciation & amortization	348	316	1,044	993
Unrealized loss on foreign exchange forward contracts	32	523	22	957
(Gain)/loss on foreign exchange	(344)	382	(293)	598
Share-based compensation	18	3	57	3
Loss on disposal of plant and equipment	-	-	-	60
EBITDA	$ 529	$ 1,294	$ 2,122	$ 3,262

Third quarter EBITDA was $0.5 million, compared to $1.3 million in Q3 2011. Although gross profit was only marginally lower in Q3 2012 than in the same period last year, we recorded a $0.5 million reduction in net gains on commodity futures and a $0.2 million decrease in realized gains on foreign exchange forward contracts. For the nine months ended September 30, 2012, EBITDA was $2.1 million, compared to $3.3 million for the same period last year. The decrease was related to a decline in gross profit, which dropped with the fall of the NY'C', as well as reduced gains on foreign exchange forward contracts. These decreases were partially offset by lower operating expenses and by net gains on commodity futures.

QUARTERLY INFORMATION / SEASONALITY

The following table summarizes results for each of the eight most recently completed fiscal quarters:

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

	Q3 2012	Q2 2012	Q1 2012	Q4 2011	Q3 2011	Q2 2011	Q1 2011	Q4 2010
Sales	13,983	16,072	14,939	17,904	14,083	14,718	13,966	12,466
Gross profit	1,151	1,335	680	1,456	1,321	1,885	1,953	2,053
EBITDA (1)	529	797	796	822	1,294	1,237	731	(962)
Net income (loss)	363	151	400	480	(5)	422	(74)	(11,812)
Per share (2)								
EBITDA (1) - basic and diluted	0.079	0.119	0.119	0.123	0.194	0.185	0.110	(0.144)
Net income (loss) - basic and diluted	0.054	0.023	0.060	0.072	(0.001)	0.063	(0.011)	N/A

(1) EBITDA is defined in the section on 'Non-IFRS Measures' along with details of its calculation. In addition, for periods prior to 2011, distributions paid to unitholders of the former Swiss Water Decaffeinated Coffee Income Fund (the "Fund"), and fair value changes in the units of the Fund, are also excluded from the calculation of EBITDA.

(2) Per-share calculations are based on the weighted average number of shares (or units) outstanding during the period. As units of the former Fund are not considered to be equity under IFRS and there is no income attributable to shareholders in 2010, the calculation of net income per share is not applicable in 2010.

There is a seasonality factor in the specialty coffee industry, with fourth quarter sales typically being the strongest.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flow from Operations

In the nine months ended September 30, 2012, we generated $3.2 million in cash from operations before changes in non-cash working capital. This compares to cash usage of $0.4 million in the first nine months of 2011. Realized gains on derivative instruments increased the amount of cash generated in the current period.

Changes in non-cash working capital accounts used $0.3 million in the nine-month period ended September 30, 2012, compared to cash generated of $0.2 million in the same period last year. Reductions in inventory were offset by other working capital reductions, including higher accounts receivable and lower accounts payable balances. Overall, cash from operating activities was $2.9 million in the nine months ended September 30, 2012, compared to cash usage of $0.4 million in the same period of 2011.

Investing Activities

Capital expenditures were $0.3 million in the nine months ended September 30, 2012, which was unchanged from the same period last year. Purchases of capital equipment vary from year to year, based on the needs of the business.

Financing Activities

In the nine months ended September 30, 2012, we paid $1.3 million (2011: $0.8 million) in dividends to shareholders. In the first quarter of 2011, we also paid $0.2 million to shareholders, which represented the last distribution to unitholders of the former Fund.

Bank debt declined $1.2 million in the first nine months of 2012, as the lower NY'C' allowed us to reduce our borrowings for working capital and commodity futures contracts. By comparison, for the same period last year, we borrowed $2.5 million to fund increases in inventory values tied to the 2011 increase in the coffee commodity price.

Net debt, which is bank indebtedness less cash on hand, declined $1.5 million in the nine months ended September 30, 2012. This compares to a $1.9 million increase in net debt in the comparative period of 2011.

Credit Facilities and Liquidity

Our credit facilities with a Canadian chartered bank include a $14.5 million revolving operating line of credit, a $1.5 million revolving swing line to be used exclusively to fund excessive margin calls on commodity futures contracts, and two capital expenditures facilities (with a combined principal balance of $1.2 million), all of which bear an interest rate of prime plus 0.75%.

In addition, we maintain a US$4.0 million foreign exchange and commodity futures contract facility. This allows us to enter into foreign exchange forward and commodity futures contracts with the bank without margin on the contracts. At September 30, 2012, we had utilized $7.8 million of our credit facilities.

We are paying down the first capital expenditures facility, which had an initial principal amount of $2.0 million, in equal monthly installments of $56 thousand. The loan will be fully discharged at the end of 2013. Also, we commenced paying down the second capital expenditures facility of $0.5 million in equal monthly installments of $14 thousand in February 2012. The loan will be fully discharged in January 2015.

Our credit lines and foreign exchange contract facility are collateralized by a general security agreement over all of the assets of Ten Peaks. We were in compliance with our banking covenants at September 30, 2012.

We expect cash flow from operations, together with unutilized credit facilities, to be sufficient to fund our operating requirements, capital expenditures, and contractual obligations as we go forward.

Contractual Obligations

The following table sets forth our contractual obligations and commitments as at September 30, 2012:

(In $000s) (unaudited)	Total	Less than 1 year	1-3 Years	4-5 Years	Over 5 Years
Operating leases [1]	$ 1,199	$ 484	$ 636	$ 79	$ -
Purchase obligations [2]	$ 26,312	25,446	866	-	-
Total contractual obligations	$ 27,511	$ 25,930	$ 1,502	$ 79	$ -

(1) Minimum obligations for operating leases of the production facility, office space and warehouse for the current leases terms.

(2) Represents outstanding coffee purchasing commitments.

SWDCC leases a facility which houses its decaffeination plant and offices. The current lease term expires in 2013, and can be renewed at SWDCC's option for two additional 5-year terms. Subsequent to quarter-end, SWDCC exercised its option to renew the lease on this facility, which will extend the lease until 2018.

Seaforth began leasing a warehouse facility on February 1, 2012. The warehouse lease expires on December 30, 2015.

OFF-BALANCE SHEET ARRANGEMENTS

Ten Peaks has no off-balance sheet arrangements.

RELATED PARTY TRANSACTIONS

We provide toll decaffeination services and/or sell finished goods to, and purchase raw material inventory from, companies that are related to two Ten Peaks Directors. For the quarter ended September 30, 2012, $0.2 million of our total sales (September 30, 2011 - $0.4 million) were to those companies and $0.3 million (September 30, 2011 – $0.8 million) of our green coffee purchases were from those companies. For the nine months ended September 30, 2012, $1.0 million of our total sales (September 30, 2011 - $1.0 million) were to those companies and $1.2 million (September 30, 2011 – $2.6 million) of our green coffee purchases were from those companies.

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 September 30, 2012, our accounts receivable balances with these companies were $98 thousand (December 31, 2011 – $21 thousand) and accounts payable balances were nil (December 31, 2011 - $247 thousand).

OUTLOOK

As we forecasted earlier this year, sales to our national accounts have increased due to a sustained decrease in the coffee commodity price. As national accounts tend to enter into coffee purchase orders several months in advance, they only recently began to benefit from the lower NY'C'. Additionally, we have begun to see retail coffee prices decline and promotional activity in the grocery channel pick up, with these drivers expected to continue stimulating demand into the fourth quarter of 2012.

Strong demand from our higher margin specialty regional accounts is ongoing. We continue to gain new customers and win market share from key competitors. Our strategy of providing excellent quality decaffeinated coffees supported by outstanding customer service is paying off, and we are committed to continuing to providing our customers with exceptional value in order to grow our business.

In addition, we are seeing growth in a number of international markets. Processing volumes for our international customers are up by 10% for the year-to-date, owing to a concerted effort to expand our presence beyond North America. As with our specialty regional accounts, international customers tend to generate slightly higher margins, which will contribute to improved financial results over time.

In addition to growing our base decaffeination business, we are continuing to diversify our revenues through measured expansion into related specialty coffee businesses. One example of this is Seaforth Supply Chain Solutions, our green coffee handling and storage subsidiary. Initially established to help SWDCC gain more control over its supply chain and reduce its coffee handling and storage costs, Seaforth has performed better than expected during its first few months of operation. In addition to meeting SWDCC's coffee handling and storage needs, Seaforth has already begun to serve a number of third party customers.

Finally, our test marketing of Ten Peaks Coffee, a premium roast and ground coffee which comes in four different caffeine levels, continues to show promise. The product has now been available to consumers in the Minneapolis area for more than nine months, which has allowed us to test different price points and marketing strategies over an extended period of time. Currently, we are working to increase our distribution of the product in the Minnesota test market area. This would allow us to realize some cost savings and add modestly to our overall financial results.

RISKS AND UNCERTAINTIES

Ten Peaks' ability to pay dividends is dependent upon the earnings and cash flow generated from SWDCC's operations. This 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, renewal of services agreements with key customers, 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, commodities futures losses, ability to maintain organic certification, adequacy of insurance, dependence on key personnel, product liability, uncollectable debts, and general economic downturns. The future effect of these risks and uncertainties cannot be quantified or predicted.

FINANCIAL INSTRUMENTS

All financial instruments, including derivatives, are included on the consolidated statement of financial position and are measured either at fair value or, in limited circumstances, at cost or amortized cost. Cash and accounts receivable are designated as "loans and receivables" and measured at amortized cost. Bank indebtedness, accounts payable and accrued liabilities, and dividends payable to shareholders are designated as "other financial liabilities" and measured at amortized cost.

Derivative financial instruments are included on the consolidated statement of financial position and measured at fair value. For derivatives that qualify as hedging instruments, unrealized gains or losses are included either in other comprehensive income or in earnings, depending on whether it is a 'cash flow hedge' or a 'fair value hedge'. Derivatives that do not qualify as hedging instruments are designated as held-for-trading and unrealized gains and losses are reported in earnings. We do not have any derivatives that qualify as hedging instruments.

We measure our commodity futures contracts at fair value based on their quoted market prices on the IntercontinentalExchange. Similarly, we measure our outstanding foreign exchange forward and collar contracts at fair value based on quoted market prices for comparable contracts. The fair values represent the amounts we would have received from a counterparty to settle the contracts at the market rates in effect at the financial statement date. Any related unrealized gains or losses are reported in the statement of income and comprehensive income in the period.

We had neither available-for-sale nor held-to-maturity instruments during the nine-month period ended September 30, 2012.

Foreign Exchange and Coffee Hedging

We use derivative financial instruments to manage commodity price risks associated with our coffee inventories, as well as foreign currency futures to manage risks associated with changes in the value of the US dollar (the primary currency for coffee sales). These instruments are used as economic hedges. We choose not to account for these derivative financial instruments under hedge accounting as the requirements are onerous and provide no incremental economic benefit. As a consequence, our derivative financial instruments are measured at fair value and marked-to-market at the end of each period. Consequently, we are unable to defer unrealized gains and losses on these instruments related to future transactions, even though the coffee commodity prices and currency exchange rates underlying the marked-to-market calculations may change before the hedge instruments are actually liquidated.

Commodity Price Risk

We utilize futures contracts to manage our commodity price exposure. We buy and sell commodity futures contracts for coffee on the IntercontinentalExchange in order to offset our inventory position and fix the input cost of green coffee. As at September 30, 2012, we had futures contracts to buy 2.7 million lbs of green coffee with a notional value of US$4.6 million, and contracts to sell 4.6 million lbs of green coffee with a notional value of US$8.0 million (December 31, 2011 – buy 2.1 million lbs with a notional value of US$4.7 million, and sell 3.4 million lbs with a notional value of US$7.7 million), with the furthest contract maturing in July 2013. The net notional value of the contracts outstanding at September 30, 2012 was approximately US$3.4 million.

The following table describes the realized and unrealized gain and loss on commodity futures contracts recognized in the condensed consolidated interim statements of operations:

	3 Months Ended September 30, 2012	3 Months Ended September 30, 2011	9 Months Ended September 30, 2012	9 Months Ended September 30, 2011
Realized (gain) loss	$ (137)	$ 625	$ (1,906)	$ 3,483
Unrealized loss (gain)	114	(1,195)	990	(3,366)
	$ (23)	$ (570)	$ (916)	$ 117

At September 30, 2012, the net derivative assets related to these contracts was $0.3 million (December 31, 2011: $0.1 million) and was comprised of cash on account.

We estimate a one percent change in the mark-to-market rate applied to the futures contracts as at September 30, 2012 would have resulted in an estimated $33,000 change in income before taxes.

Foreign Currency Risk

We realize a significant portion of our sales in US 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 primarily to our future net cash flows in US dollars from sales. In addition, we enter into forward contracts to purchase US$ for coffee that we resell in Canadian dollars.

At September 30, 2012, we had forward currency contracts to buy US$12.5 million and sell US$10.7 million (December 31, 2011: buy US$6.8 million and sell US$11.9 million) from October 2012 through to August 2014 at various Canadian exchange rates ranging from $0.9650 to $1.0655. The net notional value of the contracts outstanding at September 30, 2012 was approximately US$1.8 million.

The following table describes the realized and unrealized gain and loss on foreign currency forward contracts in the condensed consolidated interim statement of operations:

(In $000s) (unaudited)	3 Months Ended September 30, 2012	3 Months Ended September 30, 2011	9 Months Ended September 30, 2012	9 Months Ended September 30, 2011
Realized (gain) loss	$ 105	$ (140)	$ (16)	$ (802)
Unrealized loss	32	523	23	956
	$ 137	$ 383	$ 7	$ 154

At September 30, 2012, the net derivative liabilities related to these contracts was $41,000 (December 31, 2011: $18,000). We estimate a 100 basis point change in the US$ exchange rate relative to the Canadian dollar under forward foreign exchange contracts would have resulted in an estimated $18,000 change in income before taxes.

CRITICAL ACCOUNTING ESTIMATES

Measurement Uncertainty

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Estimates are used when accounting for provisions for uncollectible accounts receivable, the estimated useful life of long-lived assets and their amortization rates, provisions for inventory obsolescence, the net realizable value of inventories, asset retirement obligations, impairment assessments for long-lived assets, share-based compensation and income taxes. Actual results may be different from those estimates.

An accounting estimate is deemed critical only if it requires us to make assumptions about matters that are highly uncertain at the time the accounting estimate is made, and different estimates that we could have used in the current period would have a material impact on our financial condition or results of operations. Critical estimates are discussed below.

Inventories

In estimating the net realizable value of inventories, we take into account the most reliable evidence available at the times the estimates are made. Ten Peaks' core business is subject to volatility in the coffee commodity price which fluctuates in response to fundamental commodity factors that affect supply, such as weather and political policies in major coffee-producing countries, and demand, such as economic growth of major coffee-consuming countries.

For the nine months ended September 30, 2012, we reduced the provision against our coffee inventories by $0.2 million, based on the current market values of green coffee. The estimated provision reflects the current value of the NY'C' even though we have offsetting coffee hedges that would mitigate the cash flow impact of having to sell coffee at the current market price. The replacement differential is also taken into account by origin and quality of coffee for each type of coffee in our inventory, as are costs to convert raw goods to finished goods. The provision is based on the downside risk for each type and quality of coffee, and does not take into account the fact that we may be able to sell certain coffees in our inventory at a higher market price than book value.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

As management, we maintain disclosure controls and procedures designed to provide reasonable assurance that information required to be disclosed in our annual filings, interim filings and other reports filed or submitted under securities legislation are recorded, processed, summarized, and reported within the required time periods. The Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"), after evaluating the effectiveness of our disclosure controls and procedures as of September 30, 2012, have concluded that disclosure controls and procedures, as of such date, were effective to provide reasonable assurance that information required to be disclosed by us that we file or submit, is (i) recorded, processed, summarized and reported within the time periods as required, and (ii) accumulated and made known to management, including our CEO and CFO, to allow timely decisions regarding required disclosure.

Management is responsible for establishing and maintaining adequate internal controls over financial reporting ("ICFR") to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Under the supervision and with the participation of management, including the CEO and CFO, we conducted an evaluation of the design and effectiveness of our ICFR as of September 30, 2012, based on framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on this evaluation, we have concluded that, as of September 30, 2012, Ten Peaks maintained effective ICFR.

While we believe that the current disclosure controls and procedures and ICFR provide a reasonable level of assurance of achieving their objectives, it cannot be expected that existing disclosure controls and procedures or internal financial controls will prevent all human error and circumvention or overriding of the controls and procedures. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

There were no changes in our ICFR that occurred during the period beginning on July 1, 2012 and ended on September 30, 2012 that have materially affected, or are reasonably likely to materially affect, Ten Peaks' ICFR.

SUBSEQUENT EVENTS

Payment of Dividend

On October 15, 2012, Ten Peaks paid an eligible dividend in the amount of $0.4 million ($0.0625 per share) to shareholders of record on September 28, 2012.

In October 2012, we exercised the second right of renewal of the lease on the offices and production facilities in accordance with the operating lease agreement. This will extend the lease on these facilities until 2018.

TEN PEAKS COFFEE COMPANY INC.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

(Tabular amounts in thousands of Canadian dollars, except per share and number of shares figures) (Unaudited)

as at	Note	September 30 2012	December 31 2011
Assets			
Current assets			
Inventories	5	$ 8,894	$ 11,261
Accounts receivable	6	4,923	4,198
Prepaid expenses		269	162
Derivative assets	7	319	248
Cash		765	500
Total current assets		15,170	16,369
Non-current assets			
Plant and equipment	8	13,408	13,936
Intangible assets	9	2,789	2,983
Deferred tax assets		2,305	2,575
Derivative assets	7	139	-
Total non-current assets		18,641	19,494
Total assets		$ 33,811	$ 35,863
Liabilities and shareholders' equity			
Current liabilities			
Bank indebtedness	10	$ 7,813	$ 9,012
Accounts payable		1,335	1,954
Accrued liabilities		1,048	1,066
Dividend payable		417	417
Derivative liabilities	7	180	54
Total current liabilities		10,793	12,503
Non-current liabilities			
Derivative liabilities	7	-	74
Other liabilities		41	8
Asset retirement obligation		702	688
Total non-current liabilities		743	770
Total liabilities		11,536	13,273
Shareholders' equity			
Share capital		24,631	24,631
Share-based compensation reserve		30	7
Deficit		(2,386)	(2,048)
Total equity		22,275	22,590
Total liabilities and shareholders' equity		$ 33,811	$ 35,863

Commitments (note 18)

Approved on behalf of the Board

David Rowntree, Director Frank Dennis, Director

See accompanying notes to these Condensed Consolidated Interim Financial Statements

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(Tabular amounts in thousands of Canadian dollars, except per share and number of shares figures) (Unaudited)

for the	3 Months Ended September 30, 2012	3 Months Ended September 30, 2011	9 Months Ended September 30, 2012	9 Months Ended September 30, 2011
Revenue	$13,983	$14,083	$44,994	42,767
Cost of sales	(12,832)	(12,762)	(41,827)	(37,608)
Gross profit	1,151	1,321	3,167	5,159
Sales and marketing expenses	(247)	(364)	(951)	(1,364)
Occupancy expenses	(15)	(17)	(49)	(52)
Administration expenses	(644)	(675)	(2,077)	(2,163)
Finance income	26	36	90	97
Finance expenses	(63)	(120)	(198)	(297)
Realized gain (loss) on derivative financial instruments	32	(485)	1,922	(2,681)
Unrealized (loss) gain on derivative financial instruments	(146)	672	(1,013)	2,410
Gain (loss) on foreign exchange	344	(382)	293	(598)
Gain (loss) on disposal of plant and equipment	-	-	-	(60)
Income (loss) before tax	438	(14)	1,184	451
Income tax expense	(75)	9	(270)	(108)
Net income (loss) and comprehensive income (loss)	363	(5)	914	343
Earnings per share				
Basic and diluted (per share) (Note 16)	$0.05	$0.00	$0.14	$0.05

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY

(Tabular amounts in thousands of Canadian dollars, except per share and number of shares figures) (Unaudited)

	Share capital		Share-based compensation reserve	Deficit	Total equity
	Shares	Amount			
Balance at December 31, 2010	-	$ -	$ -	$ (1,202)	$ (1,202)
Exchange of trust units for common shares	6,675,200	24,631	-	-	24,631
Share-based compensation	-	-	1	-	1
Dividends	-	-	-	(1,252)	(1,252)
Net income and comprehensive income	-	-	-	343	343
Balance at September 30, 2011	6,675,200	$ 24,631	$ 1	$ (2,111)	$ 22,521
Shares issued for restricted share units	54	-	-	-	-
Share-based compensation	-	-	6	-	6
Dividends	-	-	-	(417)	(417)
Net income and comprehensive income	-	-	-	480	480
Balance at December 31, 2011	6,675,254	$ 24,631	$ 7	$ (2,048)	$ 22,590
Share-based compensation	-	-	23	-	23
Dividends (note 14)	-	-	-	(1,252)	(1,252)
Net income and comprehensive income	-	-	-	914	914
Balance at September 30, 2012	6,675,254	$ 24,631	$ 30	$ (2,386)	$ 22,275

TEN PEAKS COFFEE COMPANY INC.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS

(Tabular amounts in thousands of Canadian dollars, except per share and number of shares figures) (Unaudited)

	9 Months Ended September 30, 2012	9 Months Ended September 30, 2011
Cash flows from operating activities		
Net income for the period	$ 914	$ 343
Items not affecting cash		
Depreciation and amortization	1,044	993
Unrealized loss (gain) on derivative financial instruments	1,013	(2,410)
Loss on disposal of plant and equipment	-	60
Share-based compensation	57	3
Foreign exchange (gain) loss on foreign currency cash held	(220)	318
Income taxes recognized in profit and loss	270	108
Interest income recognized in profit and loss	(90)	(97)
Interest expense recognized in profit and loss	199	271
	3,187	(411)
Movements in working capital:		
Accounts receivable	(725)	541
Inventory	2,367	(3,759)
Prepaid expenses	(108)	(75)
Distributions payable to former unitholders	-	(200)
Accounts payable and accrued liabilities	(638)	377
Derivative assets at fair value through profit or loss	(210)	647
Derivative liabilities at fair value through profit or loss	(961)	2,625
Change in non-cash working capital relating to operating activities	(275)	156
Cash generated from (used in) operations	2,912	(255)
Interest received	90	97
Interest paid	(185)	(257)
Income taxes paid	-	(7)
Net cash generated from (used in) operating activities	2,817	(422)
Cash flows from investing activities		
Additions to plant and equipment	(322)	(319)
Proceeds on disposal of property, plant and equipment	-	2
Net cash used in investing activities	(322)	(317)
Cash flows from financing activities		
Dividends paid	(1,252)	(835)
Proceeds from bank indebtedness	-	2,425
Repayments of bank indebtedness	(1,198)	(500)
Net cash (used in) generated from financing activities	(2,450)	1,090
Effects of foreign exchange rate changes on cash held in foreign currency	220	(318)
Net increase in cash	265	33
Cash, beginning of period	500	21
Cash, end of period	$ 765	$ 54

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 Co. Inc ("SWDCC"), a British Columbia company, and Seaforth Supply Chain Solutions Inc. ("Seaforth"), a company incorporated under the Canada Business Corporations Act.

SWDCC operates a chemical free coffee decaffeination plant located in Burnaby, BC. It employs the branded Swiss Water® Process, a proprietary and technically advanced decaffeination method that is certified organic by the Organic Crop Improvement Association. SWDCC is the primary operating entity of the Company, and Ten Peaks results of operations are dependent upon those of this subsidiary. SWDCC purchases premium grade green coffee, which it decaffeinates and offers for sale to coffee importers, coffee roasters and other customers (classified as its "regular" or "non-toll" business). In addition, the Company decaffeinates green coffee that belongs to its customers (classified as "toll" business). Coffee decaffeinated under toll arrangements is not included in inventory, as the Company does not take title to these coffees.

SWDCC has two subsidiaries, Swiss Water Decaffeinated Coffee Co. USA, Inc, a Washington State corporation, and Swiss Water Process Marketing Services Inc., a British Columbia company. These companies act as SWDCC's marketing and sales subsidiaries and do not have significant assets.

Seaforth was incorporated in November 2011 and commenced operations in February 2012. It provides a complete range of green coffee handling and storage services, including devanning coffee received from origin; inspecting, weighing and sampling coffees; and storing, handling and preparing green coffee for outbound shipments locally and across North America. The majority of Seaforth's revenues are generated by providing services to SWDCC. All intercompany balances have been eliminated on consolidation.

2. BASIS OF PRESENTATION

The Company's condensed consolidated interim financial statements for the three and nine months ended September 30, 2012 have been prepared using accounting policies consistent with the International Financial reporting Standards ("IFRS") and in accordance with International Accounting Standard ("IAS") 34 Interim Financial Reporting.

These notes to the condensed consolidated interim financial statements should be read in conjunction with the consolidated financial statements for the year ended December 31, 2011 and the condensed consolidated interim financial statements for the periods ended March 31, 2012 and June 30, 2012.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these condensed consolidated interim financial statements are consistent with the consolidated financial statements for the year ended December 31, 2011 and the condensed consolidated interim financial statements for the periods ended March 31, 2012 and June 30, 2012.

(Tabular amounts in thousands of Canadian dollars, except per share and number of shares figures) (Unaudited)

4. 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 bank debt. 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.

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.

5. INVENTORIES

	September 30 2012	December 31 2011
Raw materials	6,579	9,130
Finished goods	2,059	2,016
Carbon	238	249
Packaging	23	40
Inventory provision	(5)	(174)
	8,894	11,261

For the three and nine months ended September 30, 2012, the cost of inventories recognized as an expense was $12.2 million (2011: $12.1 million) and $39.8 million (2011: $35.1 million) respectively.

The inventory provision decreased $0.2 million (2011: $nil), reflecting the reversal of previous write-downs of inventories to the estimated net realizable value.

6. ACCOUNTS RECEIVABLE

	September 30 2012	December 31 2011
Accounts receivable	4,930	4,205
less provision for doubtful accounts	(7)	(7)
	4,923	4,198

All of the Company's accounts receivable have been reviewed for indicators of impairment. Certain accounts receivable were found to be impaired and an allowance for doubtful accounts of $7,000 (December 31, 2011: $7,000) had been provided.

7. DERIVATIVE FINANCIAL INSTRUMENTS

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

	September 30 2012	December 31 2011
Coffee commodity futures contracts, net	318	138
US Dollar forward contracts	(40)	(18)
Net fair value of derivatives assets	278	120

(Tabular amounts in thousands of Canadian dollars, except per share and number of shares figures) (Unaudited)

8. PLANT AND EQUIPMENT

The carrying amounts for the reported and comparable periods were as follows:

	Machinery and equipment	Leasehold improvements	Computer	Furniture and fixtures	Construction in progress	Total
Cost						
Balance January 1, 2012	27,537	4,840	566	132	74	33,149
Additions	83	3	10	81	145	322
Disposals	(25)	-	(7)	(6)	-	(38)
Transfers	166	-	-	-	(166)	-
Balance September 30, 2012	27,761	4,843	569	207	53	33,433
Depreciation						
Balance January 1, 2012	(16,844)	(1,778)	(488)	(103)	-	(19,213)
Depreciation	(612)	(200)	(26)	(12)	-	(850)
Disposals	24	-	8	6	-	38
Balance September 30, 2012	(17,432)	(1,978)	(506)	(109)	-	(20,025)
Carrying amount September 30, 2012	10,329	2,865	63	98	53	13,408
Cost						
Balance January 1, 2011	27,422	4,832	563	132	126	33,075
Additions	12	-	-	-	411	423
Disposals	(335)	-	(14)	-	-	(349)
Transfers/reclass	438	8	17	-	(463)	-
Balance December 31, 2011	27,537	4,840	566	132	74	33,149
Depreciation						
Balance January 1, 2011	(16,325)	(1,512)	(469)	(94)	-	(18,400)
Depreciation	(793)	(266)	(33)	(9)	-	(1,101)
Disposals	274	-	14	-	-	288
Balance December 31, 2011	(16,844)	(1,778)	(488)	(103)	-	(19,213)
Carrying amount December 31, 2011	10,693	3,062	78	29	74	13,936

For the three and nine months ended September 30, 2012, depreciation expense of $266,000 (2011: $246,000) and $799,000 (2011: $746,000) has been charged to cost of sales respectively. For the same three and nine months period, depreciation expense of $18,000 (2011: $4,000) and $51,000 (2011: $52,000) was included in administrative expenses respectively.

There was no impairment loss recognized for plant and equipment during the nine months ended September 30, 2012 and 2011.

(Tabular amounts in thousands of Canadian dollars, except per share and number of shares figures) (Unaudited)

9. INTANGIBLE ASSETS

	PPT	Brand	Total
Cost			
Balance January 1, 2012	3,246	1,000	4,246
Balance September 30, 2012	3,246	1,000	4,246
Amortization			
Balance January 1, 2012	(480)	(783)	(1,263)
Amortization	(180)	(14)	(194)
Balance September 30, 2012	(660)	(797)	(1,457)
Carrying amount September 30, 2012	2,586	203	2,789
Cost			
Balance January 1, 2011	3,246	1,000	4,246
Balance December 31, 2011	3,246	1,000	4,246
Amortization			
Balance January 1, 2011	(240)	(763)	(1,003)
Amortization	(240)	(20)	(260)
Balance December 31, 2011	(480)	(783)	(1,263)
Carrying amount December 31, 2011	2,766	217	2,983

For the three and nine months ended September 30, 2012, amortization expense of $60,000 (2011: $61,000) and $180,000 (2011: $181,000) relating to the proprietary process technology (“PPT”) has been charged to cost of sales respectively. For the same three and nine months ended September 30, 2012, amortization expense of $5,000 (2011: $4,000) and $14,000 (2011: $14,000) relating to the Brand was included in administrative expenses respectively.

There was no impairment loss recognized for intangibles during the nine months ended September 30, 2012 and 2011.

10. BANK INDEBTEDNESS

	September 30 2012	December 31 2011
Revolving operating line of credit	$ 5,706	$ 6,306
Swing line	885	1,373
Capital expenditure facilities	1,222	1,333
	$ 7,813	$ 9,012

The Company had the following credit facilities as at September 30, 2012:

a. a $14.5 million revolving operating line of credit which bears interest at the bank’s prime lending rate plus 75 basis points;

b. a $1.5 million swing operating line of credit which bears interest at the bank’s prime lending rate plus 75 basis points;

c. a demand instalment loan for capital expenditures which bears interest at the bank’s prime lending rate plus 75 basis points. This loan had an initial balance of $2.0 million, and is being repaid on a straight line basis over 36 months starting on January 31, 2011; and

d. another demand instalment loan to fund capital equipment purchases in 2012 which bears interest at the bank’s prime lending rate plus 75 basis points. This loan had an initial balance of $0.5 million, and is being repaid on a straight line basis over 36 months starting on February 29, 2012.

(Tabular amounts in thousands of Canadian dollars, except per share and number of shares figures) (Unaudited)

Any US dollar ("US$") dominated 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 $4.0 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 24 months.

These facilities are collateralized by a general security agreement over all of the assets of the Company. The Company has certain bank covenants which related to the maintenance of a specified financial ratio.

As at September 30, 2012, the Company was in compliance with its debt covenants.

11. SHARE CAPITAL

Restricted share units ("RSUs")

The movement in RSUs as at September 30, 2012 is as follows:

	Number of RSUs at	Remaining vesting period (years)	Performance based
Balance at December 31, 2011	88,903	-	No
Restricted share units issued	5,311	-	No
Balance at September 30, 2012	94,214	1.96	

The RSUs outstanding increase by the value of dividends paid to shareholders during the vesting period, based on a formula which uses the higher of the then-current share price or $3.20 to calculate the dividend yield.

Deferred share units ("DSU")

On April 2, 2012, the Company issued DSUs to participants who elected to defer part of their compensation (the "Deferred Amount") and receive DSUs. The number of DSUs was determined by dividing the Deferred Amount by the Fair Market Value (as defined in the DSU Plan).

Under the DSU Plan, outstanding DSUs as at the record date are increased by the Dividend Rate whenever dividends are paid to shareholders.

The issuance of DSUs as at September 30, 2012 is as follows:

	Number of DSUs at	Carrying Value	Performance based
Balance at December 31, 2011	-	$ -	No
Deferred share units issued	4,291	$ 12	No
Balance at September 30, 2012	4,291	$ 12	

12. EMPLOYEE BENEFITS EXPENSES

Expenses recognized for employee benefits are detailed below:

	3 Months Ended September 30, 2012	3 Months Ended September 30, 2011	9 Months Ended September 30, 2012	9 Months Ended September 30, 2011
Short-term benefits	1,107	1,119	3,403	3,522
Long-term benefits	19	3	57	3
Post-employment benefits	79	56	322	298
Total employee benefits expenses	1,205	1,178	3,782	3,823

Short term benefits comprise salaries, accrued bonuses, benefits and director fees. Long-term benefits comprise RSU and DSU compensation.

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. For the nine months ended September 30, 2012, the total expense recognized in the statement of income and comprehensive income of $0.3 million (2011: $0.3 million) represented contributions paid to RRSPs, IRAs, CPP and EI by the Company at rates specified in the rules of the plans. As at September 30, 2012, there was $nil (December 31, 2011: $nil) due in respect of the reporting period that had not been paid over to the plans.

(Tabular amounts in thousands of Canadian dollars, except per share and number of shares figures) (Unaudited)

13. 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.

Compensation of Key Management Personnel

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

	3 Months Ended September 30, 2012	3 Months Ended September 30, 2011	9 Months Ended September 30, 2012	9 Months Ended September 30, 2011
Short-term benefits	274	377	864	1,156
Long-term benefits	12	2	47	2
Post-employment benefits	7	-	43	64
Total	293	379	954	1,222

Trading transactions

During the period, the Company entered into the following transactions with companies that are related to directors:

	3 Months Ended September 30, 2012	3 Months Ended September 30, 2011	9 Months Ended September 30, 2012	9 Months Ended September 30, 2011
Sales	231	336	1,027	988
Purchases of raw materials	292	775	1,235	2,588

	September 30 2012	December 31 2011
Amounts owed by related parties	98	21
Amounts owed to related parties	-	247

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.

14. DIVIDENDS

For the three months ended September 30, 2012, the Company declared quarterly eligible dividends to shareholders totaling $0.4 million or $0.0625 per share (2011: $0.4 million).

For the nine months ended September 30, 2012, the Company declared quarterly eligible dividends to shareholders totaling $1.3 million or $0.1875 per share (2011: $1.3 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 continuing operations from external customers and its non-current assets by location are detailed below:

Revenue from External Customers

	3 Months Ended September 30, 2012	3 Months Ended September 30, 2011	9 Months Ended September 30, 2012	9 Months Ended September 30, 2011
Canada	8,253	8,245	25,198	23,656
United States	4,709	4,822	16,635	15,567
Others	1,021	1,016	3,161	3,544
	13,983	14,083	44,994	42,767

Non-Current Assets

	September 30 2012	December 31 2011
Canada	18,641	19,494

(Tabular amounts in thousands of Canadian dollars, except per share and number of shares figures) (Unaudited)

16. BASIC AND DILUTED EARNINGS (LOSS) PER SHARE

	3 Months Ended September 30, 2012	3 Months Ended September 30, 2011	9 Months Ended September 30, 2012	9 Months Ended September 30, 2011
Profit (loss) attributable to shareholders	$ 363	$ (5)	$ 914	$ 343
Weighted average number of shares (basic)	6,675,254	6,675,200	6,675,254	6,675,200
Shares deemed to be issued for no consideration:				
RSUs	93,921	18,243	92,150	6,148
Weighted average number of shares (diluted)	6,769,175	6,693,443	6,767,404	6,681,348
Basic EPS	$ 0.05	$ 0.00	$ 0.14	$ 0.05
Diluted EPS	$ 0.05	$ 0.00	$ 0.14	$ 0.05

17. 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.

(a) 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 commodity futures contracts for coffee on the IntercontinentalExchange in order to offset its inventory position and fix the input cost of green coffee. As at September 30, 2012, the Company had futures contracts to buy 2.7 million lbs of green coffee with a notional value of US$4.6 million, and contracts to sell 4.6 million lbs of green coffee with a notional value of US$8.0 million (December 31, 2011 – buy 2.1 million lbs with a notional value of US$4.7 million, and sell 3.4 million lbs with a notional value of US$7.7 million), with the furthest contract maturing in July 2013. The net notional value of the contracts outstanding at September 30, 2012 was approximately US$3.4 million.

The following table describes the realized and unrealized gain and loss on commodity futures contracts recognized in the statement of income and comprehensive income:

	3 Months Ended September 30, 2012	3 Months Ended September 30, 2011	9 Months Ended September 30, 2012	9 Months Ended September 30, 2011
Realized (gain) loss	$ (137)	$ 625	$ (1,906)	$ 3,483
Unrealized loss (gain)	114	(1,195)	990	(3,366)
	$ (23)	$ (570)	$ (916)	$ 117

At September 30, 2012, the net derivative assets related to these contracts was $0.3 million (December 31, 2011: $0.1 million) and was comprised of cash on account.

The Company estimated a 1 percent change in the mark-to-market rate applied to the futures contracts as at September 30, 2012 would have resulted in an estimated $33,000 change in income before taxes.

(b) Foreign currency risk

The Company realizes a significant portion of its sales in US dollars ("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 primarily 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 September 30, 2012, the Company had forward currency contracts to buy US$12.5 million and sell US$10.7 million (December 31, 2011: buy US$6.8 million and sell US$11.9 million) from October 2012 through to August 2014 at various Canadian exchange rates ranging from $0.9650 to $1.0655. The net notional value of the contracts outstanding at September 30, 2012 was approximately US$1.8 million.

(Tabular amounts in thousands of Canadian dollars, except per share and number of shares figures) (Unaudited)

The following table describes the realized and unrealized gain and loss on forward foreign exchange contracts recognized in the statement of income and comprehensive income:

	3 Months Ended September 30, 2012	3 Months Ended September 30, 2011	9 Months Ended September 30, 2012	9 Months Ended September 30, 2011
Realized (gain) loss	$ 105	$ (140)	$ (16)	$ (802)
Unrealized loss	32	523	23	956
	$ 137	$ 383	$ 7	$ 154

At September 30, 2012, the net derivative liabilities related to these contracts was $41,000 (December 31, 2011: $18,000). The Company estimates a 100 basis point change in the US$ exchange rate relative to the Canadian dollar under forward foreign exchange contracts would have resulted in an estimated $18,000 change in income before taxes.

Although the Company employs economic hedges to manage its currency risk, it is not perfectly hedged. The Company is subject to additional currency risk through the following financial assets and liabilities denominated in US$:

	September 30 2012	December 31 2011
Bank indebtedness	$ (5,871)	$ (7,278)
Accounts receivable	3,103	3,073
Derivative instruments	368	136
Accounts payable and accrued liabilities	(1,054)	(1,309)
Net US dollar exposure	$ (3,454)	$ (5,378)

At September 30, 2012, the Company estimated a 100 basis point change in the US$ exchange rate relative to the Canadian dollar in the net US$ exposure would have resulted in an estimated $35,000 change in income before taxes.

(c) Interest rate risk

The Company is exposed to interest rate risk arising from fluctuations in interest rates on its credit facilities as rates vary with prime and LIBOR. The Company monitors its exposure to interest rates and has not entered into any derivatives contracts to manage this risk. The weighted average interest rate paid by the Company during the period ended September 30, 2012 on its outstanding borrowings was 2.81% (2011: 3.48%). The Company estimated that a 100 basis point fluctuation in interest rates would have resulted in an estimated $66,000 change in the interest expense.

(d) Credit risk

The Company is exposed to credit risk with respect to its cash, accounts receivable and derivative financial instruments.

The Company does not have significant credit risk related to cash as amounts are held with a major Canadian bank.

The Company follows a program of credit evaluations of customers and limits the amount of credit extended when deemed necessary. For the nine months ended September 30, 2012, revenues from three major customers of $21.7 million (2011: $18.4 million) represented 48% (2011: 43%) of total revenues for the period. These customers represented 35% of total accounts receivable as at September 30, 2012 (September 30, 2011: 29%; December 31, 2011: 9%).

The Company had 18% of its accounts receivable past due as at September 30, 2012 (December 31, 2011: 24%). Of the accounts receivable past due, 95% are 1-30 days past due, 4% are 31-60 days past due, and 1% are over 60 days past due.

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

(e) 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 and its existing bank indebtedness.

(Tabular amounts in thousands of Canadian dollars, except per share and number of shares figures) (Unaudited)

18. COMMITMENTS

(a) Operating lease commitments

The Company has two operating leases for the business. The first relates to the offices and production facilities under a non-cancellable operating lease agreement. The current lease term on these facilities expires in 2013 (see Note 19), and can be renewed at the Company's option for two additional 5-year terms. Beyond 2023, the lease can be renewed at the option of the landlord for one additional 5-year term.

The other operating lease relates to a warehouse facility. This lease commenced on February 1, 2012 and expires on December 30, 2015.

A summary of future minimum payments under these operating leases as at September 30, 2012 is as follows:

Minimum lease payment due:	
No later than 1 year	484
Later than 1 year and no later than 5 years	715
Later than 5 years	-
	1,199

(b) Other commitments

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

The Company had, in the normal course of business, entered into various contracts. As at September 30, 2012, these contracts related to the purchase of green coffee in the amount of $26.3 million. Of these contracts, $25.4 million will become payable within 12 months, and $0.9 million will become payable more than 12 months from the financial statements date.

19. SUBSEQUENT EVENTS

The condensed consolidated interim financial statements for the three and nine months ended September 30, 2012 were approved for issuance on November 7, 2012. There were no significant non-adjusting events that occurred between the reporting date and the date of authorization other than as noted below.

On October 15, 2012, the Company paid an eligible dividend in the amount of $0.4 million ($0.0625 per share) to shareholders of record on September 28, 2012.

In October 2012, the Company exercised the second right of renewal of the lease on the offices and production facilities in accordance with the operating lease agreement. Such renewal will extend the lease until 2018.

Head Office

3131 Lake City Way
Burnaby, British Columbia V5A 3A3

www.tenpeakscoffee.ca

Investor Relations

Sherry Tryssenaar
Telephone: 604-444-8780

sherry.tryssenaar@tenpeakscoffee.ca

Auditors

Deloitte & Touche LLP
Vancouver, British Columbia

Shares Listed

Toronto Stock Exchange
Trading symbol: TPK

Registrar and Transfer Agent

Computershare Investor Services Inc.

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