



Peekaboo Beans Inc.
MANAGEMENT'S DISCUSSION AND ANALYSIS
Third Quarter Ended June 30, 2020

August 27, 2020

The following is management's discussion and analysis ("MD&A") of Peekaboo Beans Inc.'s financial condition and results of operations for the period ended June 30, 2020 and 2019 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 in this MD&A to "Q3 2020" are to our three months ended June 30, 2020, to "Q3 2019" are to our three months ended June 30, 2019. All financial information is expressed in Canadian dollars ("C\$"). Unless otherwise indicated, a reference to the "Company" or "PK Beans" means Peekaboo Beans Inc. The Company's fiscal year is the year ended September 30th ("year-end"). Reference to a "fiscal year" means the Company's year commencing on October 1st of that year and ending on September 30th of the following year. For example, fiscal 2020 means the period beginning October 1, 2019 and ending September 30, 2020. In addition, reference will be made to "Notes", which refers to the Notes to the Financial Statements.

The unaudited condensed interim consolidated financial statements and accompanying notes for Q3 2020 and this MD&A were authorized for issue by the Company's Board of Directors.

PART 1 – OVERVIEW AND OUTLOOK

The Company

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

The Company launched their official rebrand from "Peekaboo Beans" to "PK Beans", with a new modernized name and logo. The change made it to reflect not only the growth of both children wearing the product, but also the business itself. The new logo will provide room of the Company to broaden the size range and the product offering. The new brand, "PK Beans", focus is on high quality and long-lasting children's clothing. They are passionate about the benefits of a playful life for children all while being an ethical company specifically with the manufacturing process and sustainability. Going forward the website will be redirected from www.peekaboobeans.com to www.pkbeans.com. In addition, the new logo will not be printed on the clothing until the Company's Fall 2020 Collection.

During Q3 the Company introduced the adventure subscription box "PKB Explorers Club". This is a monthly subscription that will extend the Company's retail apparel brand into children adventure play space. The objective of this initiative is to enhance the brand and convert the steps taken in marketing into a profitable recurring revenue stream. In addition, this can also be an opportunity to increase licensing prospects and broadening the omni-channel platform.

PKB Explorers' Club is designed for kids to maneuver from digital to active play, thus reinforcing the message that playtime is important and needs to be well balanced for the benefit of children's development. PK Explorers' Club allows children to become immersed into a magical storybook world, conceived by Emmy-winning child psychologists. Each month, children receive a new storybook, with Augmented Reality (AR) components for a balanced digital engagement. In addition, with AR, it includes active play components, such as a dress-up felt board and an adventure map. This subscription is an imagination and ingenuity booster; storytelling ties everything together engaging kids and their imaginations for healthy, purposeful play and learning.

The Company embarked on the first phase of their secondhand resale program, known as "PK Replay," within their flagship store location in BC. With the high quality and longevity of the clothing, being able to offer good quality secondhand pieces is perfect for reaching new and longstanding customers. Meanwhile this will keep clothing out of landfills and having a positive impact on the environment. This is an economic and environmentally new opportunity for the Company as there is rapid growth in the secondhand retail appeal market. After the instore launch in April for Earth day the Company has met positive growth as the second hand and vintage PK Beans styles currently provide a 56% margin and repurposed items boast an 86% gross margin for the Company.

Due to the COVID-19 outbreak, the Company made the decision to close their Flagship store location indefinitely, effective March 19, 2020. On June 2nd the store re-opened resulting in the month to date sales made at the location account for 27% of June's revenues. However, the Company's website does remain open for customers. The Company has been working with manufactures and suppliers to ensure a continued flow of services and inventory during Q3 and for the remainder of 2020.

The Company continues to design and manufacture children's playwear that is stylish, functional and allows free, unstructured play for children. PK Beans 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".



PK Beans' 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 PK Beans 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, PK Beans 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. PK Beans works closely with its third-party contract manufacturers who adhere to a vendor code of ethics regarding social and environmental sustainability practices. PK Beans 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.

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 Vietnam, 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 Vietnamese dong may affect financial performance. The economic health of the economies of North America and to a lesser extent, Vietnam, may affect the financial performance of the Company.

Overall Performance

During Q3 2020, the Company generated quarterly sales of \$215,749, a decrease of 57% from Q2 2020 and an increase of 15% over Q3 2019. Other highlights in the quarter include:

- Like most retailers, we extended a temporary closure of our Flagship Store and redirected all initiatives online. Experiencing a 21% increase in sales for April 2020 (over April 2019), online visitors were up 66% from 2019 for April and 32% of sales attributed to first time customers
- PKB Explorers' Club, the Company's monthly subscription interactive adventure series that launched in March, continues to grow with 107 subscribers to date. It has garnered attention through social media, and appeared on higher profile accounts, including Jillian Harris' Instagram stories with 1M+ followers.
- Since launching the PK Beans Summer 2020 Collection, the Company has sold 10% of their inventory and have increased their page views 65% and their new users by 58% year-over-year.

The Company has been focusing on transitioning 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 2020, the Company will continue to execute on the new Social Retailing business model.



PART 2 – FINANCIAL PERFORMANCE REVIEW

Financial Highlights

Summary of Quarterly Results

The following selected financial data as reported by the Company for Q3 2020, has been summarized from the Company's unaudited interim consolidated financial statements and are qualified in their entirety by reference to, and should be read in conjunction with, such financial statements.

	2020 Q3	2020 Q2	2020 Q1	2019 Q4	2019 Q3	2019 Q3	2019 Q1	2018 Q4
Revenue	\$ 215,749	\$ 502,957	\$ 547,936	\$ 343,539	\$ 254,873	\$ 413,868	\$ 468,877	\$ 544,992
Net loss	(220,981)	(603,478)	(418,081)	(751,755)	(503,175)	(367,655)	(786,797)	(1,333,582)
Loss per share, basic and diluted	\$ (0.01)	\$ (0.02)	\$ (0.01)	\$ (0.02)	\$ (0.02)	\$ (0.01)	\$ (0.03)	\$ (0.06)

Summary of Reported Results

For the three months ended June 30, 2020

The following analysis of the Company's operating results for Q3 2020, includes a comparison to the corresponding comparative Q3 2019. Please refer to the Interim Consolidated Statements of Comprehensive Loss.

	June 30, 2020	% ¹	June 30, 2019	% ¹	YoY% ²
Sales	\$ 215,749	-	\$ 254,873	-	-15%
Cost of sales					
Cost of goods sold	186,809	87%	235,895	93%	-21%
Stylist commission	7,845	4%	12,455	5%	-37%
Gross profit	21,095	10%	6,523	3%	223%
Operating costs	246,891	114%	473,693	186%	-48%

Sales decreased by 15% from the prior comparative period Q3 2019 due to the decrease on store sales during COVID – 19 pandemic.

Gross margin increased to \$21,095 from \$6,523 a year earlier, as the children's sleepwear which was released in the Spring 2020 Collection, provided higher margins.

Operating expenses related to the operation of the business decreased to \$246,891 compared to \$473,693, a year earlier as a result of streamlining operations and reducing overhead expenses in the current period.

Employee salaries decreased from \$164,038 in the prior comparative period to \$59,576 in the current period.

Professional fees and public company costs increased from \$2,996 in the prior comparative period to \$26,446 in the current period. Distribution and information technology costs decreased from \$70,194 to \$4,948 due to elimination of legacy technology systems relating to the Stylist platform, and due to IFRS 16 changes in the accounting treatment for office and warehouse lease payments.



Share-based compensation for employees and executives totaled \$2,641, down from \$36,673 in the prior comparative period.

Loan interest and other finance cost increased slightly to \$27,501 compared to \$27,409 in the prior comparative period.

The Company reported a net loss of \$221,230 in Q3 2020 compared to \$504,175 in Q3 2019. The basic loss per weighted average number of common shares was \$0.01 and a loss of \$0.06 for the respective periods.

Liquidity and Capital Resources

The following analysis of the Company's liquidity and capital resources for Q3 2020, includes a comparison to the corresponding, comparative year end September 30, 2019. 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 amounts receivables and software and equipment.

Total assets decreased to \$760,037 compared to \$1.47-million the previous year as the Company continued to sell through its existing inventory on hand to generate cash.

Cash increased to an overdraft of \$49,020 from \$20,800, while amounts receivables were immaterial as the Company receives payment in full when a customer places a purchase order on the Company's website using their credit cards. The difference is due to the credit card companies' processing time.

Apparel production deposits increased to \$55,376 from \$15,361 as the Company placed some new purchase orders for Fall/Winter 2020 during Q3 2020.

Inventories decreased to \$657,850 from \$1.45 million compared to the prior year as the Company continued to sell through its inventories to generate cash flow.

Prepaid expense increased to \$25,662 from \$10,883 in the prior year, due to the addition of director insurance which required advance payment.

Total debt or liabilities increased 18% to \$2.1 million from the prior year, and includes \$1.8-million in debt that is repayable within the year and \$369,518 in long-term debt.

Debt repayable within the year consisted of trade payables and accrued liabilities of \$1 million, loans that are current totaling \$717,938, commission payable of \$3,728, and lease liabilities of \$21,439.

Current loans include \$83,479 owing to a Canadian apparel finance company and \$116,408 in an unsecured promissory note due to the Company's CEO. Current loans also include \$231,992 by way of an unsecured convertible promissory note owing to the Company's former CFO.

Long-term debts include an unsecured convertible promissory note of \$275,000 in principal, which was received during the previous year.

Trade payables and other accrued liabilities increased 50% from the prior year to \$1,007,253, with the variance over the prior year mostly attributable to timing of payments to vendors and to cash constraints.



Shareholders' equity increased to a deficit of \$1,408,859 from a deficit balance of \$57,593 last year due to net losses during the period.

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 Q3 2020, the Company used \$28,220 of cash to hold an overdraft of \$49,020 at period-end. Operating activities used \$189,098 in cash predominately from operating losses during the year, a stark improvement from the \$687,835 cash used in operating activities during Q3 2019. Financing activities generated cash of approximately \$160,992 due to loans received, offset by loan repayments of \$40,804.

PART 3 – CAPITALIZATION

As of June 30, 2020:

Shares

As at June 30, 2020, the Company had 39,044,885 common shares issued and outstanding, of which none were held in escrow.

Warrants

The Company has the following warrants outstanding:

- 1,436,200 warrants outstanding exercisable at \$0.30 per share until September 26, 2020
- 375,000 warrants outstanding exercisable at \$0.30 per share until October 4, 2020
- 5,690,000 warrants outstanding exercisable at \$0.15 per share until December 21, 2021
- 120,000 warrants outstanding exercisable at \$0.195 per share until March 22, 2022
- 3,370,000 warrants outstanding exercisable at \$0.15 per share until May 31, 2022
- 210,000 warrants outstanding exercisable at \$0.15 per share until August 7, 2022

During Q2 2020, the Company's warrant exercise incentive program ran from February 14th to March 4th, by which all warrant holders would receive a reduced exercise price of \$0.05 for a period of 20 days. Prior to expiry, the Company announced that the program was to be extended to March 18th. The Company issued 2,060,000 common shares valued at \$103,000 pursuant to exercise of warrants at \$0.05 per share in the current year.

Stock Options

During Q3 2020, no stock options were issued. As at June 30, 2020, the Company had 1,917,442 stock options outstanding, with exercise prices ranging from \$0.10 to \$0.60 and expiry dates ranging from 5 to 10 years after issuance.

Weighted Average Number of Common Shares

The weighted average number of common shares outstanding for Q3 2020 was 39,044,885 and 30,030,662 for Q3 2019. 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 Q3 2020 and 2019:

- (a) The Company paid its Chief Executive Officer \$94,865 (2019 - \$128,667) in salary (Note 12).
- (b) The Company recorded \$18,484 (2019 - \$23,727) in share-based compensation to officers and directors.
- (c) The Company owes its Chief Executive Officer \$116,419 by way of an unsecured promissory note bearing interest at 12% per annum. Total interest accrued on the loan during the nine months ended June 30, 2020 is \$12,597 (2019 – \$8,975).

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 Vietnam 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.

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, 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 Q3 2020 and 2019 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 PK Beans' 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 PK Beans' financial statements and include inventory valuation, income taxes, and stock-based compensation during fiscal 2020.

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