



PEEKABOO BEANS INC.

**INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED
JUNE 30, 2017 AND 2016**

(UNAUDITED)

**NOTICE OF NO AUDITOR REVIEW OF
INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

In accordance with National Instrument 51-102, Part 4, subsection 4.3 (3) (a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that an auditor has not reviewed the financial statements. The accompanying unaudited condensed consolidated interim financial statements of the Company have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

PEEKABOO BEANS INC.
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian dollars - unaudited)

ASSETS	Note	June 30, 2017	September 30, 2016
Current assets			
Cash		\$ 528,461	\$ 160,835
Trade receivables		73,508	4,386
Apparel production deposits	4	791,349	321,670
Prepaid expense		354,677	94,174
Inventories	4	844,877	1,024,355
Total current assets		2,592,872	1,605,420
Non-current assets			
Software and equipment	12	12,469	8,287
Total assets		\$ 2,605,341	\$ 1,613,707
 LIABILITIES AND EQUITY (DEFICIENCY)			
Current liabilities			
Trade payables and accrued liabilities	13, 22	\$ 542,042	\$ 775,121
Commissions payable	6	111,584	116,714
Current portion of bank debt	15	20,100	18,430
Loans	15	1,121,190	622,866
Total current liabilities		1,794,916	1,533,131
Non-current liabilities			
Long-term debt	15	5,025	591,237
Loans	15	246,821	251,758
Total liabilities		2,046,762	2,376,126
Shareholders' equity (deficiency)			
Share capital	14	8,821,380	6,578,386
Reserves	14	2,064,314	1,379,968
Deficit		(10,327,115)	(8,720,773)
Total shareholders' equity (deficiency)		558,579	(762,419)
Total liabilities and equity		\$ 2,605,341	\$ 1,613,707

Note 1, "Nature of Operations and Going Concern"
 Note 18, "Commitments and Contingencies"
 Note 22, "Events Subsequent to the Reporting Date"

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

PEEKABOO BEANS INC.
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(Expressed in Canadian dollars - unaudited)

	Note	Three months ended June 30,		Nine months ended June 30,	
		2017	2016	2017	2016
Sales		\$ 976,381	\$ 816,322	\$ 2,496,147	\$ 2,612,285
Cost of sales	5, 6	763,753	723,836	1,977,165	2,332,255
Gross profit		212,628	92,486	518,982	280,030
Stylists training, recruitment and marketing	7	67,433	47,365	164,350	132,930
Administrative	9	80,076	39,704	223,784	195,777
Distribution and information technology	10	35,268	49,493	105,829	106,804
Executive and employee salary compensation	8	229,620	193,727	613,274	546,557
Operating loss		(199,769)	(237,803)	(588,255)	(702,038)
Share-based compensation	14	(323,095)	-	(323,095)	-
Legal, accounting and public company costs	11	(188,181)	(179,570)	(315,739)	(235,907)
Investor relations		(51,770)	-	(198,840)	-
Interest and finance costs		(78,450)	(25,275)	(212,953)	(65,247)
Gain on settlement of accounts payable		51,018	-	51,018	-
Foreign exchange and other expense		(2,038)	89,877	(18,477)	(10,301)
Net loss and comprehensive loss for the period		\$ (792,285)	\$ (352,771)	\$ (1,606,341)	\$ (1,013,493)
Basic and diluted loss per common share		\$ (0.08)	\$ (0.09)	\$ (0.21)	\$ (0.26)
Weighted average number of common shares Outstanding		8,991,962	3,851,885	7,702,123	3,851,885

PEEKABOO BEANS INC.
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (DEFICIT)
(Expressed in Canadian dollars - unaudited)

	Note	Share Capital		Reserves	Obligation to Issue Shares	Share Subscriptions	Deficit	Total
		Number	Amount					
At September 30, 2015		3,851,885	\$ 3,818,628	\$ 1,225,520	\$ 1,000,335	\$ (5,000)	\$ (6,167,964)	\$ (128,481)
Obligation to issue shares		-	-	-	682,992	-	-	682,992
Net loss		-	-	-	-	-	(1,013,493)	(1,013,493)
At June 30, 2016		3,851,885	\$ 3,818,628	\$ 1,225,520	\$ 1,683,327	\$ (5,000)	\$ (7,181,457)	\$ (458,982)
At September 30, 2016		6,783,423	\$ 6,578,386	\$ 1,379,968	\$ -	\$ -	\$ (8,720,773)	\$ (762,419)
Issuance of shares pursuant to private placements	14	3,588,001	2,129,546	67,355	-	-	-	2,196,901
Debt converted	14	645,000	449,100	228,150	-	-	-	677,250
Finders warrants	14	-	(65,746)	65,746	-	-	-	-
Share issuance costs	14	-	(269,906)	-	-	-	-	(269,906)
Shared-based compensation		-	-	323,095	-	-	-	323,095
Net loss		-	-	-	-	-	(1,606,342)	(1,621,342)
At June 30, 2017		11,016,424	\$ 8,821,380	\$ 2,064,314	\$ -	\$ -	\$ (10,327,115)	\$ 543,579

PEEKABOO BEANS INC.
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in Canadian dollars - unaudited)

	Nine months ended June 30,	
	2017	2016
Operating Activities		
Net loss for the period	\$ (1,606,342)	\$ (1,013,493)
Adjustments for:		
Share-based compensation	323,095	-
Gain on settlement of payables	(51,018)	-
Accrued interest in excess of interest paid	633	-
Amortization	4,315	3,520
Changes in non-cash working capital items:		
Trade receivables	(69,122)	1,117
Inventories	179,478	323,707
Apparel production deposits	(469,679)	(16,918)
Prepaid expenses	(260,503)	-
Trade payables and accrued liabilities	(226,539)	146,974
Commissions payable	(5,130)	24,041
Cash used in operating activities	(2,180,812)	(531,052)
Investing Activities		
Purchase of software and equipment	(8,497)	-
Cash used in investing activities	(8,497)	-
Financing Activities		
Loan advances	702,200	280,000
Loan repayments	(116,738)	(74,573)
Shares subscribed	-	682,992
Private placements of common shares, net	1,971,473	-
Cash from financing activities	2,556,935	888,419
Change in cash during the period	367,626	357,367
Cash, beginning of period	160,835	(10,845)
Cash, end of period	\$ 528,461	\$ 346,522

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

PEEKABOO BEANS INC.
NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2017
(Expressed in Canadian dollars - unaudited)

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 “Pop-ups” 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 located at 170 – 11120 Bridgeport Road, Richmond, BC, V6X 1T2. 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”) with Peekaboo Beans Inc. (“PBI”) whereby PBI listed its shares on the TSX Venture Exchange (“TSXV”). 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”.

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 or 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

These unaudited interim condensed consolidated financial statements have been prepared in accordance with IAS 34 – Interim financial reporting (International Accounting Standard) which is in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). These unaudited interim condensed consolidated financial statements follow the same accounting policies and methods of application, and should be read in conjunction with, the audited annual financial statements of the Company for the year ended September 30, 2016. These unaudited interim condensed consolidated financial statements do not include all the information and note disclosures required by IFRS for annual consolidated financial statements and therefore should be read in conjunction with the Company’s audited consolidated financial statements for the year ended September 30, 2016.

There have been no significant changes to the Company’s accounting policies from those disclosed in the audited consolidated financial statements for the year ended September 30, 2016. There have also been no significant changes in judgments or estimates from those disclosed in the audited consolidated financial statements for the year ended September 30, 2016.

The Company’s board of directors approved the release of these financial statements on August 29, 2017.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all years and quarters 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)	British Columbia, Canada	Parent, public holding
Peekaboo Beans (Canada) Inc.	British Columbia, 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) 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.

(c) 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.

(d) 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 are as follows:

Class	Amortization rate
Computer software	50%
Computer hardware	30%

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(e) Stock-based compensation

Share options granted by the Company allow 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.

f) 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

4. APPAREL PRODUCTION DEPOSITS AND INVENTORIES

Seasonal	Apparel Production Deposits		Inventories	
	June 30, 2017	September 30, 2016	June 30, 2017	September 30, 2016
Fall/Winter 2017	\$ 791,349	\$ -	\$ -	\$ -
Spring / Summer 2017	-	50,000	240,772	-
Winter, 2016	-	271,670	81,255	-
Fall, 2016	-	-	194,812	402,362
Spring / Summer 2016	-	-	207,947	399,063
Winter, 2015	-	-	3,043	4,982
Fall, 2015	-	-	77,579	136,130
Total Seasonal	791,349	321,670	805,408	942,537
Fundamental Collection	-	-	3,763	54,935
Stylist Business Supplies	-	-	9,356	-
Inventory Reserves	-	-	26,350	26,883
Total	\$ 791,349	\$ 321,670	\$ 844,877	\$ 1,024,355

5. COST OF GOODS

For the three and nine months ended June 30, 2017, cost of goods were \$560,570 and \$1,434,185 (2016 - \$513,046 and \$1,633,719), respectively, excluding Stylist Commissions.

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

6. 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 three and nine months ended June 30, 2017, Stylists sold apparel and earned commissions of \$203,183 and \$542,980 (2016 - \$210,790 and \$698,536), respectively, recorded in cost of sales.

PEEKABOO BEANS INC.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2017

(Expressed in Canadian dollars - unaudited)

6. STYLISTS COMMISSIONS (cont'd)

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 June 30, 2017 commissions earned but unpaid totalled \$111,584, recorded as commissions payable.

7. 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. Pop-up 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.

	Three months ended June 30,		Nine months ended June 30,	
	2017	2016	2017	2016
Training	\$45,629	\$26,460	\$99,828	\$59,509
Recruitment	2,303	302	3,377	4,359
Marketing	19,501	20,603	61,145	69,062
	\$67,433	\$47,365	\$164,350	\$132,930

8. EXECUTIVE AND EMPLOYEE COMPENSATION

	Three months ended June 30,		Nine months ended June 30,	
	2017	2016	2017	2016
Executive and employee salary compensation				
Executive officer salaries	\$39,130	\$22,250	\$125,592	\$66,750
Executive manager salaries	-	19,630	-	46,980
Employee salaries	190,490	151,847	487,682	432,827
	\$229,620	\$193,727	\$613,274	\$546,557

9. ADMINISTRATIVE

	Three months ended June 30,		Nine months ended June 30,	
	2017	2016	2017	2016
Credit card processing and miscellaneous	\$34,976	\$18,317	\$99,900	\$104,920
Consulting	31,850	14,610	88,178	61,567
Insurance	12,750	2,386	29,638	7,183
Travel, meals and entertainment	500	4,391	6,068	22,107
	\$80,076	\$39,704	\$223,784	\$195,777

10. DISTRIBUTION AND INFORMATION TECHNOLOGY

	Three months ended June 30,		Nine months ended June 31,	
	2017	2016	2017	2016
Rent and utilities	\$22,719	\$15,733	\$65,139	\$48,718
Information technology	12,549	33,760	40,690	58,086
	\$ 35,268	\$49,493	\$105,829	\$106,804

PEEKABOO BEANS INC.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2017

(Expressed in Canadian dollars - unaudited)

11. LEGAL, ACCOUNTING AND PUBLIC COMPANY COSTS

	Three months ended June 30,		Nine months ended June 30,	
	2017	2016	2017	2016
Legal	\$2,637	\$140,775	\$ 39,958	\$ 152,915
Audit and accounting	16,987	19,062	51,057	55,127
Other including listing and transfer agent fees	168,557	19,733	224,724	27,865
	\$188,181	\$179,570	\$315,739	\$235,907

12. SOFTWARE AND EQUIPMENT

	Computer Hardware	Computer Software	Total
Cost			
Balance, September 30, 2016	\$ 4,520	\$ 42,612	\$ 47,132
Acquisitions	527	7,970	8,497
Balance, June 30, 2017	\$ 5,047	\$ 50,582	\$ 55,629
Accumulated Amortization			
Balance, September 30, 2016	\$ 2,288	\$36,557	\$38,845
Amortization	560	3,755	4,315
Balance, June 30, 2017	\$2,848	\$40,312	\$43,160
Net Book Value			
As at September 30, 2016	\$ 2,232	\$6,055	\$8,287
As at June 30, 2017	\$ 2,199	\$ 10,270	\$12,469

13. TRADE AND OTHER PAYABLES

	June 30, 2017	September 30, 2016
Trade payables	\$311,814	\$ 669,297
Accruals	110,796	8,819
Other non-trade payables	119,433	97,005
	\$542,042	\$ 775,121

14. 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.

During the nine months ended June 30, 2017, the Company issued units consisting of one unit priced at \$1.05 per unit and with each unit consisting of one common share and one share purchase warrant at \$1.25, expiring beginning September 23, 2017 to October 17, 2017 (\$1.25 Warrants) (collectively, "\$1.05 Unit").

During the nine months ended June 30, 2017, the Company also issued units consisting of one unit priced at \$0.60 per unit and with each unit consisting of one common share and one half of one share purchase warrant at \$0.80, expiring May 12, 2017 to June 29, 2017 (\$0.80 Warrants) (collectively, "\$0.60 Unit").

PEEKABOO BEANS INC.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2017

(Expressed in Canadian dollars - unaudited)

14. SHARE CAPITAL (cont'd)

All outstanding warrants exercise period of each warrant may be accelerated by the Company if, at any time during the term of the warrant, the volume weighted average price of the Company's common shares on the TSX Venture Exchange is equal to or greater than \$1.55 over a period of 10 consecutive trading days.

As at June 30, 2017, the Company had 11,016,424 common shares outstanding and 3,460,258 \$1.25 Warrants and 1,904,816 \$0.80 Warrants outstanding. Details of the issuance of share capital are as follows:

(a) Issued and Outstanding

During the nine months ended June 30, 2017, the Company:

- i. Issued 98,000 \$1.05 Units for aggregate proceeds of \$102,900. The Company paid finders' fees of \$nil and issued 9,800 \$1.25 warrants for agent's commission. The \$1.25 share purchase warrants were valued at \$19,600 using the residual method. The 9,800 finders' \$1.25 warrants were valued at \$5,030, in connection with the private placement.
- ii. Issued 645,000 \$1.05 Units for the conversion of \$677,250 in debt.
- iii. Issued 2,633,001 \$0.60 Units for aggregate proceeds of \$1,579,801. The Company paid share issuance costs of \$269,906 and issued 111,930 \$0.80 finders' warrants. The \$0.80 share purchase warrants were value at \$26,330 using the residual method. The 159,817 \$0.80 finders' warrants were valued at \$43,351, in connection with the private placement.
- iv. Issued 857,000 \$0.60 Units for aggregate proceeds of \$514,200. The Company issued 47,887 \$0.80 finders' warrants, valued at \$17,365, in connection with the private placement.

(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.

During the period ended June 30, 2017, 855,000 stock options were issued to management, staff and consultants. The options are exercisable into one common share of the Company at an exercise price of \$0.60 until May 12, 2019.

A summary of options activity to June 30, 2017 is as follows:

	Options Outstanding	Weighted Average Exercise Price
September 30, 2016	-	\$-
Issued	855,000	0.60
June 30, 2017	855,000	\$0.60
Exercisable	755,000	

Share-based compensation for the period ended June 30, 2017 was \$323,095 (2016 - \$nil). Options were valued using the Black-Scholes Option Pricing Model with the following weighted average assumptions:

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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14. SHARE CAPITAL (cont'd)

(b) Stock Options (cont'd)

	June 30, 2017	June 30, 2016
Volatility	151.06%	-
Risk-free interest rate	0.69%	-
Expected life of option	2 years	-
Dividend yield	0%	-

(c) Warrants

A summary of warrant activity to June 30, 2017 is as follows:

	Warrants Outstanding	Weighted Average Exercise Price
September 30, 2016	2,707,458	\$ 1.25
Issued	2,657,616	0.93
June 30, 2017	5,365,074	\$ 1.09

At June 30, 2017, the weighted average remaining life of the outstanding warrants is 0.83 years (September 30, 2016 – 0.99 years).

During the period ended June 30, 2017, 169,617 (2016 – nil) finders' warrants were issued and were valued using the Black-Scholes Option Pricing Model with the following weighted average assumptions:

	June 30, 2017	June 30, 2016
Volatility	153.43%	-
Risk-free interest rate	0.78%	-
Expected life of option	1.94 years	-
Dividend yield	0%	-

15. LOANS

Debt Ranked by Seniority	June 30, 2017	September 30, 2016
<u>Current loans:</u>		
Bank debt, current portion (a)	\$ 20,100	\$18,430
Short-term loans (b), (c), (d),(e)	1,121,190	622,866
	<u>1,141,290</u>	<u>641,296</u>
<u>Non-current loans:</u>		
Bank debt, non-current portion (a)	5,025	23,440
Convertible promissory note (f)	246,821	251,758
Long-term promissory note	-	567,797
	<u>251,846</u>	<u>842,995</u>
	<u>\$ 1,393,136</u>	<u>\$ 1,484,291</u>

(a) Bank debt

The Company has outstanding long-term loans from the Business Development Bank of Canada ("BDC") which bear interest at BDC's floating base rate plus a variance of 3.1% to 3.5% per year and are due before September 2018.

PEEKABOO BEANS INC.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2017

(Expressed in Canadian dollars - unaudited)

15. LOANS (cont'd)

(b) Director loan

The Company has an \$116,538 unsecured demand loan from a director of the Company, bearing interest of 12% per annum and due on December 31, 2017. Total interest accrued on the loan during the nine months ended June 30, 2017 was \$9,957 (2016 - \$3,496). The Company has made an application to the TSXV to convert the loan into the \$0.60 Unit financing.

(c) Apparel loans

The Company has an apparel loan of \$273,000 secured by specific apparel inventory and is charged a quarterly finance fee. The Company has made an application to the TSXV to make the apparel loan convertible into the \$0.60 Unit financing.

(d) Venture Capital Demand loan

The Company has a \$542,904 demand loan, bearing interest at 15% per annum with a venture capital company. Total interest accrued on the loan during the nine months ended June 30, 2017 was \$65,214 (2016 - \$nil). The Company has made an application to the TSXV to convert the demand loan into the \$0.60 Unit financing.

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 options or additional warrants received. The \$1.25 Warrants were valued at \$228,150 using the residual method.

(e) Unsecured Promissory note

The Company has an \$188,748 unsecured promissory note bearing interest at 12% per annum, maturing on December 31, 2017. Total interest accrued on the loan during the nine months ended June 30, 2017 is \$17,094 (2016 - \$16,045). The Company has made an application to the TSXV to make the unsecured promissory note convertible into the \$0.60 Unit financing.

(f) Director convertible promissory note

The Company's, Chief Financial Officer owns a \$246,821 unsecured convertible promissory note due on December 31, 2018, bearing interest of 8% per annum and convertible into the \$0.60 Unit financing. Total interest accrued during the nine months ending June 30, 2017 is \$14,809 (2016 - \$4,937).

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.

16. LOSS PER SHARE

Diluted loss per share for the nine months ended June 30, 2017 is the same as basic loss per share as the effect of warrants and options would be anti-dilutive.

17. RELATED PARTY TRANSACTIONS

During the nine months ended June 30, 2017:

- (a) The Company paid its Chief Executive Officer \$66,750 (2016 - \$66,750) and its Chief Financial Officer \$58,842 (2016 - \$nil) in salary (Note 8).
- (b) The Company paid \$270,357 in share-based compensation to officers and directors.

PEEKABOO BEANS INC.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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(Expressed in Canadian dollars - unaudited)

17. RELATED PARTY TRANSACTIONS (cont'd)

- (c) The Company owes its Chief Financial Officer \$246,821 under a convertible promissory note (Note 15). Total interest accrued during the nine months ending June 30, 2017 is \$14,809 (2016 - \$4,937) and total interest paid during the nine months ending June 30, 2017 is \$19,746 (2016 - \$nil).
- (d) A director of the Company is owed \$100,000 plus \$16,538 in accrued interest under a demand loan bearing interest at 12% ((Note 15 (b)(ii)).

18. 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:

2017	\$ 42,000
	<u>\$ 42,000</u>

19. 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 June 30, 2017, the Company had a cash balance of \$250,111 (2016 - \$160,835) available to settle current liabilities of \$1,814,166 (2016 - \$1,533,131). The Company's liquidity follows a seasonal pattern based on the timing of inventory purchases. 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 has an application with the TSXV to convert \$737,185 of loans and trade payables to equity.

The following table identifies the undiscounted contractual maturities of the Company's financial liabilities as at June 30, 2017:

PEEKABOO BEANS INC.**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

JUNE 30, 2017

*(Expressed in Canadian dollars - unaudited)***19. FINANCIAL INSTRUMENTS (cont'd)****Liquidity Risk (cont'd)**

	Within one year	After one but not more than five years	After five years	Total
Trade and other payables	\$ 542,042	\$ -	\$-	542,042
Commissions payable	111,584	-	-	111,584
Short-term loan	1,121,190	-	-	1,121,190
Notes payable	-	246,821	-	246,821
Bank debt	20,100	5,025	-	25,125
	\$1,794,916	\$251,846	\$-	\$2,046,762

Market Risk – foreign exchange risk

At June 30, 2017, 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 June 30, 2017, 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 June 30, 2017, cash consisted of cash on hand and balances with banks.

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 variable interest rate. It is recorded at amortized cost.

Fair Values

At June 30, 2017, and September 30, 2016, 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.

20. CAPITAL MANAGEMENT

As at June 30, 2017, 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.

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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20. CAPITAL MANAGEMENT (cont'd)

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 period ended June 30, 2017.

21. EVENTS SUBSEQUENT TO THE REPORTING DATE

- (a) The Company filed with the TSX Venture Exchange on a shares for debt filing to settle \$737,185 of loans and accounts payable into 1,228,640 units of the \$0.60 Unit financing.