



PEEKABOO BEANS INC.

**INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED
MARCH 31, 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 CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian dollars)
(Unaudited)

ASSETS	Note	March 31, 2017	September 30, 2016
Current assets			
Cash		\$ 31,657	\$ 160,835
Trade receivables		9,376	4,386
Apparel production deposits	3	172,156	321,670
Prepaid expense		48,966	94,174
Inventories	3	1,175,449	1,024,355
Total current assets		1,437,604	1,605,420
Non-current assets			
Software and equipment	11	2,607	8,287
Total assets		\$ 1,440,211	\$ 1,613,707
LIABILITIES AND DEFICIENCY			
Current liabilities			
Trade payables and accrued liabilities	12	\$ 811,370	\$ 775,121
Commissions payable	5	73,401	116,714
Current portion of bank debt	15	18,430	18,430
Loans	15	406,054	622,866
Total current liabilities		1,309,255	1,533,131
Non-current liabilities			
Long-term debt	15	472,678	591,237
Loans	15	454,603	251,758
Total liabilities		2,236,536	2,376,126
Deficiency			
Share capital	14	7,356,934	6,578,386
Shares subscriptions	14	-	-
Reserves	14	1,381,570	1,379,968
Deficit		(9,534,829)	(8,720,773)
Total deficiency		(796,325)	(762,419)
Total liabilities and deficiency		\$ 1,440,211	\$ 1,613,707

Note 1, "Nature of Operations and Going Concern"
Note 18, "Commitments and Contingencies"
Note 19, "Events Subsequent to the Reporting Date"

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 March 31,		Six months ended March 31,	
		2017	2016	2017	2016
Sales		\$ 658,635	\$ 928,311	\$ 1,519,766	\$ 1,795,963
Cost of sales	4, 5	502,301	838,541	1,213,412	1,608,419
Gross profit		156,334	89,770	306,354	187,544
Stylists training, recruitment and marketing	6	19,242	33,155	96,917	85,565
Administrative	8	73,467	91,192	159,990	189,933
Distribution and information technology	9	34,547	27,455	70,561	57,311
Governance and public company costs	10	54,240	9,449	111,276	25,665
Executive and employee salary compensation	7	196,297	193,626	383,654	352,830
Operating loss		(221,459)	(265,107)	(516,044)	(523,760)
Finance expense	11	(253,045)	(17,775)	(281,573)	(39,972)
Other expense		(1,517)	(68,231)	(16,439)	(100,178)
Net loss and comprehensive loss for the period . . .		\$ (476,021)	\$ (351,113)	\$ (814,056)	\$ (663,910)
Basic and diluted loss per common share		\$ (0.07)	\$ (0.12)	\$ (0.12)	\$ (0.23)
Weighted average number of common shares outstanding		7,031,692	2,910,728	7,031,692	2,910,728

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	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	14	-	-	-	-	683,978	-	683,978
Net loss		-	-	-	-	-	(663,910)	(663,910)
At March 31, 2016		3,851,885	\$ 3,818,620	\$ 1,225,520	\$ 1,000,335	\$ 678,978	\$ (6,831,874)	\$ (108,421)
At September 30, 2016		6,783,423	\$ 6,578,386	\$ 1,379,968	\$ -	\$ -	\$ (8,720,773)	\$ (762,419)
Issuance of shares pursuant to private placement	14	98,000	102,900	-	-	-	-	102,900
Settlement of debt	14	645,000	677,250	-	-	-	-	677,250
Share issue costs on warrants		-	(1,602)	1,602	-	-	-	-
Net loss		-	-	-	-	-	(814,056)	(814,056)
At March 31, 2017		7,526,423	\$ 7,356,934	\$ 1,381,570	\$ -	\$ -	\$ (9,534,829)	\$ (796,325)

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)

	Six months ended	
	March 31,	
	2017	2016
Operating Activities		
Net loss for the period	\$ (814,056)	\$ (663,910)
Adjustments for:		
Warrants as finders' fees	1,602	-
Accrued interest & other expenses	72,454	-
Amortization	5,680	2,343
Changes in non-cash working capital items:		
Trade receivables	(4,990)	(20,233)
Inventories	(151,094)	(129,724)
Apparel production deposits	149,514	104,898
Trade payables and accrued liabilities	22,851	(198,223)
Commissions payable	(43,313)	35,769
Prepaid expenses	45,208	
Cash from (used in) operating activities	(716,145)	(869,080)
Financing Activities		
Repayment of loans	-	(23,670)
Escrow funds	-	(274,688)
Loans payable	487,270	(19,770)
Loans received	-	513,841
Shares subscribed	-	683,978
Private placements of common shares, net	99,696	-
Cash from financing activities	586,966	899,461
Change in cash during the period	(129,178)	30,381
Cash, beginning of period	160,835	(10,845)
Cash, end of period	\$ 31,657	\$ 19,536

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

PEEKABOO BEANS INC.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 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 “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 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 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

MARCH 31, 2017

(Expressed in Canadian dollars)

3. APPAREL PRODUCTION DEPOSITS AND INVENTORIES

Seasonal	Apparel Production Deposits		Inventories	
	March 31, 2017	September 30, 2016	March 31, 2017	September 30, 2016
Fall, 2017	\$ 172,156	-	\$ -	\$ -
Spring / Summer 2017	-	\$50,000	482,184	-
Winter, 2016	-	271,670	108,023	-
Fall, 2016	-	-	236,993	402,362
Spring / Summer 2016	-	-	237,401	399,063
Winter, 2015	-	-	3,080	4,982
Fall, 2015	-	-	66,394	136,130
Total Seasonal	172,156	321,670	1,134,075	942,537
Fundamental Collection	-	-	-	54,935
Stylist Business Supplies	-	-	-	-
Inventory Reserves	-	-	41,374	26,883
Total	\$ 172,156	\$ 321,670	\$ 1,175,449	\$ 1,024,355

4. COST OF GOODS

For the three and six months ended March 31, 2017, cost of goods were \$371,684 and \$873,615 (2016 – \$596,174 and \$1,120,673), 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).

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 and six months ended March 31, 2017, Stylists sold apparel and earned commissions of \$130,617 and \$339,797 (2016 - \$242,367 and \$487,746), respectively, 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 March 31, 2017 commissions earned but unpaid totalled \$73,401, recorded as commissions payable.

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 March 31,		Six months ended March 31,	
	2017	2016	2017	2016
Training	\$ 18,624	\$17,193	\$54,199	\$33,049
Recruitment	618	1,665	1,074	4,057
Marketing	-	14,297	41,644	48,459
	\$ 19,242	\$33,155	\$96,917	\$85,565

PEEKABOO BEANS INC.

NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2017

(Expressed in Canadian dollars)

7. EXECUTIVE AND EMPLOYEE COMPENSATION

	Three months ended March 31,		Six months ended March 31,	
	2017	2016	2017	2016
Executive and employee salary compensation				
Executive officer salaries	\$38,900	\$22,250	\$86,462	\$44,500
Executive manager salaries	-	14,870	-	27,350
Employee salaries	157,397	156,506	297,192	280,980
	\$196,297	\$193,626	\$383,654	\$352,830

8. ADMINISTRATIVE

	Three months ended March 31,		Six months ended March 31,	
	2017	2016	2017	2016
Credit card processing	\$ 16,932	\$ 19,998	\$ 41,224	\$ 30,880
Consulting	34,075	21,340	56,328	46,957
Donations	-	1,581	1,204	3,182
Amortization (Note 12)	1,983	871	5,680	2,342
Insurance	5,366	2,386	16,888	4,797
Office and miscellaneous	5,969	28,042	16,816	53,381
Professional fees	4,848	13,743	16,282	30,678
Travel, meals and entertainment	4,294	3,231	5,568	17,716
	\$ 73,467	\$ 91,192	\$ 159,990	\$ 189,933

9. DISTRIBUTION AND INFORMATION TECHNOLOGY

	Three months ended March 31,		Six months ended March 31,	
	2017	2016	2017	2016
Rent and utilities	\$ 24,554	\$ 15,400	\$ 42,420	\$ 32,985
Information technology	9,993	12,054	28,141	24,326
	\$ 34,547	\$ 27,455	\$ 70,561	\$ 57,311

10. GOVERNANCE AND PUBLIC COMPANY COSTS

	Three months ended March 31,		Six months ended March 31,	
	2017	2016	2017	2016
Legal	\$ 22,726	\$ -	\$ 32,724	\$ 2,403
Audit and accounting	22,335	9,449	22,385	15,130
Other	9,179	-	56,167	8,132
	\$ 54,240	\$ 9,449	\$ 111,276	\$ 25,665

11. FINANCE EXPENSE

	Three months ended March 31,		Six months ended March 31,	
	2017	2016	2017	2016
Interest	\$ 106,975	\$ 17,775	\$ 134,503	\$ 39,972
Investor relations	147,070	-	147,070	-
	\$ 254,045	\$ 17,775	\$ 281,573	\$ 39,972

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MARCH 31, 2017
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12. SOFTWARE AND EQUIPMENT

	Computer Hardware	Computer Software	Total
Cost			
Balance, September 30, 2016	\$ 4,520	\$ 42,615	\$ 47,135
Acquisitions	-	-	-
Balance, March 31, 2017	\$ 4,520	\$ 42,615	\$ 47,135
Accumulated Amortization			
Balance, September 30, 2016	\$ 2,288	\$ 36,560	\$ 38,848
Amortization	1,138	4,542	5,680
Balance, March 31, 2017	\$ 3,426	\$ 41,102	\$ 44,528
Net Book Value			
As at September 30, 2016	\$ 2,232	\$ 6,055	\$ 8,287
As at March 31, 2017	\$ 1,094	\$ 1,513	\$ 2,607

13. TRADE AND OTHER PAYABLES

	March 31, 2017	September 30, 2016
Trade payables	\$ 647,856	\$ 265,296
Accruals	3,402	72,959
Other non-trade payables	160,112	49,882
	\$ 811,371	\$ 388,137

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 six months ended March 31, 2017, the Company issued units consisting of one units priced at \$1.05 per unit and with each unit consists of one common share and one share purchase warrant at \$1.25, expiring September 23, 2017 (“\$1.25 Warrants”) (collectively, “\$1.05 Unit”).

Subsequent to March 31, 2017, the Company issued units consisting of one unit priced at \$0.60 per unit and with each unit consists of one common share and one-half of a share purchase warrant at \$0.60, expiring 24 months after issuance (“\$0.60 Warrants”) (collectively, “\$0.60 Unit”).

As at March 31, 2017, the Company had 7,526,423 common shares outstanding. Details of the issuance of share capital is as follows.

(a) Issued and Outstanding

During the six months ended March 31, 2017, the Company:

- (i) Issued 98,000 \$1.05 Unit’s for aggregate gross proceeds of \$102,900. The Company paid finder’s fees of \$nil and issued 9,800 \$1.25 Warrants for agent’s commission.
- (ii) Issued 645,000 \$1.05 Unit’s for the conversion of \$677,250 of debt.

PEEKABOO BEANS INC.
NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2017
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14. SHARE CAPITAL (cont'd)

(a) Issued and Outstanding (cont'd)

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

- (i) Issued 1,000,447 \$1.05 Units for aggregate gross proceeds of \$1,050,469. The Company paid finder's fees of \$17,143 and issued 23,323 \$1.25 Warrants for agent's commission.
- (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.

(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

A summary of warrant activity to March 31, 2017 is as follows:

	Warrants Outstanding	Weighted Average Exercise Price
September 30, 2016	2,707,458	\$ 1.25
Issued	752,800	1.25
March 31, 2017	3,460,258	\$ 1.25

During the six months ended March 31, 2017, the Company issued 98,000 \$1.25 Warrants pursuant to the \$1.05 Unit financing, 645,000 \$1.25 Warrants pursuant to debt settlement, and 9,800 \$1.25 Warrants for finder's fees.

The finder's fee, \$1.25 Warrants, were valued using the Black-Scholes Option Pricing Model using the following weighted average assumptions:

	March 31, 2017
Volatility	80%
Risk-free interest rate	1.00%
Expected life of option	1 year
Dividend yield	0%

As at March 31, 2017, the weighted average remaining life on the outstanding \$1.25 Warrants is 0.55 years (September 30, 2016 – 0.99 years).

PEEKABOO BEANS INC.
NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2017
(Expressed in Canadian dollars)

15. LOANS

Debt Ranked by Seniority		March 31, 2017	September 30, 2016
<u>Current loans:</u>			
Bank debt, current portion	(a)	\$ 18,430	\$ 18,430
Short-term loans	(b)(c)	406,054	622,866
		<u>424,484</u>	<u>641,296</u>
<u>Non-current loans:</u>			
Bank debt, non-current portion	(a)	10,045	23,440
Convertible promissory note	(d)	729,680	251,758
Long-term promissory note	(e)	187,556	567,797
		927,281	842,995
		<u>\$ 1,351,765</u>	<u>\$ 1,484,291</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 before September 2018.

(b) Demand loans

The Company had a \$113,054 unsecured demand loan from a director’s spouse of the Company, bearing interest of 12% per annum. Subsequent to the reporting period, the demand loan was amended and converted into units of the \$0.60 Unit financing pending TSXV approval (Note 18).

The company also owes \$20,000 to its Chief Executive Officer. The debt is unsecured and non-interest bearing.

(c) Apparel loans

The Company has a revolving apparel loan of \$273,000 outstanding, secured by specific apparel inventory and is charged a quarterly finance fee.

(d) Convertible promissory note

(i) The Company’s, Chief Financial Officer owns a \$267,047 unsecured convertible promissory note due on December 31, 2017, bearing interest of 8% per annum and convertible into 235,068 units of the \$1.05 Unit financing (Note 16). During the six months ending March 31, 2017, \$15,289 of interest was accrued (2016 – \$25,000). Subsequent to the reporting period the Chief Financial Officer agreed to extend repayment to December 31, 2018.

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) The Company had a \$462,633 unsecured demand loan, bearing interest at 15% per annum and charged a 3% fee on amounts drawn down. Subsequent to the reporting period, the demand loan was repaid through the repayment of cash and conversion of outstanding principal into the \$0.60 Unit Financing pending TSXV approval (Note 18).

(e) Long-term promissory note

The Company owes \$187,556 in the form of an unsecured promissory note bearing interest at 12% per annum and matures on December 31, 2017. During the six months ended March 31, 2017, the

PEEKABOO BEANS INC.
NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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Company repaid \$10,787 and \$11,329 of interest was accrued. Subsequent to the reporting period, the lender agreed to extend repayment to December 31, 2018.

16. LOSS PER SHARE

Diluted loss per share for the six months ended March 31, 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 six months ended March 31, 2017:

- (a) The Company paid its Chief Executive Officer \$45,558 (2016 - \$44,500) and its Chief Financial Officer \$40,904 (2016 - \$0) in salary (Note 7).
- (b) The Company owes its Chief Executive Officer \$20,00 under a unsecured, non-interest bearing loan (Note 15)
- (c) The Company owes its Chief Financial Officer \$267,047 under a convertible promissory note (Note 15).
- (d) A director of the Company was owed \$100,000 plus \$13,054 in accrued interest under a demand loan, which was settled pending TSXV approval subsequent to the reporting period (Note 15 and 19).

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

The Company had no contingent liabilities as at March 31, 2017 or September 30, 2016.

19. EVENTS SUBSEQUENT TO THE REPORTING DATE

- i) On May 12, 2017, the Company issued 2,633,001 units pursuant to \$0.60 Unit Financing, for aggregate gross proceeds of approximately \$1.6 million. The Company paid commissions comprised of \$67,158 cash and issued 111,930 agent's warrants, exercisable at \$0.80 for 24 months. In addition, the Company also paid the agent a \$30,000 corporate finance fee.
- ii) An unsecured promissory note was repaid through the repayment of principal and conversion of debt into units of the \$1.05 Unit financing (Note 15 (d)(ii)).
- iii) An unsecured demand loan of \$113,054 from a director of the Company was converted into units of the \$0.60 Unit financing pending TSXV approval (Note 15(b)).