



**PEEKABOO BEANS INC.
(FORMERLY NORTH GROUP FINANCE LIMITED)**

**CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED
SEPTEMBER 30, 2016 AND 2015**



DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Peekaboo Beans Inc. (formerly North Group Finance Limited),

We have audited the accompanying consolidated financial statements of Peekaboo Beans Inc. (formerly North Group Finance Limited), which comprise the consolidated statements of financial position as at September 30, 2016 and 2015, and the consolidated statements of comprehensive loss, changes in equity (deficit) and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Peekaboo Beans Inc. as at September 30, 2016 and 2015 and its financial performance and its cash flows for the years the ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without modifying our opinion, we draw attention to Note 1 in the consolidated financial statements which describe matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about Peekaboo Beans Inc.'s ability to continue as a going concern.

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

Vancouver, Canada
January 30, 2017

PEEKABOO BEANS INC. (FORMERLY NORTH GROUP FINANCE LIMITED)
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian dollars)

	Note	September 30,	
		2016	2015
ASSETS			
Current assets			
Cash.....		\$ 160,835	\$ -
Trade receivables.....		4,386	6,062
Apparel production deposits.....	6	321,670	220,282
Prepaid expense.....		94,174	-
Inventories.....	6	1,024,355	1,194,089
Total current assets		1,605,420	1,420,433
Non-current assets			
Software and equipment.....	15	8,287	12,860
Total assets		\$ 1,613,707	\$ 1,433,293
LIABILITIES AND DEFICIENCY			
Current liabilities			
Bank overdraft.....		\$ -	\$ 10,845
Trade payables and accrued liabilities.....	16	775,121	586,354
Commissions payable.....	8	116,714	140,057
Current portion of bank debt.....	17	18,430	47,340
Loans.....	17	622,866	303,000
Total current liabilities		1,533,131	1,087,596
Non-current liabilities			
Long-term debt.....	17	591,237	39,470
Loans.....	17	251,758	434,708
Total liabilities		2,376,126	1,561,774
Deficiency			
Share capital.....	18	6,578,386	3,818,628
Commitment to issue shares.....	18	-	1,000,335
Subscriptions receivable.....	18	-	(5,000)
Reserves.....	18	1,379,968	1,225,520
Deficit.....		(8,720,773)	(6,167,964)
Total deficiency		(762,419)	(128,481)
Total liabilities and deficiency		\$ 1,613,707	\$ 1,433,293

Note 1, "Nature of Operations and Going Concern"
 Note 22, "Commitments and Contingencies".
 Note 25, "Events Subsequent to the Reporting Date".

On behalf of the Board of Directors of Peekaboo Beans Inc. on the 30th day of January, 2017.

/s/ Traci Costa

/s/ Darrell Kopke

Ms. Traci Costa, CEO and Director

Mr. Darrell Kopke, Director

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

PEEKABOO BEANS INC. (FORMERLY NORTH GROUP FINANCE LIMITED)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(Expressed in Canadian dollars)

	Note	Year Ended September 30,	
		2016	2015
Sales		\$ 3,540,449	\$ 3,469,867
Cost of sales	7, 8	3,086,267	2,806,865
Gross profit		454,182	663,002
Stylist training, recruitment and marketing	9	315,529	199,718
Administrative	11	244,270	438,407
Distribution and information technology	12	161,738	125,679
Governance, restructuring and public company costs	14	139,801	117,086
Executive and employee stock-based compensation.....	10	-	371,546
Executive and employee salary compensation.....	10	750,248	878,767
Operating loss		(1,157,404)	(1,468,201)
Finance expense.....	13	(110,752)	(1,216,549)
Listing costs.....	5	(1,268,042)	-
Other expense		(16,612)	(9,740)
Net loss and comprehensive loss for the year		\$ (2,552,809)	\$ (2,694,490)
Basic and diluted loss per common share		\$ (0.66)	\$ (1.04)
Weighted average number of common shares outstanding		3,855,072	2,599,337

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

PEEKABOO BEANS INC. (FORMERLY NORTH GROUP FINANCE LIMITED)
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (DEFICIT)
(Expressed in Canadian dollars)

	Note	Share Capital		Obligation To Issue Shares	Share Subscriptions Receivable	Reserves	Deficit	Total
		Number	Amount					
At September 30, 2014		2,560,688	\$ 2,390,731	\$ -	\$ -	\$ 974,239	\$ (3,473,474)	\$ (108,505)
Issuance of shares pursuant to private placement	18	285,495	311,637	-	-	-	-	311,637
Stock-based compensation	18	-	-	-	-	371,546	-	371,546
Exercise of stock options.....	18	75,000	18,750	-	(5,000)	-	-	13,750
Transfer from reserves on exercise of options		-	120,265	-	-	(120,265)	-	-
Shares issued pursuant to settlement of amounts due to shareholders	17, 18	220,674	231,708	-	-	-	-	231,708
Shares issued pursuant to settlement of notes payable	17, 18	710,028	745,529	-	-	-	-	745,529
Escrow shares to be issued	18	-	-	1,000,335	-	-	-	1,000,335
Net loss		-	-	-	-	-	(2,694,490)	(2,694,490)
At September 30, 2015		3,851,885	3,818,620	1,000,335	(5,000)	1,225,520	(6,167,964)	(128,489)
Cash received for shares previously issued		-	-	-	5,000	-	-	5,000
Obligation to issue shares now issued.....	18	952,700	1,000,335	(1,000,335)	-	-	-	-
Issuance of shares pursuant to unit offering	18	1,000,447	900,402	-	-	150,067	-	1,050,469
Share issue costs and warrants	18	-	(21,524)	-	-	4,381	-	(17,143)
Recapitalization transaction:								
Shares of North Group	5	978,391	880,553	-	-	-	-	880,553
Reversal of shares of PBI.....		(5,805,032)	-	-	-	-	-	-
Shares issued on reverse takeover.....	5	5,805,032	-	-	-	-	-	-
Net loss.....		-	-	-	-	-	(2,552,809)	(2,552,809)
At September 30, 2016		6,783,423	\$ 6,578,386	\$ -	\$ -	\$ 1,379,968	\$ (8,720,773)	\$ (762,419)

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

PEEKABOO BEANS INC. (FORMERLY NORTH GROUP FINANCE LIMITED)

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Expressed in Canadian dollars)

	Year Ended September 30,	
	2016	2015
Operating Activities		
Net loss for the year	\$ (2,552,809)	\$ (2,694,490)
Adjustments for:		
Net cash acquired on reverse takeover	9,474	-
Stock-based compensation	-	371,546
Common shares issued for consulting	-	12,500
Financing fee issued in escrow shares	-	1,000,335
Accrued interest expense	11,923	122,885
Amortization	4,573	7,373
Non-cash listing costs	880,553	-
Changes in non-cash working capital items:		
Trade receivables	1,676	3,289
Inventories	169,734	(585,114)
Apparel production deposits	(101,388)	229,173
Prepaid expenses	(94,174)	-
Trade payables and accrued liabilities	61,106	447,459
Cash used in operating activities	<u>(1,609,332)</u>	<u>(1,085,044)</u>
Investing Activities		
Purchase of equipment	-	(9,579)
Cash used in investing activities	<u>-</u>	<u>(9,579)</u>
Financing Activities		
Repayment of bank debt	(44,940)	(47,340)
Loan payable	787,626	300,000
Short-term loan	-	293,000
Shareholder loans	-	154,821
Private placements of common shares, net of issuance costs	1,038,326	325,386
Cash from financing activities	<u>1,781,012</u>	<u>1,025,867</u>
Change in cash during the year	171,680	(68,756)
Cash (bank overdraft), beginning of year	(10,845)	57,911
Cash (bank overdraft), end of year	<u>\$ 160,835</u>	<u>\$ (10,845)</u>
 <u>Other supplemental cash flow information:</u>		
Interest paid	\$ 26,886	\$ 23,190
Income taxes paid	\$ -	\$ -
 <u>Other non-cash transactions:</u>		
Shares issued for settlement of debt	\$ -	\$ 231,708
Shares issued for settlement of notes payable	\$ -	\$ 745,529

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

PEEKABOO BEANS INC.
(FORMERLY NORTH GROUP FINANCE LIMITED)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2016 AND 2015
(Expressed in Canadian dollars)

1. NATURE OF OPERATIONS AND GOING CONCERN

Peekaboo Beans Inc. designs children playwear apparel which is sold through a direct-sales network of independent sales representatives, referred to as “Stylists”. Stylists encourage mothers to host sales parties or “Soirees” in their homes to demonstrate and sell the playwear apparel.

Peekaboo Beans Inc. (formerly North Group Finance Limited (“North Group”)) is incorporated in the Province of British Columbia, Canada, and has its head office is located at Unit 610, 13211 Delf Place Richmond, British Columbia, V6V 2A2. The Company was originally incorporated under the Business Corporations Act of the Province of Alberta and was continued under the Canada Business Corporations Act on July 8, 2002. On December 21, 2005, the Company was continued to the jurisdiction of the Province of British Columbia.

On September 23, 2016, the Company completed its reverse takeover transaction (“RTO”) transaction with Peekaboo Beans Inc. (“PBI”) whereby PBI could list its shares on the TSXV. In connection with the RTO, North Group Finance Limited changed its name to Peekaboo Beans Inc.; made changes to its board of directors and executive officers; wound up its wholly-owned subsidiary, 0719906 B.C. Ltd. and implemented a stock option plan. These consolidated financial statements present the historical financial information of PBI up to the date of the RTO and the consolidated financial information thereafter. Peekaboo Beans Inc. and its wholly-owned subsidiary are referred to as the “Company” or “Peekaboo Beans” (Note 5).

To date, the Company has incurred losses and further losses are anticipated as the Company further develops its business. The continuing operations of the Company are dependent upon its ability to generate profitable operations in the future, and to continue to secure additional financing. There can be no assurance that the Company will be successful in its efforts to raise additional financing or if financing is available, that it will be on terms that are acceptable to the Company. These events and conditions indicate the existence of a material uncertainty that may cast significant doubt about the Company’s ability to continue as a going concern.

The Company’s common shares are listed for trading on the TSX Venture Exchange (TSXV”) in Canada under the trading symbol, “BEAN”.

2. BASIS OF PRESENTATION

(a) Statement of Compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”).

The Company’s board of directors approved the release of these financial statements on January 30, 2017.

(b) Basis of measurement

These financial statements have been prepared on a historical cost basis, except for certain financial instruments, which are measured at fair value, as explained in the significant accounting policies set out in Note 3. The financial statements are presented in Canadian dollars and all financial amounts, other than per-share amounts, are rounded to the nearest dollar. The functional currency of the Company is the Canadian dollar.

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Company’s accounting policies. The areas involving a higher degree of judgment or complexity, or

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areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all years presented in these financial statements unless otherwise indicated.

(a) Basis of Consolidation

The following entities have been consolidated within these financial statements:

Entity	Registered	Holding
Peekaboo Beans Inc. (Formerly North Group Finance Limited)	BC, Canada	Parent
Peekaboo Beans (Canada) Corp	BC, Canada	100% owned

The subsidiary is controlled by the Company. Control exists when the Company is exposed, or has rights, to the variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements.

(b) Foreign Currency Transactions

The functional currency is measured using the currency of the primary economic environment in which that entity operates. The financial statements are presented in Canadian dollars which is the functional currency of the Company and its subsidiary.

Transactions and balances:

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the period-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items or on settlement of monetary items are recognized in profit or loss in the statement of comprehensive loss in the period in which they arise, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognized in other comprehensive income in the statement of comprehensive loss to the extent that gains and losses arising on those non-monetary items are also recognized in other comprehensive income. Where the non-monetary gain or loss is recognized in profit or loss, the exchange component is also recognized in profit or loss.

(c) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions and other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and subject to an insignificant risk of change in value. For cash flow statement presentation purposes, cash and cash equivalents includes bank overdrafts. Bank

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overdrafts that are repayable on demand and form an integral part of the Company's cash. The Company had no cash equivalents as at September 30, 2016 and 2015.

(d) Inventory

Children playwear apparel inventory are categorized by four seasonal product lines sold through catalogues and include:

- i) Fundamentals Collections: Includes year-round children playwear apparel that is consistently ordered by Stylists.
- ii) Stylist Business Supplies: Includes material sold to Stylists to operate their business, such as promotional material, business tools and office supplies.
- iii) Inventory Reserves: Includes factory extras and past seasonal stock.

Finished goods are valued at the lower of average cost, which is net of vendor rebates, and net realizable value. Net realizable value is the estimated selling price of inventory in the ordinary course of business, less any estimated selling costs. Cost of inventory includes expenditures in acquiring the inventories, production costs and other cost incurred in bringing them to their existing location. Provision is made for obsolete, slow-moving or defective items, where appropriate.

(e) Sales revenue recognition and other income

Revenue represents sales of children playwear apparel and catalogues. Sales of children playwear apparel and catalogues, net of returns, is recognized when the significant risks and rewards of ownership of the goods have passed to the customer, usually on delivery of the goods.

(f) Cost of sales

Cost of sales includes cost of goods or the manufacturing costs of children playwear apparel and other costs incurred in bringing them to their existing location and Stylists' sales commission.

(g) Software and equipment

Software and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses. Equipment is stated at historical cost less accumulated amortization and accumulated impairment losses.

Amortization is calculated on a declining balance method to write off the cost of the assets to their residual values over their estimated useful lives. The amortization rates applicable to each category of equipment is as follows:

Class	Amortization rate
Computer software	50%
Computer hardware	30%

(h) Stock-based compensation

Share options granted by the Company allows Executive Officers, Managers and Employees to acquire shares of the Company. Share-based payments to Employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The corresponding amount is recorded to the option reserve. The fair value of options is determined using the Black-Scholes Option Pricing Model. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

PEEKABOO BEANS INC. (FORMERLY NORTH GROUP FINANCE LIMITED)
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3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(i) Financial instruments

Financial assets and liabilities are classified into one of five categories: fair value through profit and loss (“FVTPL”), held-to-maturity, loans and receivables, available-for-sale (“AFS”) financial assets or financial liabilities at amortized cost. All financial instruments, including derivatives, are measured at the statement of financial position date at fair value except for loans and receivables, held-to-maturity investments and financial liabilities, which are measured at amortized cost. The Company has made the following classifications:

- Cash and trade receivables are classified as “Loans and Receivables”. After their initial fair value measurement, they are measured at amortized cost using the effective interest rate method.
- Trade payables, commissions’ payable, loans and bank debt are classified as “Other Financial Liabilities”. After their initial fair value measurement, they are measured at amortized cost using the effective interest rate method.

At each reporting date, the Company assesses whether there is objective evidence that a financial asset has been impaired. In the case of available-for-sale financial instruments, a significant and prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen.

The Company does not have any derivative financial assets and liabilities.

(j) Loss per share

Basic loss per share is calculated using the weighted average number of shares outstanding during the period. The diluted earnings per share are calculated by adjusting the weighted average number of shares outstanding to include additional shares issued from the assumed exercise of stock options and warrants, if dilutive. The number of additional shares is calculated by assuming that the proceeds from such exercises are used to purchase common shares at the average market price for the period.

(k) Taxation

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date, in the countries where the Company operates and generates taxable income.

Current income tax relating to items recognized directly in other comprehensive income or equity is recognized in other comprehensive income or equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax

Deferred income tax is recognized, using the asset and liability method, on temporary differences at the reporting date arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and recognized only to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

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3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(k) Taxation (cont'd)

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

(l) New Standards, Interpretations And Amendments Issued But Not Yet Effective

Certain pronouncements, issued by the IASB or the IFRIC, were adopted during the year, or are mandatory for the Company's fiscal years beginning on or after October 1, 2016 or are required to be adopted in future periods. The following pronouncements are relevant to the financial statements, although none of these are expected to have a material effect on financial statement presentation:

- (i) IFRS 9, "Financial Instruments: Recognition and Measurement" replaces the requirements of IAS39, "Financial Instruments: Recognition and Measurement". This final version of IFRS 9 brings together the classification and measurements as well as impairment and hedge accounting phases of the project to replace IAS 39. In addition to the new requirements for classification and measurement of financial assets, a new general hedge accounting model and other amendments issued in previous versions of IFRS 9, the standard also introduces new impairment requirements that are based on a forward-looking expected credit loss model. These changes are applicable for annual periods beginning on or after January 1, 2018. The Company has not yet assessed the future impact of this new standard on its financial statements.
- (ii) IFRS 15, "Revenue from contracts with customers" replaces the requirements of IAS 11, "Construction Contracts", and IAS 18, "Revenue and related interpretations". This standard specifies the steps and timing for issuers to recognize revenue as well as requiring them to provide more informative, relevant disclosures. These changes are applicable for annual periods beginning on or after January 1, 2017, with earlier application permitted. The standard is effective for the Company's fiscal year beginning October 1, 2017.
- (iii) IFRS 16 "Leases" replaces IAS 17 "Leases" and the related interpretative guidance. IFRS 16 applies a control model to the identification of leases, distinguishing between a lease and a service contract on the basis of whether the customer controls the asset being leased. For those assets determined to meet the definition of a lease, IFRS 16 introduces significant changes to the accounting by lessees, introducing a single, on-balance sheet accounting model that is similar to current finance lease accounting, with limited exceptions for short-term leases or leases of low value assets. Lessor accounting is not substantially changed. The standard is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted for entities that have adopted IFRS 15.

There are no other pending IFRSs or IFRIC interpretations that are expected to be relevant to the Company's financial statements.

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4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

In preparing these financial statements, the Company makes estimates and assumptions concerning the future that affect the amounts recorded. Actual results could differ from these estimates. Estimates and assumptions are based on historical experience, expectations of future events and other factors considered by management to be reasonable. The estimates and assumptions that could result in a material impact to the carrying amounts of assets and liabilities are outlined below:

Use of Estimates

(a) Inventory Valuation

The Company records a write-down to reflect management's best estimate of the net realizable value of inventory which includes assumptions and estimates for future sell-through of units, selling prices as well as disposal costs, where appropriate, based on historical experience. Management continually reviews the carrying value of its inventory, to assess whether the write-down is adequate, based on current economic conditions and an assessment of sales trends.

(b) Stock-based compensation

The Company measures the cost of equity-settled transactions with employees and consultants by reference to the fair value of equity instruments at the date on which they are granted. Estimating fair value for share-based payments requires determining the most appropriate valuation model for a grant of equity instruments, which is dependent on the terms and conditions of the grant. This also requires determining the most appropriate inputs to the valuation model including the assumptions with respect to the expected life of the option, volatility and dividend yield.

Use of Judgments

The preparation of financial statements in accordance with IFRS requires the Company to make judgments, apart from those involving estimates, in applying accounting policies. The most significant judgments applying to the Company's financial statements include the assessment of the Company's going concern and expected life of equipment.

5. REVERSE TAKEOVER

On September 23, 2016, North Group issued 5,805,032 of its common shares for the acquisition of 100% of the 5,805,032 issued and outstanding common shares of PBI (Note 1). As a result of the RTO, the shareholders of PBI acquired control of the resulting consolidated group. Therefore, the transaction was accounted for as PBI being the acquirer and North Group being the acquiree. Under this basis of accounting, the consolidated group is considered to be a continuation of PBI, with the net identifiable assets of North Group deemed to have been acquired at fair value by PBI.

The fair value of the consideration paid by PBI for the acquisition of North Group was determined based on the fair value of the 978,391 shares of the consolidated entity that was held by the existing shareholders of North Group on completion of the RTO. The fair value of these shares was determined to be \$0.90 per share for total consideration of \$880,553. The consideration paid was first allocated to the fair value of the identifiable assets and liabilities of North Group. Because North Group did not meet the definition of a business as defined by IFRS 3, the excess was recorded as an expense in the statement of comprehensive loss and attributed to the cost of listing the Company's shares on the TSXV.

The Company also incurred \$285,296 in legal and \$54,250 in accounting and audit-related costs in conjunction with the reverse takeover transaction, which have been included in the listing costs in the consolidated statement of comprehensive loss for the year ended September 30, 2016.

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5. REVERSE TAKEOVER (cont'd)

Fair value of North Group shares issued for RTO (at 0.90 per share)	\$ 880,553
Net assets of North Group acquired:	
Cash.....	9,747
Payables.....	(159,303)
Debt.....	(567,797)
Intercompany advances.....	669,408
Excess of fair value of consideration paid over net assets acquired	(47,943)
Listing cost on RTO	928,496
Other listing costs	339,546
Total listing costs	\$ 1,268,042

6. APPAREL PRODUCTION DEPOSITS AND INVENTORIES

Seasonal	Apparel production deposits		Inventories	
	2016	2015	2016	2015
Spring / Summer 2017.....	\$ 50,000	\$ -	\$ -	\$ -
Winter, 2016.....	271,670	-	-	-
Fall, 2016.....	-	-	402,361	-
Spring / Summer 2016.....	-	220,282	399,063	-
Winter, 2015.....	-	-	4,982	209,582
Fall, 2015.....	-	-	136,130	601,918
Summer, 2015.....	-	-	-	52,455
Spring, 2015.....	-	-	-	82,310
Winter, 2014.....	-	-	-	4,775
Fall, 2014.....	-	-	-	24,039
Summer, 2014.....	-	-	-	2,685
Spring, 2014.....	-	-	-	1,867
Total Seasonal.....	321,670	220,282	942,536	979,631
Fundamental Collection.....	-	-	54,935	161,816
Stylist Business Supplies.....	-	-	-	44,971
Other.....	-	-	26,884	7,671
Total.....	\$ 321,670	\$ 220,282	\$ 1,024,355	\$ 1,194,089

7. COST OF GOODS

For the years ended September 30, 2016 and 2015, cost of goods sold were \$2,231,163 and \$2,023,877 respectively, excluding Stylist commissions. Inventory costs included in cost of goods sold were \$1,978,982 (2015 - \$1,828,456).

The Company's contract manufacturers are located in the People's Republic of China ("China") and conduct business transactions in United States dollars (USD).

8. STYLISTS COMMISSIONS

Stylists receive commissions on their sales depending on their compensation rank. Stylists also earn down line commissions for each sponsored active recruit. During the year ended September 30, 2016, Stylists sold apparel and earned commissions of \$855,104 (2015 - \$782,988), recorded in cost of sales.

The Company accrues sales commissions that are payable to its Stylists when they elect not to have their sales commissions paid by cash immediately and choose to apply outstanding commissions owed against future apparel purchases. As at September 30, 2016, commissions earned but unpaid totalled \$116,714 (2015 - \$140,057).

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9. STYLISTS TRAINING, RECRUITMENT AND MARKETING

Various costs are incurred in the training and recruitment of Stylists and are included in the earnings for the period incurred. Soiree hostesses receive product credit and discounts for hosting sales parties. From time to time, direct-sales industry management consultants are engaged and payments are included in the period incurred.

	2016	2015
Training	\$ 121,009	\$ 105,485
Recruitment	49,300	8,299
Marketing	145,220	85,934
	\$ 315,529	\$ 199,718

10. EXECUTIVE AND EMPLOYEE COMPENSATION

	2016	2015
Executive and employee salary compensation		
Executive officer salaries	\$ 89,000	\$ 73,000
Executive manager salaries	66,590	135,339
Employee salaries	594,658	670,428
	\$ 750,248	\$ 878,767

	2016	2015
Executive and employee stock-based compensation		
Executive officer stock-based compensation (Note 18)	\$ -	\$ 101,865
Executive manager stock-based compensation (Note 18)	-	34,087
Employee stock-based compensation (Note 18)	-	235,594
	\$ -	\$ 371,546

11. ADMINISTRATIVE

	2016	2015
Credit card processing	\$ 77,637	\$ 88,482
Consulting	76,357	89,341
Donations	5,946	34,513
Amortization (Note 15)	4,573	7,373
Insurance	9,569	7,963
Office and miscellaneous	44,023	97,999
Professional fees	765	98,700
Research and development	-	1,048
Travel, meals and entertainment	25,400	12,988
	\$ 244,270	\$ 438,407

12. DISTRIBUTION AND INFORMATION TECHNOLOGY

	2016	2015
Rent and utilities	\$ 91,061	\$ 75,307
Information technology	70,677	50,372
	\$ 161,738	\$ 125,679

13. FINANCE EXPENSE

	2016	2015
Interest expense	\$ 110,752	\$ 216,214
Financing fee to be paid in escrow shares (Note 18)	-	1,000,335
	\$ 110,752	\$ 1,216,549

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14. GOVERNANCE, RESTRUCTURING AND PUBLIC COMPANY COSTS

	2016	2015
Legal.....	\$ 45,886	\$ 95,786
Audit and accounting.....	30,632	20,000
Other.....	63,283	1,300
	\$ 139,801	\$ 117,086

15. SOFTWARE AND EQUIPMENT

	Computer Hardware	Computer Software	Total
Cost			
Balance, September 30, 2014.....	\$ 1,031	\$ 36,522	\$ 37,553
Acquisitions.....	3,489	6,090	9,579
Balance, September 30, 2015.....	4,520	42,612	47,132
Acquisitions.....	-	-	-
Balance, September 30, 2016.....	\$ 4,520	\$ 42,612	\$ 47,132

	Computer Hardware	Computer Software	Total
Accumulated Amortization			
Balance, September 30, 2014.....	\$ 1,031	\$ 25,868	\$ 26,899
Amortization.....	523	6,850	7,373
Balance, September 30, 2015.....	1,554	32,718	34,272
Amortization.....	734	3,839	4,573
Balance, September 30, 2016.....	\$ 2,288	\$ 36,557	\$ 38,845

	Computer Hardware	Computer Software	Total
Net Book Value			
As at September 30, 2015.....	\$ 2,966	\$ 9,894	\$ 12,860
As at September 30, 2016.....	\$ 2,232	\$ 6,055	\$ 8,287

16. TRADE AND OTHER PAYABLES

	2016	2015
Trade payables.....	\$ 669,297	\$ 385,607
Accruals.....	8,819	107,522
Other non-trade payables.....	97,005	93,225
	\$ 775,121	\$ 586,354

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17. LOANS

Debt Ranked by Seniority		2016	2015
Current loans:			
Bank debt, current portion.....	(a)	\$ 18,430	\$ 47,340
Short-term loans	(b)	622,866	273,000
Short-term promissory note.....	(c)	-	30,000
		<u>641,296</u>	<u>350,340</u>
Non-current loans:			
Bank debt, non-current portion	(a)	23,440	39,470
Convertible promissory note	(d)	251,758	246,821
Long-term promissory note	(d), (e)	567,797	187,887
		<u>842,995</u>	<u>474,178</u>
		<u>\$1,484,291</u>	<u>\$ 824,518</u>

(a) Bank debt

The Company has outstanding long-term loans from the Business Development Bank of Canada (“BDC Loans”) which bear interest of BDC’s floating base rate plus a variance of 3.1% to 3.5% per year and are due between May 2016 and September 2018.

(b) Short term loans

- i) The Company has a revolving loan of \$273,000 owing to an apparel finance company of which a former Director of the Company was an officer and shareholder. The Company is charged a quarterly finance fee (Note 20).
- ii) The Company had a \$106,581 demand loan from a director of the Company, bearing interest of 12% per annum, due June 30, 2016. The loan currently remains outstanding and the Company is currently negotiating repayment terms.
- iii) The Company owes \$188,292 in the form of an unsecured promissory note bearing interest at 12% per annum which matured on August 31, 2015. During the year ended September 30, 2016, the Company accrued interest of \$21,630 and repaid \$21,121. The promissory note currently remains outstanding and the Company is currently negotiating repayment terms.
- iv) At December 31, 2015, North Group owed \$436,168 to a finance company of which a director of the Company is a director and shareholder. Further advances of \$90,000 were made and interest of \$15,118 during the year ended September 30, 2016. On September 26, 2016, the loan was settled with 285,715 units of PBI already held by North Group, valued at \$300,000, and other securities valued at \$186,293. Subsequent to September 30, 2016, the remaining balance of \$54,993 was repaid.

(c) Short-term promissory note

The Company fully repaid a \$30,000 shareholder loan, which bore no interest, during the year ended September 30, 2016.

(d) Convertible promissory notes

An Executive Manager of the Company owns a \$251,758 convertible promissory note due on December 31, 2017, bearing interest of 8% per annum beginning July 1, 2016 and convertible into 235,068 units of the Company. The Company determined that the carrying value of the debt did not materially differ from the fair market value, and as a result none of the balance was attributed to the conversion option and recorded in equity.

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17. LOANS (cont'd)

During the year ended September 30, 2016, Northpark Limited (a company with a former director in common) advanced \$555,000 under a promissory note for a loan of up to \$700,000. Interest at September 30, 2016 amounted to \$12,797. The loan is due on December 31, 2017, bears interest at 15% per annum and is convertible into units of the Company at \$1.05 per unit. As additional consideration for the loan, Northpark Limited received 480,000 warrants (Note 18). The Company determined that the carrying value of the debt did not materially differ from the fair market value, and as a result none of the balance was attributed to the conversion option and additional warrants. Subsequent to September 30, 2016, Northpark Limited converted \$152,250 of the promissory note into 145,000 units of the Company at a price of \$1.05 per unit. Each unit consists of one common share and one share purchase warrant exercisable at \$1.25 per share for a period of one year.

(e) Promissory notes, converted

At September 30, 2015, the following notes payable were converted into shares and warrants of the Company under the Unit Financing:

	Shares received	Note Payable converted
Director and shareholder promissory note	317,123	\$ 332,979
Investor promissory note	107,191	112,550
RTO promissory note.....	285,714	300,000
Shareholders promissory note	220,674	231,708
	930,702	\$ 977,237

- i) Director and Shareholder promissory note: As at September 30, 2015, a shareholder and a Director of the Company was owed a promissory note balance of \$332,979, and which was converted to 317,123 Units at September 30, 2015.
- ii) Investor promissory note: As at September 30, 2015, an investor was owed a promissory note balance of \$112,550, which was converted to 107,191 shares as at September 30, 2015.
- iii) RTO promissory note: At September 30, 2015, the Company had a demand loan for \$300,000 from North Group prior to the RTO transaction with and which was converted to 285,714 Units. The Chief Executive Officer of the Company personally guaranteed the loan. Subsequent to the year-end and the completion of the RTO, the debt was settled between the Company and its wholly-owned subsidiary.
- iv) Shareholders promissory note: At September 30, 2015, the Company owed \$231,708 to five shareholders of the Company. At September 30, 2015, the balance was converted into 220,674 Units.

18. SHARE CAPITAL

The Company has authorized an unlimited number of common shares and preferred shares without par value. All common shares issued have equal rights to dividends and shareholders are entitled to one vote per share at annual and general meetings of the Company.

As at September 30, 2016, the Company had 6,783,423 common shares issued and outstanding. Details of the issuance of share capital is as follows.

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18. SHARE CAPITAL (cont'd)

(a) Issued and Outstanding

During the year ended September 30, 2016, the Company:

- i) Issued 1,000,447 units for aggregate gross proceeds of \$1,050,469. Each unit is priced at \$1.05 per unit, with each unit consisting of one common share and one share purchase warrant to purchase another share at \$1.25 until September 23, 2017. The Company paid finder's fees in connection with a portion of the Unit Financing, comprised of an aggregate cash fee of \$17,143 (7% of the gross proceeds raised from subscriptions introduced by such finders) and 23,323 Warrants (Note 18(c)).
- ii) Issued 952,700 common shares pursuant to shares held in escrow and recorded as obligation to issue shares during the year ended September 30, 2015.

During the year ended September 30, 2015, the Company:

- i) Issued 12,500 common shares for proceeds of \$25,000 pursuant to non-brokered private placements at \$2.00 per share.
- ii) Issued 272,995 common shares for proceeds of \$286,637 pursuant to non-brokered private placements of the Unit Financing.
- iii) Issued 55,000 common shares for proceeds of \$13,750 pursuant to the exercise of employee stock options, exercisable at \$0.25 per share.
- iv) Issued 220,674 common shares with a fair value of \$231,708, or \$1.05 per Unit, pursuant to settlement of amounts due to shareholders of \$231,708, including \$12,500 for consulting services incurred during the year.
- v) Issued 710,028 common shares with a fair value of \$745,529, or \$1.05 per Unit, pursuant to settlement of notes payable of \$745,529.
- vi) Committed to issue 952,700 shares to be held in escrow shares with a fair value of \$1,000,335, which was recorded as a finance expense (Note 13).

(b) Stock Options

During the year ended September 30, 2016, the Company adopted a stock option plan which conforms to the rules and policies of the TSXV. The stock option plan will be a 10% rolling plan, whereby the total number of common shares that may be reserved for issuance will be 10% of the issued and outstanding shares of the Company at the time of grant, less any shares reserved for issuance pursuant to the grant of stock options under any other share compensation arrangements.

A summary of stock option activity to September 30, 2016 is as follows:

	Stock Options Outstanding	Weighted Average Exercise Price
September 30, 2014	405,000	\$ 1.
Issued	394,000	1.
Exercised	(55,000)	0.
Cancelled	(744,000)	1.
September 30, 2015 and 2016	-	\$

During the year ended September 30, 2016, the Company recognized \$nil in stock-based compensation (2015 - \$371,546) on stock options granted and vested.

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18. SHARE CAPITAL (cont'd)

The weighted average grant-date fair value of options awarded during the year ended September 30, 2015 was \$0.75. The Company used the Black-Scholes Option Pricing Model using the following weighted average assumptions:

	2016	2015
Volatility	-	73.2%
Risk-free interest rate	-	1.60%
Expected life of option	-	4 to 10 years
Dividend yield	-	0%

(c) Warrants

A summary of warrant activity to September 30, 2016 is as follows:

	Warrants Outstanding	Weighted Average Exercise Price
September 30, 2014	725,000	\$ 2.50
Issued	1,203,688	1.25
Cancelled	(725,000)	2.50
September 30, 2015	1,203,688	1.25
Issued	1,503,770	1.25
September 30, 2016	2,707,458	\$ 1.25

During the year ended September 30, 2016, the Company issued 1,000,447 warrants pursuant to the Unit Financing, 23,323 warrants pursuant to finders' fees on the Unit Financing, and 480,000 warrants pursuant to a debt financing agreement (Note 17). The warrants were valued using the Black-Scholes Option Pricing Model using the following weighted average assumptions:

	2016	2015
Volatility	73.2%	-
Risk-free interest rate	1.60%	-
Expected life of option	4 to 10 years	-
Dividend yield	0%	-

The weighted average remaining life on the outstanding warrants at September 30, 2016 is 0.99 years (2015 – 1.98 years).

(d) Escrow shares

During the year ended September 30, 2016, the Company issued 952,700 shares to be held in escrow to an Executive Officer as a fee for personally guaranteeing loans made to the Company. These shares have a par value of \$0.01, and had a fair value of \$1,000,335.

19. LOSS PER SHARE

Diluted loss per share for the years ended September 30, 2016 and 2015 is the same as basic loss per share as the effect of warrants and options would be anti-dilutive.

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20. RELATED PARTY TRANSACTIONS

During the year ended September 30, 2016:

- i) The Company paid its Chief Executive Officer \$89,000 (2015 - \$73,000) in salary and in 2015 incurred \$35,000 as a guarantee fee for providing collateral to another loan.
- ii) The Company paid salaries of \$66,590 (2015 - \$49,477) and interest of \$nil (2015 - \$8,501) on loans from an Executive Manager of the Company. At September 30, 2016, the Executive Manager was owed \$30,362 for unpaid expense reimbursement, and \$251,758 (2015 - \$246,821) under a convertible promissory note (Note 17(d)). During the year ended September 30, 2016, interest of \$4,936 was accrued (2015 - \$8,501).
- iii) An apparel finance company of which a former Director of the Company is a shareholder and officer held a revolving loan of \$273,000 (2015 - \$273,000) (Note 17(b)). During the year ended September 30, 2016, finance fees totalling \$30,006 were incurred on this revolving loan.
- iii) A director of the Company was owed \$100,000 plus \$6,681 in accrued interest under a demand loan, bearing interest at 12% per annum (Note 17(b)).
- iv) The Company incurred a total of \$80,175 in fees to former directors and officers of North Group. At September 30, 2016, \$52,123 is owing to these parties.

21. INCOME TAXES

The reconciliation of income taxes computed at statutory rates to the reported income tax benefit is as follows:

	2016	2015
Net loss before income taxes.....	\$ (2,552,809)	\$ (2,694,492)
Income tax rate	18%	13.50%
Expected income tax benefit	(458,816)	(350,300)
Non-deductible expenses.....	189,271	48,500
Escrow bonus shares	-	130,000
Effect of RTO	(191,993)	-
Change in valuation allowance.....	461,538	171,600
	\$ -	\$ -

The Company recognizes tax benefits on losses or other deductible amounts generated where it is probable the Company will generate taxable income to utilize its deferred tax assets. The Company's unrecognized deductible temporary differences and unused tax losses for which no deferred tax asset is recognized consist of the following amounts:

	2016	2015
Deferred income tax assets:		
Non-capital losses.....	\$ 846,073	\$ 457,300
Net capital losses	71,373	-
Equipment	2,709	3,100
Share issuance costs	1,783	-
Unrecognized deferred income tax assets	(921,938)	(460,400)
	\$ -	\$ -

The Company has available for deduction against future taxable income non-capital losses of approximately \$6,508,000 for Canadian tax purposes. These losses, if not utilized, will expire in 2036.

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22. COMMITMENTS AND CONTINGENCIES

The commercial premises from which the Company carries out its head office and warehouse locations are leased from third parties. This rental contract is classified as operating lease since there is no transfer of risks and rewards inherent to ownership.

The minimum rent payable under non-cancellable operating leases are as follows:

2016	\$	42,000
2017		42,000
	\$	84,000

The Company had no contingent liabilities at September 30, 2016 or 2015.

23. FINANCIAL INSTRUMENTS

The Company is exposed to certain financial risks as listed below. There has been no change in the exposure to risk, nor its objectives, policies and process for managing the risk from the prior year. Disclosures relating to exposure to risks, in particular credit risk, liquidity risk, foreign exchange risk and interest rate risk are provided below.

Credit Risk

Credit risk is the risk of an unexpected loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company's financial instruments that are exposed to concentrations of credit risk are primarily cash. The Company limits its exposure to credit risk with respect to cash by investing available cash with major Canadian chartered banks.

The Company's cash is not subject to any external restrictions.

Liquidity Risk

As at September 30, 2016, the Company had a cash balance of \$160,835 (2015 overdraft- \$10,845) available to settle current liabilities of \$1,533,130 (2015 - \$1,087,604). The Company's liquidity follows a seasonal pattern based on the timing of inventory purchases. In addition, as outlined in Note 17, the Company has a bank debt of \$41,870. The Company expects to finance its inventory purchases and administrative expenditures through cash flows from operations, bank debt, as well as equity financing. The Company expects that its trade and other payables will be discharged within 180 days and its bank debt discharged as contractually agreed and as disclosed in Note 17.

The following table identifies the undiscounted contractual maturities of the Company's financial liabilities as at September 30, 2016:

	Within one year	After one year but not more than five years	After five years	Total
Trade payables and other payables.....	\$ 775,121	\$ -	\$ -	\$ 775,121
Commissions payable.....	116,714	-	-	116,714
Short-term loans	622,896	-	-	622,896
Notes payable	-	819,555	-	819,555
Bank debt.....	18,430	23,440	-	41,870
	\$ 1,533,131	\$ 842,995	\$ -	\$ 2,376,126

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23. FINANCIAL INSTRUMENTS (cont'd)

Market Risk – foreign exchange risk

At September 30, 2016, a majority of the Company's inventory purchases are in US dollars. All of the Company's revenues and future equity raised is expected to be predominantly in Canadian dollars. Accordingly, the US dollar denominated financial assets and liabilities are subject to fluctuations in exchange rates and can have an effect on the Company's reported results. Management has chosen not to hedge its foreign exchange risk.

The Company's foreign exchange risk is primarily limited to currency fluctuations between the Canadian and US dollar. At September 30, 2016, the Company does not have significant financial assets or liabilities denominated in US dollars.

In order to protect itself from the risk of losses should the value of the Canadian dollar decline compared to the foreign currency, the Company may consider using forward contracts to fix the exchange rate of a portion of its expected U.S. dollar requirements. The contracts will be matched with anticipated foreign currency purchases.

Financial instruments that potentially subject the Company to cash flow interest rate risk include financial assets and liabilities with variable interest rates and consist of cash and the credit facility. As at September 30, 2016, cash consisted of cash on hand and balances with banks.

For the year ended September 30, 2016, variable interest expense on the bank debt totalled \$5,765. Assuming that all other variables remain constant, a 100 basis point change in the average interest rate charged during the year would have resulted in an increase or decrease to net earnings (loss) in the amount of \$3,119.

Financial assets and financial liabilities that bear interest at fixed rates are subject to fair value interest rate risk. The Company's bank debt is the only financial liability bearing a fixed interest rate. It is recorded at amortized cost.

Fair Values

At September 30, 2016 and 2015 the Company's financial assets and liabilities approximate fair value due to their short-term to maturity or because they bear interest at market rates.

24. CAPITAL MANAGEMENT

As at September 30, 2016, the Company's capital is composed of interest bearing debt, its loan facility and bank debt, and shareholders' equity. The Company's primary objectives, when managing its capital, are to maintain adequate levels of funding to support the manufacturing operations of the Company and to maintain corporate and administrative functions.

The Company defines capital as bank loans, other long-term debt, and equity, consisting of the issued common shares, stock options and warrants. The capital structure of the Company is managed to provide sufficient funding operating activities. Funds are primarily secured through a combination of equity capital raised by way of private placements, short-term debt and bank debt. There can be no assurances that the Company will be able to continue raising equity capital and bank debt in this manner. The Company invests all capital that is surplus to its immediate needs in short-term, liquid and highly rated financial instruments, such as cash and other short-term deposits, which are all held with major financial institutions.

There were no changes to the Company's approach to capital management during the year ended September 30, 2016.

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25. EVENTS SUBSEQUENT TO THE REPORTING DATE

- i) On October 18, 2016, the Company raised \$102,900 through the issuance of 98,000 units of the Unit Financing priced at \$1.05 per unit. Each unit consists of one common share and one share purchase warrant at \$1.25, expiring September 23, 2017.
- ii) Northpark Limited converted \$152,250 of debt into 145,000 units of the Company at \$1.05 per unit.