



PEEKABOO BEANS INC.

**INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED
DECEMBER 31, 2016 AND 2015**

(UNAUDITED)

**NOTICE OF NO AUDITOR REVIEW OF
CONSOLIDATED INTERIM 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 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 CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian dollars)
(Unaudited)

ASSETS	Note	December 31, 2016	September 30, 2016
Current assets			
Cash		\$ 115,937	\$ 160,835
Trade receivables		6,354	4,386
Apparel production deposits	3	169,167	321,670
Prepaid expense	3	67,019	94,174
Inventories	3	947,206	1,024,355
Total current assets		1,305,683	1,605,420
Non-current assets			
Software and equipment	11	4,590	8,287
Total assets		\$ 1,310,273	\$ 1,613,707

LIABILITIES AND DEFICIENCY

Current liabilities			
Trade payables and accrued liabilities	12	\$ 734,264	\$ 775,121
Commissions payable	5	141,387	116,714
Current portion of bank debt	14	18,430	18,430
Loans	14	382,805	622,866
Total current liabilities		1,276,886	1,533,131
Non-current liabilities			
Long-term debt	14	686,707	591,237
Loans	14	191,984	251,758
Total liabilities		2,155,577	2,376,126
Deficiency			
Share capital	15	6,831,934	6,578,386
Reserves	15	1,381,570	1,379,968
Deficit		(9,058,808)	(8,720,773)
Total deficiency		(845,304)	(762,419)
Total liabilities and deficiency		\$ 1,310,273	\$ 1,613,707

Note 1, "Nature of Operations and Going Concern"

Note 17, "Commitments and Contingencies"

Note 18, "Events Subsequent to the Reporting Date"

On behalf of the Board of Directors of Peekaboo Beans Inc. on the 1st day of March, 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 unaudited interim consolidated financial statements.

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

	Note	Three months ended December 31,	
		2016	2015
Sales		\$ 861,131	\$ 867,632
Cost of sales	4	711,111	769,878
Gross profit		150,020	97,754
Stylists training, recruitment and marketing	6	77,675	53,478
Administrative	8	86,523	100,093
Distribution and information technology	9	36,014	29,857
Governance, restructuring and public company costs	10	57,036	43,314
Executive and employee salary compensation	7	187,357	159,203
Operating loss		(294,585)	(288,191)
Finance expense		(28,528)	(22,198)
Other expense		(14,922)	(4,849)
Net loss and comprehensive loss for the period		\$ (338,035)	\$ (315,238)
Basic and diluted loss per common share		\$ (0.05)	\$ (0.11)
Weighted average number of common shares outstanding		6,890,108	2,920,865

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

PEEKABOO BEANS INC.
INTERIM CONSOLIDATED STATEMENT OF CHANGES IN DEFICIENCY
(Expressed in Canadian dollars)
(Unaudited)

	Note	Share Capital		Reserves	Obligation to Issue Shares	Share Subscriptions Receivable	Deficit	Total
		Number	Amount					
At September 30, 2015		3,851,885	\$ 3,818,620	\$ 1,225,520	\$ 1,000,335	\$ (5,000)	\$ (6,167,964)	\$ (128,489)
Commitment to issue shares	13	-	-	-	-	398,061	-	398,061
Net loss		-	-	-	-	-	(322,791)	(322,791)
At December 31, 2015		3,851,885	\$ 3,818,620	\$ 1,225,520	\$ 1,000,335	\$ 393,061	\$ (6,490,755)	\$ (53,219)
At September 30, 2016		6,783,426	\$ 6,578,386	\$ 1,379,968	\$ -	\$ -	\$ (8,720,773)	\$ (762,419)
Issuance of shares pursuant to private placement	13	98,000	102,900	-	-	-	-	102,900
Settlement of debt	13	145,000	152,250	-	-	-	-	152,250
Share issue costs on warrants		-	(1,602)	1,602	-	-	-	-
Net loss		-	-	-	-	-	(338,035)	(338,035)
At December 31, 2016		7,026,426	\$ 6,831,934	\$ 1,381,570	\$ -	\$ -	\$ (9,058,808)	\$ (845,304)

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

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

	Three months ended	
	December 31,	
	2016	2015
Operating Activities		
Net loss for the period	\$ (338,035)	\$ (332,791)
Adjustments for:		
Warrants as finders' fees	1,602	-
Accrued interest expense	2,767	5,420
Amortization	3,697	1,472
Changes in non-cash working capital items:		
Trade receivables	(1,968)	5,065
Inventories	77,149	447,156
Apparel production deposits	179,658	(308,406)
Trade payables and accrued liabilities	(40,857)	(378,177)
Commissions payable	24,673	17,089
Cash from (used in) operating activities	91,314	(543,172)
Financing Activities		
Repayment of loans	(54,882)	(11,835)
Loans payable	-	(19,770)
Loans received	-	317,500
Shares subscribed	-	398,062
Private placements of common shares, net	101,298	-
Cash from financing activities	46,416	683,957
Change in cash during the period	(44,898)	151,144
Cash, beginning of period	160,835	(10,845)
Cash, end of period	\$ 115,937	\$ 140,299

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

PEEKABOO BEANS INC.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED DECEMBER 31, 2016 AND 2015
(Expressed in Canadian dollars)
(Unaudited)

1. NATURE OF OPERATIONS AND GOING CONCERN

Peekaboo Beans Inc. designs children's 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 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") with Peekaboo Beans Inc. ("PBI") whereby PBI listed its shares on the TSX Venture Exchange ("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".

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 in Canada under the trading symbol, "BEAN".

2. BASIS OF PRESENTATION

These unaudited interim 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 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 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.

PEEKABOO BEANS INC.

NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

THREE MONTHS ENDED DECEMBER 31, 2016 AND 2015

(Expressed in Canadian dollars)

3. APPAREL PRODUCTION DEPOSITS AND INVENTORIES

Seasonal	Apparel Production Deposits		Inventories	
	December 31, 2016	September 30, 2016	December 31, 2016	September 30, 2016
Spring / Summer 2017	\$ 169,167	\$ 50,000	\$ -	\$ -
Winter, 2016	-	271,670	143,744	-
Fall, 2016	-	-	256,270	402,362
Spring / Summer 2016	-	-	328,190	399,063
Winter, 2015	-	-	4,375	4,982
Fall, 2015	-	-	116,278	136,130
Total Seasonal	-	321,670	848,857	942,537
Fundamental Collection	-	-	51,789	54,935
Stylist Business Supplies	-	-	17,231	-
Inventory Reserves	-	-	29,329	26,883
Total	\$ 169,167	\$ 321,670	\$ 947,206	\$ 1,024,355

4. COST OF GOODS

For the three months ended December 31, 2016, cost of goods were \$501,931 (2015 - \$524,499) 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).

5. 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 months ended December 31, 2016, Stylists sold apparel and earned commissions of \$209,180 (2015 - \$245,379) 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 December 31, 2016, commissions earned but unpaid totalled \$141,387.

6. 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.

	Three months ended	
	December 31, 2016	2015
Training	\$ 30,611	\$ 15,856
Recruitment	456	15,238
Marketing	46,608	22,384
	\$ 77,675	\$ 53,478

PEEKABOO BEANS INC.
NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED DECEMBER 31, 2016 AND 2015
(Expressed in Canadian dollars)

7. EXECUTIVE AND EMPLOYEE COMPENSATION

	Three months ended December 31,	
	2016	2015
<u>Executive and employee salary compensation</u>		
Executive officer salaries	\$ 22,250	\$ 22,250
Executive manager salaries	16,650	12,650
Employee salaries	148,457	124,303
	\$ 187,357	\$ 159,203

8. ADMINISTRATIVE

	Three months ended December 31,	
	2016	2015
Credit card processing	\$ 24,292	\$ 10,943
Consulting	22,253	25,617
Donations	1,204	1,601
Amortization (Note 11)	3,697	1,471
Insurance	11,522	2,410
Office and miscellaneous	10,404	26,631
Professional fees	11,434	16,935
Research and development	443	-
Travel, meals and entertainment	1,274	14,485
	\$ 86,523	\$ 100,093

9. DISTRIBUTION AND INFORMATION TECHNOLOGY

	Three months ended December 31,	
	2016	2015
Rent and utilities	\$ 17,866	\$ 17,585
Information technology	18,148	12,272
	\$ 36,014	\$ 29,857

10. GOVERNANCE, RESTRUCTURING AND PUBLIC COMPANY COSTS

	Three months ended December 31,	
	2016	2015
Legal	\$ 9,988	\$ 29,462
Audit and accounting	50	5,720
Other	46,998	8,132
	\$ 57,036	\$ 43,314

11. SOFTWARE AND EQUIPMENT

	Computer Hardware	Computer Software	Total
<u>Cost</u>			
Balance, September 30, 2016	\$ 4,520	\$ 42,612	\$ 50,863
Acquisitions	-	-	-
Balance, December 31, 2016	\$ 4,520	\$ 42,612	\$ 50,863

PEEKABOO BEANS INC.
NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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11. SOFTWARE AND EQUIPMENT (continued)

	Computer Hardware	Computer Software	Total
Accumulated Amortization			
Balance, September 30, 2016	\$ 2,288	\$ 36,560	\$ 45,580
Amortization	669	3,028	3,697
Balance, December 31, 2016	\$ 2,958	\$ 39,588	\$ 46,277
Net Book Value			
As at September 30, 2016	\$ 2,232	\$ 6,055	\$ 8,287
As at December 31, 2016	\$ 1,562	\$ 3,028	\$ 4,590

12. TRADE AND OTHER PAYABLES

	December 31, 2016	September 30, 2016
Trade payables	\$ 607,027	\$ 669,297
Accruals	8,818	8,819
Other non-trade payables	118,420	97,005
	\$ 734,265	\$ 775,121

13. 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 2016, the Company raised \$1.1-million through the issuance of units 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 (“\$1.05 Unit Financing”).

As at December 31, 2016, the Company had 7,026,423 common shares issued and outstanding. Details of the issuance of share capital is as follows.

(a) Issued and Outstanding

During the three months ended December 31, 2016, the Company:

- a) Issued 98,000 units of the \$1.05 Unit Financing for aggregate gross proceeds of \$102,900; and
- b) Issued 145,000 units of the \$1.05 Unit Financing for conversion of \$152,250 of debt.

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

- i) Issued 1,000,447 units of the \$1.05 Unit Financing for aggregate gross proceeds of \$1,050,469. The Company paid finder’s fees in connection with a portion of the \$1.05 Unit Financing, comprised of an aggregate cash fee of \$17,143 and 23,323 Warrants.

PEEKABOO BEANS INC.
NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED DECEMBER 31, 2016 AND 2015
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13. SHARE CAPITAL (continued)

- ii) Issued 952,700 common shares pursuant to shares held in escrow and recorded as an obligation to issue shares during the year ended September 30, 2015.

(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.

(c) Warrants

As at December 31, 2016, the Company had 2,960,258 warrants issued and outstanding. A summary of warrant activity to December 31, 2016 is as follows:

	Warrants Outstanding	Weighted Average Exercise Price
September 30, 2016	2,707,458	\$ 1.25
Issued	252,800	1.25
December 31, 2016	2,960,258	\$ 1.25

During the three months ended December 31, 2016, the Company issued 98,000 warrants pursuant to the Unit Financing, 145,000 warrants pursuant to debt settlement, and 9,800 finder's warrants allowing the holder to purchase one common share, exercisable at \$1.25 and expiring one year after issuance.

The finder's warrants were valued using the Black-Scholes Option Pricing Model using the following weighted average assumptions:

	December 31, 2016
Volatility	80%
Risk-free interest rate	1.00%
Expected life of option	1 year
Dividend yield	0%

As at December 31, 2016, the weighted average remaining life on the outstanding warrants is 0.82 years (September 30, 2016 – 0.99 years).

14. LOANS

Debt Ranked by Seniority		December 31, 2016	September 30, 2016
Current loans:			
Bank debt, current portion	(a)	\$ 18,430	\$ 18,430
Short-term loans	(b)	382,805	622,866
		401,235	641,296
Non-current loans:			
Bank debt, non-current portion	(a)	16,745	23,440
Convertible promissory note	(c)	669,962	251,758
Long-term promissory note	(d)	191,984	567,797
		878,691	842,995
		\$ 1,279,926	\$ 1,484,291

PEEKABOO BEANS INC.

NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

THREE MONTHS ENDED DECEMBER 31, 2016 AND 2015

(Expressed in Canadian dollars)

14. LOANS (continued)

(a) Bank debt

The Company has outstanding long-term loans from the Business Development Bank of Canada (“BDC Loans”) which bear interest at 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. The Company is charged a quarterly finance fee (Note 16).
- ii) The Company has a \$109,805 demand loan from a director of the Company, bearing interest of 12% per annum, due June 30, 2016.

(c) Convertible promissory note

- i) An Executive Manager of the Company owns a \$254,525 convertible promissory note due on December 31, 2017, bearing interest of 8% per annum beginning July 1, 2016 and convertible into the \$1.05 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 option and recorded in equity.
- ii) A venture capital finance company is owed \$415,547, due on December 31, 2017, bearing interest at 15% per annum and was convertible into the \$1.05 Unit Financing. As additional consideration for the loan, the venture capital finance company received 480,000 warrants. During the three months ending December 31, 2016, the lender converted \$152,250 of debt into 145,000 units of the \$1.05 Unit Financing and subsequent to the reporting period, converted a further \$210,000 of debt into 200,000 units of the \$1.05 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 option and additional warrants.

(d) Long term promissory note

The Company owes \$191,984 in the form of an unsecured promissory note bearing interest at 12% per annum and matures on December 31, 2017. During the three months ended December 31, 2016, the Company accrued interest of \$3,692.

15. LOSS PER SHARE

Diluted loss per share for the three months ended December 31, 2016, is the same as basic loss per share as the effect of warrants and options would be anti-dilutive.

PEEKABOO BEANS INC.
NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED DECEMBER 31, 2016 AND 2015
(Expressed in Canadian dollars)

16. RELATED PARTY TRANSACTIONS

During the three months ended December 31, 2016, the Company:

- i) Paid its Chief Executive Officer \$22,250 (2015 - \$22,250) in salary.
- ii) Paid \$16,650 in salary and accrued interest of \$2,768 on loans from an Executive Manager (2015 – 12,650) (Note 14).
- iii) A director accrued \$9,805 in interest under a demand loan, bearing interest at 12% per annum (Note 14).

17. 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
	\$	42,000

The Company had no contingent liabilities as at December 31, 2016, or September 30, 2016.

18. EVENTS SUBSEQUENT TO THE REPORTING DATE

- i) In January 2017, \$210,000 of debt was converted into 200,000 units of the \$1.05 Unit Financing (Note 14).
- ii) In January 2017, the Company borrowed \$468,200 from a venture capital finance company. The demand promissory note is unsecured and bears interest at 15% per annum. The Company paid a commitment fee of 3% of the loan amount.