PEEKABOO BEANS INC.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED
DECEMBER 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 CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian dollars - unaudited)

	Note	December 31, 2017	September 30, 2017
ASSETS			
Current assets			
Cash		$ 768,342	$ 183,880
Trade receivables		18,390	8,879
Apparel production deposits	4	432,351	63,512
Prepaid expense		213,905	209,541
Inventories	5	871,258	1,134,727
Total current assets		2,304,246	1,600,539
Non-current assets			
Software and equipment	12	3,504	4,374
Total assets		**$ 2,307,750**	**$ 1,604,913**
LIABILITIES AND EQUITY (DEFICIENCY)			
Current liabilities			
Trade payables and accrued liabilities	13, 18	$ 683,022	$ 671,213
Commissions payable	6	103,783	106,892
Current portion of bank debt	15	15,075	20,100
Loans	15	710,580	695,949
Total current liabilities		1,512,460	1,494,154
Non-current liabilities			
Loans	15	252,694	246,821
Total liabilities		1,765,154	1,740,975
Shareholders' equity (deficiency)			
Share capital	14	10,600,381	9,345,299
Reserves	14	2,340,520	2,239,816
Deficit		(12,398,305)	(11,721,177)
Total shareholders' equity (deficiency)		542,596	(136,062)
Total liabilities and equity		**$ 2,307,750**	**$ 1,604,913**

Note 1 - Nature of Operations and Going Concern
Note 18 - Commitments and Contingencies
Note 21 - Events Subsequent to the Reporting Date

On behalf of the Board of Directors of Peekaboo Beans Inc. on March 1, 2018

/s/ Traci Costa — Ms. Traci Costa, CEO and Director

/s/ Darrell Kopke — Mr. Darrell Kopke, Director

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 December 31, 2017	2016
Sales		**$ 760,541**	$ 861,131
Cost of goods sold	5	**463,721**	501,931
Commissions		**155,426**	209,180
Gross profit		**141,394**	150,020
Operating expenses			
Stylists training, recruitment and marketing	7	56,752	77,675
Administrative	9	186,637	86,523
Distribution and information technology	10	134,749	36,014
Executive and employee salary compensation	8	248,158	187,357
Share-based compensation	14	32,061	-
Professional fees and public company costs	11	39,107	57,036
Investor relations		42,408	-
Operating loss		**(598,478)**	(294,585)
Other expenses			
Interest and finance costs		65,979	28,528
Foreign exchange and other expense		12,671	14,922
Net loss and comprehensive loss for the period		**$ (677,128)**	$ (338,035)
Basic and diluted loss per common share		**$ (0.06)**	$ (0.05)
Weighted average number of common shares outstanding		**11,972,715**	6,890,108

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

		Share Capital				
	Note	**Number**	**Amount**	**Reserves**	**Deficit**	**Total**
At September 30, 2016		**6,783,426**	**$ 6,578,386**	**$ 1,379,968**	**$ (8,720,773)**	**$ (762,419)**
Issuance of shares pursuant to private placements	14	98,000	102,900	-	-	102,900
Settlement of debt	14	145,000	152,250	-	-	152,250
Share issuance costs on warrants	14	-	(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)**
At September 30, 2017		**11,894,535**	**$ 9,345,299**	**$ 2,239,816**	**$ (11,721,177)**	**$ (136,062)**
Issuance of shares pursuant to private placements, net of share issuance costs (cash)	14	2,488,500	1,323,725	-	-	1,323,725
Share issuance costs on agent warrants	14	-	(68,643)	68,643	-	-
Share issuance cost on corporate finance shares	14	105,666	-	-	-	-
Stock-based compensation	14	-	-	32,061	-	32,061
Net loss		-	-	-	(677,128)	(677,128)
At December 31, 2017		**14,488,701**	**$ 10,600,381**	**$ 2,340,520**	**$ (12,398,305)**	**$ 542,596**

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

	Three months ended December 31, 2017	Three months ended December 31, 2016
Operating Activities		
Net loss for the period	$ (677,128)	$ (338,035)
Adjustments for:		
Share-based compensation	32,061	-
Warrants as finders' fees	-	1,602
Accrued interest in excess of interest paid	20,715	2,767
Amortization	870	3,697
Changes in non-cash working capital items:		
Trade receivables	(9,511)	(1,968)
Inventories	263,469	77,149
Apparel production deposits	(368,839)	179,658
Prepaid expenses	(4,364)	-
Trade payables and accrued liabilities	11,598	(40,857)
Commissions payable	(3,109)	24,673
Cash used in operating activities	(734,238)	91,314
Financing Activities		
Loan advances	-	-
Loan repayments	(5,025)	(54,882)
Shares subscribed	-	-
Private placements of common shares, net	1,323,725	101,298
Cash from financing activities	1,318,700	46,416
Change in cash during the period	584,462	(44,898)
Cash, beginning of period	183,880	(160,835)
Cash, end of period	**$ 768,342**	**$ 115,937**

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

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 parents 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, 2017. 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, 2017.

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, 2017. 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, 2017.

The Company’s board of directors approved the release of these financial statements on March 1, 2018.

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
Peekaboo Beans, Inc.	Delaware, United States	100% owned

The subsidiaries are 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

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) Sales revenue recognition and other income

Revenue represents sales of children playwear and 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.

(d) 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.

(e) 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:

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Software and equipment (continued)

Class	Amortization rate
Computer software and development	50%
Computer hardware	30%

(f) 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.

(g) 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.

4. APPAREL PRODUCTION DEPOSITS

	December 31, 2017	September 30, 2017
Apparel Production Deposits	$ 432,351	$ 63,512

The Company is required to make deposits to its manufacturers to secure production. The deposits made will be credited against final purchase invoice after the inventory is shipped to the Company’s warehouse.

The Company’s contract manufacturers are located in Viertnam and conduct business transactions in United States dollars (USD).

5. INVENTORIES

Inventory consists of children’s playwear apparel which is purchased from third party manufacturers. As at December 31, 2017, the Company holds finished goods of $892,580 (September 30, 2017 - $1,134,727).

Inventory expensed in net loss and included in cost of sales for the three months ended December 31, 2017 was $463,721 (2016 - $501,931).

(Expressed in Canadian dollars - unaudited)

6. COMMISSIONS PAYABLE

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, 2017, commissions earned but unpaid totaled $99,823 (September 30, 2017 - $106,892) 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 hosts 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, 2017	2016
Training	$ 20,760	$ 30,611
Recruitment	3,131	456
Marketing	32,861	46,608
	$ 56,752	**$ 77,675**

8. EXECUTIVE AND EMPLOYEE COMPENSATION

	Three months ended December 31, 2017	2016
Executive and employee salary compensation		
Executive officer salaries	$ 41,875	$ 22,250
Executive manager salaries	-	16,650
Employee salaries	206,283	148,457
	$ 248,158	**$ 187,357**

9. ADMINISTRATIVE

	Three months ended December 31, 2017	2016
Credit card processing and miscellaneous	$ 20,108	$ 25,939
Consulting	113,917	33,687
Insurance	7,962	11,522
Travel, meals and entertainment	31,818	1,274
Amortization and office cost	12,832	14,101
	$ 186,637	**$ 86,523**

10. DISTRIBUTION AND INFORMATION TECHNOLOGY

	Three months ended December 31, 2017	2016
Rent and utilities	$ 22,522	$ 17,866
Information technology	112,227	18,148
	$ 134,749	**$ 36,014**

(Expressed in Canadian dollars - unaudited)

11. PROFESSIONAL FEES AND PUBLIC COMPANY COSTS

	Three months ended December 31, 2017	2016
Legal	$ 33,279	$ 9,988
Audit and accounting	-	50
Other including listing and transfer agent fees	5,828	46,998
	$ 39,107	**$ 57,036**

12. SOFTWARE AND EQUIPMENT

	Computer Hardware	Computer Software and Development	Total
Cost			
Balance, September 30, 2017	$ 5,047	$ 42,616	$ 47,663
Acquisitions	-	-	-
Balance, December 31, 2017	**$ 5,047**	**$ 42,616**	**$ 47,663**
Accumulated Amortization			
Balance, September 30, 2017	$ 3,146	$ 40,142	$ 43,288
Amortization	252	619	871
Balance, December 31, 2017	**$ 3,398**	**$ 40,761**	**$ 44,159**
Net Book Value			
As at September 30, 2017	**$ 1,901**	**$ 2,474**	**$ 4,375**
As at September 30, 2017	**$ 1,649**	**$ 1,855**	**$ 3,504**

13. TRADE AND OTHER PAYABLES

	December 31, 2017	September 30, 2017
Trade payables	**$ 512,341**	$ 461,702
Accruals	**59,185**	58,060
Customer deposit	**-**	49,378
Other non-trade payables	**111,496**	102,072
	$ 683,022	$ 671,212

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.

As at December 31, 2017, the Company had 14,488,701 common shares outstanding, of which 2,054,777 were held in escrow. Details of the issuance of share capital are as follows:

(Expressed in Canadian dollars - unaudited)

14. SHARE CAPITAL (continued)

(a) Issued and Outstanding

During the three months ended December 31, 2017, the Company:

(a) Issued 2,488,500 common shares pursuant to private placement at a price of $0.60 per share for aggregate gross proceeds of $1,493,100. A commission of $101,400 was paid and an aggregate of 169,066 warrants were issued to Agents. The Company also paid share issuance costs of $82,127. Each warrant is exercisable for one common share at a price of $0.60 per common share for a period of 24 months, valued at $68,643. A corporate finance fee was settled with the issuance of 105,666 common shares, valued at $63,400 and recorded as share issuance cost.

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

(a) Issued 98,000 units for aggregate proceeds of $102,900 at a price of $1.05 per unit. Each unit consisted of one share and one share purchase warrant to purchase another share at $1.25 for a period of one year. The share purchase warrants were valued at $24,500 using the residual method. The Company paid share issuance costs of $7,203 and issued 9,800 share purchase warrants exercisable at $1.25 for agent's commission. The finder warrants were valued at $5,030.

(b) Issued 145,000 units for the conversion of $152,250 in loans. Each unit consisted of one share and one share purchase warrant to purchase another share at $1.25 for a period of two years. The share purchase warrants were valued at $39,150 using the residual method.

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.

(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 year ended September 30, 2017, 875,000 stock options were issued to management, staff and consultants. Of the issued options, 855,000 options are exercisable into one common share of the Company at an exercise price of $0.60 until May 12, 2027 and 20,000 options are exercisable into one common share of the Company at an exercise price of $0.60 until September 26, 2022.

A summary of options activity to December 31, 2017 is as follows:

	Options Outstanding	Weighted Average Exercise Price
September 30, 2017	**875,000**	**$ 0.60**
Issued	-	0.60
December 31, 2017	**875,000**	**0.60**
Exercisable	**830,000**	**$ 0.60**

(Expressed in Canadian dollars - unaudited)

14. SHARE CAPITAL (continued)

(b) Stock Options (continued)

Share-based compensation for the three months ended December 31, 2017 was $32,061 (2016 - $nil) for stock options that were granted in the year ended September 30, 2017 and that vested in the current period.

	Three months ended December 31, 2017	2016
Executive officer and director stock-based compensation	$ 3,840	$ -
Employee stock-based compensation	8,640	-
Consultant stock-based compensation	19,581	-
	$ 32,061	**$ -**

The grant date fair value of the options granted during the year ended September 30, 2017 was $352,393, which was valued using the Black-Scholes Option Pricing Model with the following assumptions:

	2017
Volatility	213%
Risk-free interest rate	0.68%
Expected life of option	2 years
Dividend yield	0%

(c) Warrants

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

	Warrants Outstanding	Weighted Average Exercise Price
September 30, 2017	**2,751,669**	**$ 0.82**
Issued	169,066	0.60
Expired	(107,800)	1.25
December 31, 2017	**2,812,935**	**$ 0.79**

At December 31, 2017, the weighted average remaining life of the outstanding warrants is 1.47 years (September 30, 2017 – 1.62 years).

During the three months ended December 31, 2017, 169,066 (2016 – 9,800) agent or finders' warrants were issued and were valued using the Black-Scholes Option Pricing Model with the following weighted average assumptions:

	2017	2016
Volatility	147%	153.43%
Risk-free interest rate	0.68%	0.78%
Expected life of option	2 years	1.94 years
Dividend yield	0%	0%

(Expressed in Canadian dollars - unaudited)

15. LOANS

Debt Ranked by Seniority		**December 31, 2017**	**September 30, 2017**
Current loans:			
Bank debt, current portion	(a)	$ 15,075	$ 20,100
Short-term loans	(b), (c), (d),(e)	710,580	695,949
		725,655	716,049
Non-current loans:			
Convertible promissory note	(f)	252,694	246,820
		252,694	246,820
		$ 978,349	**$ 962,869**

(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.

(b) Loan

On December 31, 2017, the outstanding balance of an unsecured demand loan, bearing interest of 12% per annum was $8,338 (September 30, 2017 - $8,091) from a relative of a director. The loan is fully repaid in the second quarter of fiscal year 2018.

(c) Apparel loans

As at December 31, 2017, the Company has an apparel loan of $278,250 (September 30, 2017 - $278,250) owing to an apparel finance company of which a former Director of the Company was an officer and a shareholder. The loan is secured by specific apparel inventory and is charged a quarterly finance fee (Note 19).

(d) Venture capital convertible loan

As at December 31, 2017, the Company has a convertible loan of $229,643 (September 30, 2017 - $220,857) with Northpark Limited (a company with a former director in common). The loan was due on December 31, 2017, bearing interest at 15% per annum and is convertible into units of the Company at $1.05 per unit. During the three months ended December 31, 2017, total interest accrued on the loan was $8,786. The loan is fully repaid in the second quarter of fiscal year 2018.

(e) Unsecured Promissory note

The Company has a $194,349 (September 30, 2017 – $188,540) unsecured promissory note bearing interest at 12% per annum, that matured on December 31, 2017. Total interest accrued on the loan during the three months ended December 31, 2017 is $5,809 (2016 - $3,692). The loan is currently being renegotiated.

(Expressed in Canadian dollars - unaudited)

15. LOANS (continued)

(f) Executive officer convertible promissory note

The Company's Chief Financial Officer is owed $252,694 (September 30, 2017 - $246,821) by way of an unsecured convertible promissory note. The loan was originally due December 31, 2017, bore interest at 8% per annum and was convertible into units at $1.05 per unit but was amended on September 28, 2017. The loan is now due on December 31, 2019, bearing interest of 12% per annum and convertible into units at $0.60 per unit. Each unit will consist of one share and one half of one share purchase warrant, one whole warrant exercisable at $0.80 per share. On initial receipt of the loan, and on amendment, 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. Total interest accrued during the three months ended December 31, 2017 is $5,873 (2016 - $17,277).

16. LOSS PER SHARE

Diluted loss per share for the three months ended December 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 three months ended December 31, 2017:

(a) The Company paid its Chief Executive Officer $22,250 (2016 - $22,250) and its Chief Financial Officer $19,625 (2016 - $16,650) in salary (Note 8).

(b) The Company paid $3,840 in share-based compensation to directors.

(c) The Company owes its Chief Financial Officer $252,694 under a convertible promissory note (Note 15). Total interest accrued during the three months ending December 31, 2017 is $5,873 (2016 - $2,768).

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:

2018	$	52,625
	$	**52,625**

(Expressed in Canadian dollars - unaudited)

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 December 31, 2017, the Company had a cash balance of $768,342 (September 30, 2017 - $183,880) available to settle current liabilities of $1,512,460 (September 30, 2017 - $1,494,154). 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 following table identifies the undiscounted contractual maturities of the Company's financial liabilities as at December 31, 2017:

	Within one year	After one but not more than five years	After five years	Total
Trade and other payables	$ 683,022	$ -	$ -	$ 683,022
Commissions payable	103,783	-	-	103,783
Short-term loan	710,580	-	-	710,580
Notes payable	-	252,694	-	252,694
Bank debt	15,075	-	-	15,075
	$ 1,512,460	**$ 252,694**	**$ -**	**$ 1,512,460**

19. FINANCIAL INSTRUMENTS (continued)

Market Risk – foreign exchange risk

At December 31, 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 December 31, 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 December 31, 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 December 31, 2017, and September 30, 2017, 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 December 31, 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.

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 December 31, 2017.

21. EVENTS SUBSEQUENT TO THE REPORTING DATE

(a) Subsequent to December 31, 2017, the Company completed a brokered private placement and issued an aggregate of 2,983,333 units of the Company at a price of $0.75 per Unit for gross proceeds of $2,237,500. Each Unit consists of one common share and one half of one common share purchase warrant, exercisable into one common share at $1.00 until February 16, 2020. The Agents were paid a commission of $179,000 in cash and 238,666 Agents' warrants, exercisable into one common share at $0.75 per Unit until February 16, 2020. The Company also issued the Agents 149,166 Units as a corporate finance fee in connection with the private placement.

(b) Subsequent to December 31, 2017, the Company fully repaid the venture capital convertible loan for the balance of $229,643, as disclosed in Note 15 (d).

(c) Subsequent to December 31, 2017, the Company received $230,000 from related parties in notes payable bearing interest at 12% per annum, payable quarterly. The notes principal was repaid on February 26, 2018, exclusive of interest and finance fees.

(d) Subsequent to December 31, 2017, the Company granted the following stock options, exercisable into common shares of the Company, to management, employees, consultants and investor relations consultants:

- (a) 170,000 at an exercise price of $0.60 until January 17, 2028;
- (b) 200,000 at an exercise price of $0.80 until February 7, 2028;
- (c) 200,000 at an exercise price of $0.80 until February 26, 2020;
- (d) 200,000 at an exercise price of $0.80 until February 26, 2028.

(e) Subsequent to December 31, 2017, the Company entered into an investor relations consulting agreement with Kin Communications Inc. Upon engagement, Kin was paid $120,000 for a 12 month term commencing February, 2018. If the Company elects to continue with Kin, on a month to month basis, commencing February, 2019 Kin will be paid a fee of $10,000 per month. Kin has also been granted stock options to acquire up to 200,000 common shares of the Company at a price of $0.80 per common share. The stock options will vest quarterly in four tranches of 50,000 and are exercisable for a two year term expiring on February 26, 2020, subject to earlier expiry on termination of the agreement in accordance with the Company's stock option plan and the policies of the Exchange.