



**Management’s Discussion and Analysis of Financial Condition and Results of Operations as at September 30, 2018 and 2017.**

The following is management’s discussion and analysis (“MD&A”) of Peekaboo Beans Inc.’s financial condition and results of operations for the year ended September 30, 2018 and 2017 and should be read in conjunction with the audited financial statements and related notes for the same reporting periods. The MD&A will also outline the economic operating conditions and how these influence business activities of Peekaboo Beans Inc.

All references herein refer to the audited financial statements and related notes for the year ended September 30, 2018 and or 2017, except where otherwise indicated. All financial information is expressed in Canadian dollars (“\$”). Unless otherwise indicated, a reference to the “Company” or “Peekaboo” means Peekaboo Beans Inc. The Company’s fiscal year is the year ended September 30<sup>th</sup> (“year-end”). Reference to a “fiscal year” means the Company’s year commencing on October 1<sup>st</sup> of that year and ending on September 30<sup>th</sup> of the following year. For example, fiscal 2018 means the period beginning October 1, 2017 and ending September 30, 2018. In addition, reference will be made to “Notes”, which refers to the Notes to the Financial Statements.

**Organization of the MD&A**

**Part 1 – Overview and Outlook**

The Company .....	2
Overall Performance .....	4
US Expansion Update .....	4

**Part 2 – Financial Performance Review**

Selected Annual Information .....	5
Summary of Reported Period Results .....	7
Liquidity and Capital Resources .....	8

**Part 3 – Capitalization**

Outstanding Share Data .....	9
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**Part 4 – Additional Information**

Transactions between Related Parties .....	10
Forward-Looking Statements .....	10
Accounting Policy .....	11

**PART 1 – OVERVIEW AND OUTLOOK**

# Peekaboo Beans Inc.

## The Company

Peekaboo Beans Inc. is an online retailer of children's apparel operating in Canada and the United States of America ("US"). Peekaboo is listed on the CSE Venture Exchange in Canada (Symbol: BEAN) and is the first and only Canadian listed company with a majority female board of directors and executive management.

During Q4/2018, the Company decided to sell its apparel through an affiliate program instead of direct sales.

The Company launched the affiliate programs during Q1/2019.

The Company shifted from a direct sales model to an affiliate marketing program referred to as "Social Retailing" in order to increase margins, provide better control of the internal supply chain, and remove limitations on where product is sold. The transition included moving 1,500 Stylists from the direct sales program to its new social selling program. With an already robust social media presence, Peekaboo Beans is positioned well to utilize digital media and technology to spring board the business to new growth. The new Social Retail program is designed to create mutually beneficial partnerships with brand ambassadors to grow the Company's distribution and sales in North America and worldwide. By leveraging the brand through various channels including social media, blogs and influencers, Peekaboo Beans' reach exponentially expands while affiliates are earning commission for engagement, sales and social interactions. The Company aims to broaden distribution through an omni-channel platform, including major e-commerce sites, host more pop-up boutiques within large retailers, and sell products through social media channels.

However, the transition to an affiliate program caused sales to fall as the Company stopped recruiting and training of Stylists.

The Company continues to design and manufacture children's playwear that is stylish, functional and allows free, unstructured play for children. Peekaboo is helping to create a revolutionary lifestyle brand around the growing culture of children's play by focusing on the Company's core customers, "Parents".

Peekaboo's design team in British Columbia, Canada works with child development specialists, educators, and therapists to review, evaluate and create new designs that take into consideration the developmental needs of children by creating value with versatile pieces and longevity through quality construction.

The fabric that Peekaboo designs in-house for its playwear apparel are third-party tested to guarantee that it is aligned with OEKO-TEK® Standard 100, an independent testing and certification system for all stages of production from textile raw materials to end products. The requirement is that all components of an item comply with the required criteria without exception, including the outer material, sewing threads, linings, prints, etc., as well as non-textile accessories such as buttons, zip fasteners, rivets, etc. for harmful substances and sensitivity to skin contact. In addition, Peekaboo conducts its own third-party lab testing to ensure its dyeing mills are adhering to the Company's standards that its fabric does not contain harmful levels of heavy metals and other harsh additives that are found in most children's clothing fabrics and dyes.

The Company does not own or operate any manufacturing facilities. Peekaboo works closely with its third-party contract manufacturers who adhere to a vendor code of ethics regarding social and environmental sustainability practices. Peekaboo relies on a limited number of suppliers to provide custom designed fabrics and follows the production of its apparel from raw fiber to finished garment.

## **Peekaboo Beans Inc.**

The Company does not own, lease or operate any retail store locations. During fiscal 2018, Peekaboo's apparel was sold exclusively through a direct-sales network of independent sales representatives or "Stylists" in Canada and in the US. The affiliate program was launched in Q1/2019.

In previous years, Peekaboo produced four seasonal collections each year with the Fall collection being the biggest season for sales. Starting in January 2017, the Company has adopted a new rhythm to launch six collections in one calendar year, with the expectations that more frequent launches will generate more consistent sales and keep the Stylists and customers continuously engaged with Peekaboo's products. Orders are processed through Peekaboo's online system, and payments are made at Pop-ups or directly on the Company's website, usually by credit cards. In addition to being the most significant source of revenues, Pop-ups also act as business opportunities for Stylists to gain engagement to book more parties, present the direct-sales business opportunity to potential Stylists and market Peekaboo's brand and apparel.

The Company's recurring cash requirements include executive and employee salary compensation, distribution and information technology costs, some administrative and public company costs.

The Company's recurring working capital requirements include financing the lead-time for inventory and apparel production deposits necessary for seasonal collections. The Company places apparel production deposits several months before the final purchase order and pays for goods before shipment to Canada from China, which happens several months before the Company receives payment for goods sold.

The Company sells its apparel and holds cash in Canadian and United States Dollars. The fluctuation in the price of the Canadian dollar, United States Dollars and to a lesser degree, the Renminbi may affect financial performance. The economic health of the economies of North America and to a lesser extent China may affect the financial performance of the Company.

### **Overall Performance**

During the year, the Company raised net proceeds of \$3,938,233 in funding through share financing.

The Company has completed most of its ground work for entering the US market in the fourth quarter of fiscal 2017, including engaging with consulting expertise to introduce Peekaboo's unique brand, designing a motivational US compensation plan and customizing US software for Stylist support.

The Company has been focusing on transition the business model from the traditional direct sales model to the more technology-based affiliate style marketing program of Social Retailing. The goals are to focus on increasing margins, providing improved control over the internal supply chain, continue generating sales and brand awareness through pop-up stores, and remove limitations on where product is sold. In 2019, the Company will continue to execute on the new Social Retailing business model.

# Peekaboo Beans Inc.

## PART 2 – FINANCIAL PERFORMANCE REVIEW

### Selected Annual Information

The following table summarizes selected financial data for the Company. The information in this table was extracted from the financial statements, and related notes included herein and should be read in conjunction with such financial statements.

	2018	% <sup>1</sup>	2017	% <sup>1</sup>	YoY% <sup>2</sup>
<b>Sales</b>	\$ 2,783,106	-	\$ 3,358,307	-	-18%
<b>Cost of sales</b>					
<b>Cost of goods sold</b>	2,008,971	73%	2,179,163	65%	-8%
<b>Stylist commission</b>	448,377	16%	749,375	22%	-40%
<b>Gross profit</b>	295,758	11%	429,769	13%	-31%
<b>Operating costs</b>	3,506,537	127%	3,026,627	87%	20%
<b>Total assets</b>	2,197,030	-	1,604,913	-	37%
<b>Total liabilities</b>	1,619,917	-	1,740,975	-	-7%
<b>Shareholder equity (deficiency)</b>	577,113	-	(136,062)	-	-524%
<b>Number of Stylists</b>	1,500	-	901	-	34%

(1) As a percentage (%) of sales.

(2) Year-over-year (YoY) change as a percentage (%).

### Summary of Annual Financial Information

*For the year ended September 30, 2018:*

The following analysis of the Company's operating results for the fiscal year ended September 30, 2018, includes a comparison to the corresponding comparative year ended September 30, 2017. Please refer to the Statement of Operations and Statement of Cash Flows.

Under the direct-sales model, sales are driven by the number of Stylists and the average sales per Stylist per year. Cost of sales includes apparel manufacturing and design costs (cost of goods) and commissions paid to Stylists for selling apparel, which fluctuates with sales.

The process of changing to an affiliate program from a direct sales model sales caused sales to decline to \$2.8-million from \$3.4-million a year earlier as the Company stopped recruiting and training Stylists. The Company has repositioned itself to sell existing inventory through its revamped online platform and social retailing business model.

Gross margin decreased to 10.7% of sales to \$295,758 from 12.8% of sales a year earlier due to the improvement in manufacturing costs and lower commission payout. Gross margin is calculated after including inventory obsolescence. The Company changed its factory-manufacturing partner which has resulted in lower product costs and faster turn around times.

## **Peekaboo Beans Inc.**

Operating expenses related to the operation of a direct-sales model increased to \$3.5-million compared to \$3-million, a year earlier due to higher costs for Stylists training, recruitment and marketing costs and executive and employee salaries related to the US expansion.

Administrative and distribution and information technology increased also due to the Company's US expansion initiative, which requires the Company to invest in new software and hire staff for head office support. As of September 30, 2018, the Company has 20 full and part-time employees in Canada.

The Company wrote down of \$206,000 obsolete inventory from previous collections as the collections had minimal value due to the trend changes in apparel, recorded in cost of goods sold.

Expenses related to the operation of public company including professional fees, public company costs and investor relations, totaled \$848,537 for the year, compared to \$797,504 for the year earlier.

Share-based compensation for employees and executives totaled \$171,151.

Loan interest and other finance costs decreased to \$195,897 compared to \$286,794 largely due to the Company repaying outstanding loans during the 2018 fiscal year.

The Company reported an operating loss of \$3.2-million in fiscal 2018 compared to \$2.5-million in fiscal 2017. The Company reported a net loss of \$3.4-million in fiscal 2018 compared to a loss of \$3.0-million in fiscal 2017. The basic loss per weighted average number of common shares was \$0.21 and a loss of \$0.35 for the respective periods.

### **Liquidity and Capital Resources**

The following analysis of the Company's liquidity and capital resources for the fiscal year ended September 30<sup>th</sup>, 2018, includes a comparison to the corresponding, comparative year ended September 30<sup>th</sup>, 2017. Please refer to the Statement of Financial Position and Statement of Cash Flows.

The Company's principal source of funds available are equity and debt financing. The Company believes it has sufficient working capital to maintain its liquidity for the next fiscal year.

The Company's tangible assets include cash, inventories, and apparel production deposits. Other assets required for the operation of the Company include trade receivables and software and equipment.

Total assets increased to \$2.2-million compared to \$1.6-million the previous year due to higher inventories.

Cash increased to \$229,089 from \$183,880, while trade receivables were immaterial as the Company receives payment in full when a customer places a purchase order with an independent sales representative on the Company's website using their credit cards. The difference is due to the credit card companies' processing time.

Apparel production deposits decreased to \$35,529 as the Company has engaged with a new factory partner, which requires lower upfront deposit when placing a purchase order, compared to the company's previous factory.

Inventories increased by 60% to \$1.8-million, year-over-year. The Company also wrote down \$206,000 in obsolete inventory from previous collections as the collections had minimal value due to the trend changes in apparel.

## **Peekaboo Beans Inc.**

Prepaid expense decreased by 53% to \$98,034 compared to \$209,541 the previous year due to the utilization of investor relation contracts which required advance payment in the prior year.

Total debt or liabilities decreased 7% to \$1.6-million year-over-year and includes \$1.37-million in debt that is repayable within the year and \$245,202 in long-term debt.

Debt repayable within the year consisted of trade payables and accrued liabilities of \$735,547, loans that are current totaling \$563,597 and commission payable to Stylists of \$75,571. Commissions owing to Stylists occur when Stylists elect not to have their sales commissions paid to them but instead applied towards future apparel purchases.

Current loans predominately include \$278,250 owing to a Canadian apparel finance company and \$100,625 in an unsecured promissory note due to the Company's CEO.

Long-term debts include an unsecured convertible promissory note from a former executive and director of the Company for \$246,821 bearing interest at 12% per annum and convertible into the shares and warrants of the Company.

Trade payables increased 10% year-over-year to \$735,547, with the variance over the prior year mostly attributable to timing of payments to vendors.

The shareholder equity increased to \$577,113 from a deficit of \$136,062 a year earlier due to the private placements share financings completed during the year.

The statement of cash flows shows the structure of and changes in cash during the reported period. The statement contains cash changes in operating activities, investing activities and financing activities. During fiscal 2018, the Company generated \$45,209 of cash to hold \$229,089 at fiscal year-end. Operating activities used \$3.6-million in cash predominately from operating losses during the year and increase in inventory. Financing activities generated cash of approximately \$3.8-million due to proceeds of private placement share financings and a short-term loan, offset by loan repayments of \$346,336.

### **Summary of Reported Period Results**

*For the quarter ending September 30, 2018.*

The following analysis of the Company's operating results for the three months ending September 30, 2018 and includes a comparison to the corresponding comparative year ended September 30, 2017.

Sales totaled \$544,992 compared to \$862,160 in the comparative period while cost of sales totaled \$723,281 (including a \$206,000 year end inventory obsolescence charge) compared to \$560,570 in the prior comparative period. Gross margins decreased compared to the comparative period, due to impairment of obsolete inventories.

Operating costs were similar form period to period, and totaled approximately \$1.05-million compared to \$975,443 in comparative period.

The Company reported an operating loss of \$1.3-million and a net loss of \$1.33 million compared to \$762,815 and \$792,285 in the comparative period.

## **Peekaboo Beans Inc.**

### **PART 3 – CAPITALIZATION**

As of September 30, 2018:

#### **Shares**

As at September 30, 2018, the Company had 20,856,533 common shares issued and outstanding, of which 301,717 were held in escrow.

#### **Warrants**

The Company has the following warrants outstanding:

- 300,000 warrants outstanding exercisable at \$0.80 per share until March 30, 2019
- 1,428,429 warrants outstanding exercisable at \$0.80 per share until May 12, 2019
- 476,385 warrants outstanding exercisable at \$0.80 per share until June 29, 2019
- 439,055 warrants outstanding exercisable at \$0.80 per share until September 28, 2019
- 169,066 warrants outstanding exercisable at \$0.60 per share until December 20, 2019
- 1,491,666 warrants outstanding exercisable at \$1.00 per share until February 16, 2020
- 313,249 warrants outstanding exercisable at \$0.75 per share until February 16, 2020

Subsequent to year-end, the Company issued 340,000 finder warrants exercisable at \$0.15 per share until December 21, 2021.

#### **Stock Options**

During fiscal 2017, 855,000 and 20,000 stock options were issued to management, staff and consultants, respectively on May 12<sup>th</sup>, 2017 and September 26<sup>th</sup>, 2017. The options are exercisable into one common share at \$0.60 until May 12<sup>th</sup>, 2019 and September 26<sup>th</sup>, 2019, respectively.

During fiscal 2018, 850,000 stock options were issued to consultants and management, exercisable into one common share of the Company at exercise prices of \$0.24 to \$0.80.

On January 15, 2019, 30,000 stock options were issued to a director, exercisable into one common share of the Company at an exercise price of \$0.155 and expiring on January 15, 2029.

#### **Weighted Average Number of Common Shares**

The weighted average number of common shares outstanding for fiscal 2018 was 15,903,857 and 8,520,038 for fiscal 2017. The weighted average of outstanding shares incorporates any changes of shares outstanding over a reported period and is used to calculate key financial measures such as earnings per share for the period.

Other than the aforementioned, no other dilutive securities were outstanding at year-end.

### **Part 4 – ADDITIONAL INFORMATION**

#### **Transactions Between Related Parties**

During the year ended September 30, 2018 and 2017:

## **Peekaboo Beans Inc.**

The Company paid its Chief Executive Officer \$149,021 (2017 - \$89,000), which included \$27,771 of retroactive pay, and its Chief Financial Officer \$78,500 (2017 - \$78,467) in salary.

The Company recorded \$61,052 (2017 - \$258,479) in share-based compensation to officers and directors.

At September 30, 2018, the Company owes its Chief Financial Officer (former Executive Manager) \$nil (2017 - \$32,031) for unpaid expense reimbursement and \$245,202 (2017 - \$246,821) under an unsecured convertible promissory note. Total interest accrued during the year ended September 30, 2018 was \$29,532 (2017 - \$17,277).

At September 30, 2018, the Company owes its Chief Executive Officer \$100,625 under an unsecured promissory note. Total interest accrued during the year ended September 30, 2018 was \$625.

During the year ended September 30, 2017, a company with a former director in common converted a total of \$1,019,250 of a promissory note into 970,714 units of the Company at a price of \$1.05 per unit.

### **Forward-Looking Statements**

This document contains forward-looking statements. The Company's representatives may also make forward-looking statements orally from time to time.

Statements in this document that are not historical facts, including statements about the Company's beliefs and expectations, recent business and economic trends constitute forward-looking statements. Forward-looking statements include, without limitation, statements regarding the outlook for future operations, forecasts of future revenue and expenditures, market conditions or other business plans. Forward-looking statements include statements regarding the intent, belief or current expectations of the Company, primarily on the results of operations, financial position or cash flows of the Company.

The statements are based on current plans, estimates, and projections and are subject to change. A number of factors could cause actual results to differ materially from those contained in any forward-looking statement, and the Company undertakes no obligation to update publicly any changes in light of new information or future events.

Shareholders and potential investors are cautioned that any such forward-looking statements are not guarantees and involve risks and uncertainties. Actual results may differ from those in the forward-looking statements as a result of various factors, such as general economic and business conditions particularly in Canada and North America, including changes in interest rates, actions by government authorities in Canada, including changes in government regulation in the direct-sales industry; political conditions and future decisions by the Company's directors or executive officers in response to changing conditions; the ability to execute prospective business plans; and misjudgments in the course of preparing forward-looking statements.

Material factors and assumptions underlying the Company's expectations regarding forward-looking statements include, among others: the ability of the Company to obtain financing on acceptable terms; that the Company will be able to maintain appropriate levels of liquidity and working capital; stability in the global economic environment particularly in Canada and the People's Republic of China ("China") and broadly in regard to North America and Canadian interest rates; and that interest rates and foreign exchange rates, particularly with regard to the Canadian dollar, the United States of America ("United States") dollar ("US\$") and to a lesser degree the Renminbi, the currency of China, will not vary materially from current levels.

## **Peekaboo Beans Inc.**

Shareholders and potential investors are advised that these cautionary remarks expressly qualify in their entirety all forward-looking statements attributable to the Company or persons acting on its behalf contained in this MD&A.

This forward-looking statement dated September 30, 2018, references CSA Staff Notice 51-330 Guidance regarding the Application of Forward-Looking Information Requirements under National Instrument 51-102 Continuous Disclosure Obligations dated November 20, 2009.

### **Accounting Policy**

Financial information for fiscal 2017 and 2016 presented and discussed in this MD&A is prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

Significant accounting policies and outline the measurement and other accounting policies that are relevant to understanding Peekaboo’s financial statements, business operations, and the direct-selling industry.

Changes in accounting policies distinguish how the Company should present and disclose different types of accounting changes in its financial statements. Changes in accounting policies need to be applied retroactively while changes in accounting estimates are accounted for prospectively.

Critical accounting estimates and judgments outline the estimates and assumptions that management made that can significantly affect Peekaboo’s financial statements and include inventory valuation, income taxes, and stock-based compensation during fiscal 2018.

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