



PEEKABOO BEANS INC.

**INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED
MARCH 31, 2018 AND 2017**

(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	<u>March 31, 2018</u>	<u>September 30, 2017</u>
ASSETS			
Current assets			
Cash		\$ 872,545	\$ 183,880
Trade receivables		24,959	8,879
Apparel production deposits	4	106,422	63,512
Prepaid expense		82,485	209,541
Inventories	5	<u>1,713,673</u>	<u>1,134,727</u>
Total current assets		<u>2,800,084</u>	<u>1,600,539</u>
Non-current assets			
Software and equipment	12	<u>3,471</u>	<u>4,374</u>
Total assets		<u>\$ 2,803,555</u>	<u>\$ 1,604,913</u>
 LIABILITIES AND EQUITY (DEFICIENCY)			
Current liabilities			
Trade payables and accrued liabilities	13, 18	\$ 329,465	\$ 671,213
Commissions payable	6	108,189	106,892
Current portion of bank debt	15	10,050	20,100
Loans	15	<u>278,250</u>	<u>695,949</u>
Total current liabilities		<u>725,954</u>	<u>1,494,154</u>
Non-current liabilities			
Loans	15	<u>429,924</u>	<u>246,821</u>
Total liabilities		<u>1,155,878</u>	<u>1,740,975</u>
Shareholders' equity (deficiency)			
Share capital	14	12,066,216	9,345,299
Reserves	14	2,915,111	2,239,816
Deficit		<u>(13,333,650)</u>	<u>(11,721,177)</u>
Total shareholders' equity (deficiency)		<u>1,647,677</u>	<u>(136,062)</u>
Total liabilities and equity		<u>\$ 2,803,555</u>	<u>\$ 1,604,913</u>

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 May 29, 2018

/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 condensed consolidated financial statements.

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

	Note	Three months ended March 31,		Six months ended March 31,	
		2018	2017	2018	2017
Sales		\$ 752,227	\$ 658,635	\$ 1,512,768	\$ 1,519,766
Cost of goods sold	5	375,667	371,684	839,388	873,615
Commissions	6	107,477	130,617	262,903	339,797
Gross profit		269,083	156,334	410,477	306,354
Operating expenses					
Stylists training, recruitment and marketing	7	73,143	19,242	129,895	96,917
Administrative	9	252,564	73,467	439,201	159,990
Distribution and information technology	10	64,221	34,547	198,970	70,561
Executive and employee salary compensation	8	237,174	196,297	485,332	383,654
Share-based compensation	14	54,862	-	86,923	-
Professional fees and public company costs	11	71,277	54,240	110,384	111,276
Investor relations		402,275	-	444,683	-
Operating loss		(886,433)	(221,459)	(1,484,911)	(516,044)
Interest and finance costs		54,121	253,045	120,100	281,573
Gain on settlement of accounts payable		(5,009)	-	(5,009)	-
Foreign exchange and other expense		(200)	1,517	12,471	16,439
Net loss and comprehensive loss for the period		\$ (935,345)	\$ (476,021)	\$ (1,612,473)	\$ (814,056)
Basic and diluted loss per common share		\$ (0.07)	\$ (0.07)	\$ (0.12)	\$ (0.12)
Weighted average number of common shares Outstanding		13,640,840	7,031,692	13,640,840	7,031,692

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

	Note	Share Capital		Reserves	Deficit	Total
		Number	Amount			
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	98,000	102,900	-	-	102,900
Conversion of debt	14	645,000	677,250	-	-	677,250
Share issuance costs on warrants	14	-	(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)
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	5,471,833	2,876,422	416,667	-	3,294,089
Share issuance costs on agent warrants	14	-	(159,632)	159,632	-	-
Share issuance cost on corporate finance shares	14	254,832	(20,883)	20,883	-	-
Exercise of warrants	14	25,333	15,200	-	-	15,200
Transfer of warrant exercise value	14	-	9,811	(9,811)	-	-
Stock-based compensation	14	-	-	86,924	-	86,923
Net loss		-	-	-	(1,612,473)	(1,612,473)
At March 31, 2018		17,646,533	\$ 12,092,166	\$ 2,915,111	\$ (13,333,650)	\$ 1,647,677

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

	Six months ended	
	March 31,	
	2018	2017
Operating Activities		
Net loss for the period	\$ (1,612,473)	\$ (814,056)
Adjustments for:		
Share-based compensation	86,924	-
Gain on settlement of payables	(5,009)	-
Warrants as finders' fees	-	1,602
Accrued interest in excess of interest paid	20,715	72,454
Amortization	904	5,680
Changes in non-cash working capital items:		
Trade receivables	(16,080)	(4,990)
Inventories	(578,946)	(151,094)
Apparel production deposits	(42,910)	149,514
Prepaid expenses	127,056	45,208
Trade payables and accrued liabilities	(336,951)	22,851
Commissions payable	1,297	(43,313)
Cash used in operating activities	<u>(2,355,473)</u>	<u>(716,144)</u>
Financing Activities		
Loan advances	-	487,270
Loan repayments	(265,150)	-
Private placements of common shares, net	3,309,288	99,696
Cash from financing activities	<u>3,044,138</u>	<u>586,966</u>
Change in cash during the period	688,665	(129,178)
Cash, beginning of period	183,880	160,835
Cash, end of period	<u>\$ 872,545</u>	<u>\$ 31,657</u>

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
MARCH 31, 2018

(Expressed in Canadian dollars – unaudited)

1. NATURE OF OPERATIONS AND GOING CONCERN

Peekaboo Beans Inc. designs children 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 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”, and on the OTCQB in the US under the trading symbol, “PBBSF.”

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 May 29, 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 apparel and catalogues. Sale of children 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 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:

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

PEEKABOO BEANS INC.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2018

(Expressed in Canadian dollars - unaudited)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Stock-based compensation

Share options granted by the Company allow Directors, Executive Officers, Managers, Employees and Consultants 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

	March 31, 2018	September 30, 2017
Apparel Production Deposits	\$ 106,422	\$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 Vietnam and conduct business transactions in United States dollars (USD).

5. INVENTORIES

Inventory consists of children's apparel which is purchased from third party manufacturers. As at March 31, 2018, the Company holds finished goods of \$1,713,673 (September 30, 2017 - \$1,134,727).

Inventory expensed in net loss and included in cost of goods sold for the three and six months ended March 31, 2018 was \$375,667 and \$839,388 (2017 - \$371,684 and \$873,615), respectively.

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 March 31, 2018, commissions earned by unpaid totaled \$108,189 (September 30, 2017 - \$106,892) recorded as commissions payable.

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

MARCH 31, 2018

*(Expressed in Canadian dollars - unaudited)***7. STYLISTS TRAINING, RECRUITMENT, AND MARKETING**

Various costs are incurred in training and recruiting Stylists and are included in the net loss for the period incurred. From time to time, direct-sales industry training and marketing consultants are engaged and payments are included in the period incurred.

	Three months ended March 31,		Six months ended March 31,	
	2018	2017	2018	2017
Training	\$ 19,660	\$ 18,624	\$ 40,420	\$ 54,199
Recruitment	721	618	3,852	1,074
Marketing	52,762	-	85,623	41,644
	\$ 73,143	\$ 19,242	\$ 129,895	\$ 96,917

8. EXECUTIVE AND EMPLOYEE COMPENSATION

	Three months ended March 31,		Six months ended March 31,	
	2018	2017	2018	2017
<u>Executive and employee salary compensation</u>				
Executive officer salaries	\$ 41,875	\$ 38,900	\$ 83,750	\$ 86,462
Employee salaries	195,299	157,397	401,582	297,192
	\$ 237,174	\$ 196,297	\$ 485,332	\$ 383,654

9. ADMINISTRATIVE

	Three months ended March 31,		Six months ended March 31,	
	2018	2017	2018	2017
Credit card processing and miscellaneous	\$ 19,796	\$ 16,932	\$ 39,904	\$ 41,224
Consulting	150,514	34,075	264,431	56,328
Insurance	25,483	5,366	33,445	16,888
Travel, meals and entertainment	27,328	4,294	59,146	5,568
Amortization and office cost	29,443	12,800	42,275	39,982
	\$ 252,564	\$ 73,467	\$ 439,201	\$ 159,990

10. DISTRIBUTION AND INFORMATION TECHNOLOGY

	Three months ended March 31,		Six months ended March 31,	
	2018	2017	2018	2017
Rent and utilities	\$ 24,547	\$ 24,554	\$ 47,069	\$ 42,420
Information technology	39,674	9,993	151,901	28,141
	\$ 64,221	\$ 34,547	\$ 198,970	\$ 70,561

11. PROFESSIONAL FEES AND PUBLIC COMPANY COSTS

	Three months ended March 31,		Six months ended March 31,	
	2018	2017	2018	2017
Legal	\$ 26,768	\$ 22,726	\$ 91,249	\$ 32,724
Audit and accounting	31,202	22,335	-	22,385
Other including listing and transfer agent fees	13,307	9,179	19,135	56,167
	\$ 71,277	\$ 54,240	\$ 110,384	\$ 111,276

PEEKABOO BEANS INC.
NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2018
(Expressed in Canadian dollars - unaudited)

12. SOFTWARE AND EQUIPMENT

	Computer Hardware	Computer Software and Development	Total
<u>Cost</u>			
Balance, September 30, 2017	\$ 5,047	\$ 42,616	\$ 47,663
Acquisitions	-	-	-
Balance, March 31, 2018	\$ 5,047	\$ 42,616	\$ 47,663
<u>Accumulated Amortization</u>			
Balance, September 30, 2017	\$ 3,146	\$ 40,142	\$ 43,288
Amortization	285	619	904
Balance, March 31, 2018	\$ 3,431	\$ 40,761	\$ 44,192
<u>Net Book Value</u>			
As at September 30, 2017	\$ 1,901	\$ 2,474	\$ 4,375
As at March 31, 2018	\$ 1,616	\$ 1,856	\$ 3,471

13. TRADE AND OTHER PAYABLES

	March 31, 2018	September 30, 2017
Trade payables	\$ 304,172	\$ 461,702
Accruals	25,293	58,060
Customer deposit	-	49,378
Other non-trade payables	-	102,072
	\$ 329,465	\$ 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 March 31, 2018, the Company had 17,646,533 common shares outstanding, of which 1,742,228 were held in escrow. Details of the issuance of share capital are as follows:

(a) Issued and Outstanding

During the six months ended March 31, 2018, 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 Agents warrants were issued. 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.
- (b) Issued 2,983,333 units for aggregate proceeds of \$2,237,500 at a price of \$0.75 per unit pursuant to a brokered private placement. Each unit consisted of one share and one half of one share purchase warrant to purchase another share at \$1.00 for a period of two years. The share purchase warrants were valued at \$417,667 using the residual method. The Company paid share issuance costs of \$267,136 and issued 238,666 share purchase warrants exercisable for two years at \$0.75 for agent's commission. The finders' warrants were valued at \$90,989. The Company also issued the agents 149,166 Units as a corporate finance fee in connection with the private placement. The share purchase warrants on the Units issued as corporate finance fee were valued at \$20,883 using the residual method.

PEEKABOO BEANS INC.
NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2018
(Expressed in Canadian dollars - unaudited)

14. SHARE CAPITAL (continued)

(a) Issued and Outstanding (continued)

During the six months ended March 31, 2017, 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 645,000 units for the conversion of \$677,250 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. The options are exercisable into one common share of the Company at an exercise price of \$0.60 until May 12, 2027.

During the six months ended March 31, 2018, 750,000 stock options were issued to consultants and management, exercisable into one common share of the Company at exercise prices of \$0.60 to \$0.80.

A summary of options activity to March 31, 2018 is as follows:

	Options Outstanding	Weighted Average Exercise Price
September 30, 2017	875,000	\$ 0.60
Issued	750,000	0.76
Forfeited/cancelled	(55,000)	0.60
March 31, 2018	1,570,000	0.68
Exercisable	1,545,000	\$ 0.68

Share-based compensation for the three and six months ended March 31, 2018 was \$32,061 and \$54,862 (2017 - \$nil) for stock options that were granted and vested in the period.

PEEKABOO BEANS INC.
NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2018
(Expressed in Canadian dollars - unaudited)

14. SHARE CAPITAL (continued)

(b) Stock Options (continued)

	Three months ended		Six months ended	
	March 31,		March 31,	
Stock-based compensation:	2018	2017	2018	2017
Executive, officer and director	\$ 29,331	\$ -	\$ 33,171	\$ -
Employee	3,518	-	12,158	-
Consultant	22,013	-	41,594	-
	\$ 54,862	\$ -	\$ 86,923	\$ -

The grant date fair value of the options granted and vested during the six months ended March 31, 2018 and 2017 was valued using the Black-Scholes Option Pricing Model with the following assumptions:

	2018	2017
Volatility	66-68%	213%
Risk-free interest rate	1.5%	0.68%
Expected life of option	2 years	2 years
Dividend yield	0%	0%

(c) Warrants

A summary of warrant activity to March 31, 2018 is as follows:

	Warrants Outstanding	Weighted Average Exercise Price
September 30, 2017	2,751,669	\$ 0.82
Issued	1,973,981	0.98
Expired	(107,800)	1.25
March 31, 2018	4,617,850	\$ 0.85

At March 31, 2018, the weighted average remaining life of the outstanding warrants is 1.48 years (September 30, 2017 – 1.62 years).

During the six months ended March 31, 2018, 407,732 (2017 – 9,800) agent, corporate finance, or finders' warrants were issued and were valued using the Black-Scholes Option Pricing Model with the following weighted average assumptions:

	2018	2017
Volatility	77%-147%	153.43%
Risk-free interest rate	0.68%	0.78%
Expected life of option	2 years	1.94 years
Dividend yield	0%	0%

PEEKABOO BEANS INC.
NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2018
(Expressed in Canadian dollars - unaudited)

15. LOANS

Debt Ranked by Seniority		March 31, 2018	September 30, 2017
<u>Current loans:</u>			
Bank debt, current portion	(a)	\$ 10,050	\$ 20,100
Short-term loans	(b), (c), (d)	278,250	695,949
		<u>288,300</u>	<u>716,049</u>
<u>Non-current loans:</u>			
Convertible promissory note	(e), (f)	429,924	246,820
		<u>429,924</u>	<u>246,820</u>
		<u>\$ 718,224</u>	<u>\$ 962,869</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.

(b) Loan

During the period ended March 31, 2018, the Company repaid the outstanding balance of an unsecured demand loan of \$8,481, bearing interest of 12% per annum, from a relative of a director.

(c) Apparel loans

As at March 31, 2018, 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

During the period ended March 31, 2018, the Company repaid the outstanding balance of a convertible loan of \$229,643 to 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 was convertible into units of the Company at \$1.05 per unit.

(e) Unsecured convertible debenture

The Company has a \$184,722 (September 30, 2017 – \$188,540) unsecured promissory note bearing interest at 12% per annum, that matured on December 31, 2017 and on March 9, 2018, was modified into an unsecured convertible debenture bearing interest at 12% per annum and due March 9, 2020. The debenture is convertible at \$0.75 per unit. Each unit will consist of one share and one half of one share purchase warrant, exercisable at \$1.00 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 on the loan during the six months ended March 31, 2018 is \$11,385 (2017 - \$11,531).

PEEKABOO BEANS INC.
NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2018
(Expressed in Canadian dollars - unaudited)

15. LOANS (continued)

(f) Executive officer convertible promissory note

The Company's Chief Financial Officer is owed \$245,202 (September 30, 2017 - \$246,821) by way of an unsecured convertible promissory note. The loan is 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, 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 six months ended March 31, 2018 is \$14,780 (2017 - \$9,873).

16. LOSS PER SHARE

Diluted loss per share for the six months ended March 31, 2018 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, 2018:

- (a) The Company paid its Chief Executive Officer \$44,500 (2017 - \$45,558) and its Chief Financial Officer \$39,250 (2017 - \$40,904) in salary (Note 8).
- (b) The Company paid \$33,171 (2017 - \$nil) in share-based compensation to officers and directors.
- (c) The Company owes its Chief Financial Officer \$245,202 under a convertible promissory note (Note 15). Total interest accrued during the six months ending March 31, 2018 is \$14,780 (2017 - \$9,873).
- (d) The Company borrowed \$123,000 from its Chief Executive Officer and \$107,000 from its Chief Financial Officer by way of a bridge shareholder loan, bearing interest at 12% per annum. The shareholder loans were fully repaid along with accrued interest of \$1,352 and \$1,089 respectively.

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	\$	32,892
	\$	<u>32,892</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.

19. FINANCIAL INSTRUMENTS (continued)

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 March 31, 2018, the Company had a cash balance of \$872,545 (September 30, 2017 - \$183,880) available to settle current liabilities of \$910,676 (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 March 31, 2018:

	Within one year	After one but not more than five years	After five years	Total
Trade and other payables	\$ 329,465	\$ -	\$ -	\$ 329,465
Commissions payable	108,189	-	-	108,189
Short-term loan	278,250	-	-	278,250
Notes payable	-	429,924	-	429,924
Bank debt	10,050	-	-	10,050
	\$ 725,954	\$ 429,924	\$ -	\$ 1,115,878

Market Risk – foreign exchange risk

At March 31, 2018, 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 March 31, 2018, 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 March 31, 2018, cash consisted of cash on hand and balances with banks.

PEEKABOO BEANS INC.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2018

(Expressed in Canadian dollars - unaudited)

19. FINANCIAL INSTRUMENTS (continued)

Market Risk – foreign exchange risk (continued)

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 March 31, 2018, 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 March 31, 2018, 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 March 31, 2018

21. EVENTS SUBSEQUENT TO THE REPORTING DATE

- (a) Subsequent to March 31, 2018, the Company completed its listing application to OTCQB. Commencing on May 17, 2018, the Company's common shares is listed for trading on the OTCQB under the trading symbol, "PBBSF."
- (b) Subsequent to March 31, 2018, the Company's board of directors have conditionally approved and authorized the Company to enter into a new management contract with its Chief Executive Officer, with an annual salary of \$175,000. As at May 29, 2018, the management contract is still pending further details before it is fully executed by the Company.