# FORM 5

## QUARTERLY LISTING STATEMENT

Name of Listed Issuer: Peekaboo Beans Inc. (the "Issuer").

Trading Symbol: BEAN

This Quarterly Listing Statement must be posted on or before the day on which the Issuer's unaudited interim financial statements are to be filed under the *Securities* Act, or, if no interim statements are required to be filed for the quarter, within 60 days of the end of the Issuer's first, second and third fiscal quarters. This statement is not intended to replace the Issuer's obligation to separately report material information forthwith upon the information becoming known to management or to post the forms required by the Exchange Policies. If material information became known and was reported during the preceding quarter to which this statement relates, management is encouraged to also make reference in this statement to the material information, the news release date and the posting date on the Exchange website.

### General Instructions

(a) Prepare this Quarterly Listing Statement using the format set out below. The sequence of questions must not be altered nor should questions be omitted or left unanswered. The answers to the following items must be in narrative form. When the answer to any item is negative or not applicable to the Issuer, state it in a sentence. The title to each item must precede the answer.

(b) The term "Issuer" includes the Listed Issuer and any of its subsidiaries.

(c) Terms used and not defined in this form are defined or interpreted in Policy 1 – Interpretation and General Provisions.

There are three schedules which must be attached to this report as follows:

### SCHEDULE A: FINANCIAL STATEMENTS

**See Financial Statements for the quarter ended March 31, 2020 attached as Schedule A.**

Financial statements are required as follows:

For the first, second and third financial quarters interim financial statements prepared in accordance with the requirements under Ontario securities law must be attached.

If the Issuer is exempt from filing certain interim financial statements, give the date of the exempting order.

### SCHEDULE B: SUPPLEMENTARY INFORMATION

The supplementary information set out below must be provided when not included in Schedule A.

1. **Related party transactions**

Provide disclosure of all transactions with a Related Person, including those previously disclosed on Form 10. Include in the disclosure the following information about the transactions with Related Persons:

**All Related Party transactions, if any, have been disclosed in the Issuer's Management Discussion and Analysis for the quarter ended March 31, 2020 attached as Schedule C.**

(a) A description of the relationship between the transacting parties. Be as precise as possible in this description of the relationship. Terms such as affiliate, associate or related company without further clarifying details are not sufficient.
(b) A description of the transaction(s), including those for which no amount has been recorded.
(c) The recorded amount of the transactions classified by financial statement category.
(d) The amounts due to or from Related Persons and the terms and conditions relating thereto.
(e) Contractual obligations with Related Persons, separate from other contractual obligations.
(f) Contingencies involving Related Persons, separate from other contingencies.

2. **Summary of securities issued and options granted during the period.**

Provide the following information for the period beginning on the date of the last Listing Statement (Form 2A):

**All securities issued and options granted, if any, have been disclosed in the Issuer's Financial Statements for the quarter ended March 31, 2020– see Schedule A.**

(a) summary of securities issued during the period,

| Date of Issue | Type of Security (common shares, convertible debentures, etc.) | Type of Issue (private placement, public offering, exercise of warrants, etc.) | Number | Price | Total Proceeds | Type of Consideration (cash, property, etc.) | Describe relationship of Person with Issuer (indicate if Related Person) | Commission Paid |
|---|---|---|---|---|---|---|---|---|
| March 25, 2020 | Common Shares | Exercise of warrants | 2,060,000 | $0.05 | $103,000 | Cash | At-arm's length Investors | |
| | | | | | | | | |
| | | | | | | | | |

(b) summary of options granted during the period,

| Date | Number | Name of Optionee if Related Person and relationship | Generic description of other Optionees | Exercise Price | Expiry Date | Market Price on date of Grant |
|---|---|---|---|---|---|---|
| | | | | | | |
| | | | | | | |
| | | | | | | |

**3. Summary of securities as at the end of the reporting period.**

**A summary of securities as at the end of the reporting period have been disclosed in the Issuers Financial Statements for the quarter ended March 31, 2020 – see Schedule A.**

Provide the following information in tabular format as at the end of the reporting period:

(a) description of authorized share capital including number of shares for each class, dividend rates on preferred shares and whether or not cumulative, redemption and conversion provisions,

(b) number and recorded value for shares issued and outstanding,

(c) description of options, warrants and convertible securities outstanding, including number or amount, exercise or conversion price and expiry date, and any recorded value, and

(d) number of shares in each class of shares subject to escrow or pooling agreements or any other restriction on transfer.

| Authorized Share Capital | Issued and Outstanding | Options | Warrants | Escrowed Shares |
|---|---|---|---|---|
| | | | | |
| | | | | |

**4. List the names of the directors and officers, with an indication of the position(s) held, as at the date this report is signed and filed.**

| Name | Position |
|---|---|
| Traci Costa | Director, President, Chief Executive Officer and Corporate Secretary |
| Darrell Kopke | Director |

| Name | Position |
|---|---|
| Sarah Bundy | Director |
| Dave Fong | CFO |

## SCHEDULE C: MANAGEMENT DISCUSSION AND ANALYSIS

Provide Interim MD&A if required by applicable securities legislation.

**See Management Discussion and Analysis for the quarter ended March 31, 2020 attached as Schedule C.**

### Certificate Of Compliance

The undersigned hereby certifies that:

1. The undersigned is a director and/or senior officer of the Issuer and has been duly authorized by a resolution of the board of directors of the Issuer to sign this Quarterly Listing Statement.

2. As of the date hereof there is no material information concerning the Issuer which has not been publicly disclosed.

3. The undersigned hereby certifies to the Exchange that the Issuer is in compliance with the requirements of applicable securities legislation (as such term is defined in National Instrument 14-101) and all Exchange Requirements (as defined in CNSX Policy 1).

4. All of the information in this Form 5 Quarterly Listing Statement is true.

Dated January 28, 2021.

Traci Costa
Name of director or Senior Officer

"Traci Costa"
Signature

Director, President, Chief Executive Officer and Corporate Secretary
Official Capacity

| | | |
|---|---|---|
| ***Issuer Details***<br>Name of Issuer<br><br>**Peekaboo Beans Inc.** | For Quarter Ended<br>**March 31, 2020** | Date of Report<br>**12/02/2020** |
| Issuer Address<br>**206-5000 Canoe Pass Way** | | |
| City/Province/Postal Code<br>**Tsawwassen, British Columbia, V4M 0B3** | Issuer Fax No.<br>**N/A** | Issuer Telephone No.<br>**(604) 279-2326** |
| Contact Name<br><br>**Traci Costa** | Contact Position<br>**Director, President, Chief Executive Officer and Corporate Secretary** | Contact Telephone No.<br>**(604) 279-2326** |
| Contact Email Address<br>**ir@peekaboobeans.com** | Web Site Address<br>**www.peekaboobeans.com** | |

## SCHEDULE A

## FINANCIAL STATEMENTS

## FOR THE QUARTER ENDED MARCH 31, 2020

# PEEKABOO BEANS INC.

## INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
## FOR THE THREE AND SIX MONTHS ENDED
## MARCH 31, 2020 AND 2019

(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 | March 31, 2020 | September 30, 2019 |
|---|---|---|---|
| ASSETS | | | |
| Current assets | | | |
| Amounts receivable | | $ 10,345 | $ 2,270 |
| Apparel production deposits | 6 | 97,368 | 15,361 |
| Prepaid expense | | 23,669 | 10,883 |
| Inventories | 7 | 615,579 | 1,446,699 |
| Total current assets | | 746,961 | 1,475,213 |
| Non-current assets | | | |
| Right-of-use assets | 9 | 48,612 | - |
| Software and equipment | 14 | 1,390 | 1,880 |
| Total assets | | $ 796,963 | $ 1,477,093 |
| LIABILITIES AND EQUITY | | | |
| Current liabilities | | | |
| Bank overdraft | | $ 92,502 | $ 20,800 |
| Trade payables and accrued liabilities | 15 | 857,563 | 882,236 |
| Commissions payable | 8 | 3,002 | 1,871 |
| Lease liabilities | 9 | 52,808 | - |
| Loans | 17 | 673,066 | 625,034 |
| Total current liabilities | | 1,678,941 | 1,529,941 |
| Non-current liabilities | | | |
| Loans | 17 | 321,290 | 304,745 |
| Total liabilities | | 2,000,231 | 1,834,686 |
| Shareholders' equity | | | |
| Share capital | 16 | 14,595,585 | 14,432,486 |
| Reserves | 16 | 2,752,043 | 2,732,567 |
| Deficit | | (18,544,460) | (17,516,573) |
| Accumulated other comprehensive loss | | (6,436) | (6,073) |
| Total shareholders' equity | | (1,203,268) | (357,593) |
| Total liabilities and equity | | $ 796,963 | $ 1,477,093 |

Note 1, "Nature of Operations and Going Concern"
Note 20, "Commitments and Contingencies"

*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, 2020 | Three months ended March 31, 2019 | Six months ended March 31, 2020 | Six months ended March 31, 2019 |
|---|---|---|---|---|---|
| Sales | | $ 502,957 | $ 413,868 | $ 1,050,893 | $ 882,745 |
| Cost of goods sold | 7 | 662,431 | 196,778 | 1,107,748 | 514,080 |
| Commissions | 8 | 8,561 | 6,630 | 26,282 | 49,338 |
| Gross profit | | (168,035) | 210,460 | (83,137) | 319,327 |
| Operating expenses | | | | | |
| Marketing and advertising | | 65,948 | 18,720 | 135,375 | 389,213 |
| Administrative | 10 | 90,092 | 174,420 | 252,537 | 358,228 |
| Distribution and information technology | 11 | 27,859 | 85,680 | 49,752 | 141,312 |
| Executive and employee salaries | 12 | 164,224 | 178,401 | 352,716 | 394,975 |
| Share-based compensation | 16 | 1,070 | 16,366 | 19,476 | 22,364 |
| Professional fees and public company costs | 13 | 58,046 | 65,691 | 112,206 | 124,599 |
| Investor relations | | - | 33,501 | 39 | 85,383 |
| Total operating expenses | | 407,239 | 572,779 | 922,101 | 1,516,074 |
| Loss before other expenses | | (575,274) | (362,319) | (1,005,238) | (1,196,747) |
| Other expenses | | | | | |
| Interest and finance costs | | 28,649 | 26,040 | 66,170 | 56,906 |
| Gain on settlement of accounts payable | | - | - | (49,400) | (35,058) |
| Foreign exchange and other expense | | 21 | (20,704) | 17 | (64,143) |
| Net loss for the period | | (603,944) | (367,655) | (1,022,025) | (1,154,452) |
| Other comprehensive loss | | | | | |
| Currency translation adjustment on foreign operations | | 466 | (22,411) | 363 | (61,003) |
| Comprehensive loss for the period | | $ (603,478) | $ (390,066) | $ (1,021,622) | $ (1,215,455) |
| Basic and diluted loss per common share | | $ (0.02) | $ (0.01) | $ (0.03) | $ (0.04) |
| Weighted average number of common shares outstanding | | 35,939,952 | 28,497,695 | 35,939,952 | 28,497,695 |

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

| | Note | Number of shares | Share capital | Reserves | Deficit | Accumulated Other Comprehensive Loss | Total |
|---|---|---|---|---|---|---|---|
| At September 30, 2018 | | 20,856,533 | $ 13,065,242 | $ 2,629,257 | $ (15,107,191) | $ (10,195) | $ 577,113 |
| Issuance of shares pursuant to private placements, net of share issuance costs (cash) | 16 | 6,600,000 | 735,000 | - | - | - | 735,000 |
| Share issuance costs on agent warrants | 16 | - | (1,701) | 1,701 | - | - | - |
| Share issuance cost on finders' shares | 16 | 340,000 | - | - | - | - | - |
| Settlement of accounts payable | 16 | 701,162 | 105,174 | - | - | - | 105,174 |
| Share-based compensation | 16 | - | - | 22,364 | - | - | 22,364 |
| Net loss | 16 | - | - | - | (1,154,453) | - | (1,154,453) |
| Currency translation adjustment | | - | - | - | - | (61,003) | (61,003) |
| At March 31, 2019 | | 28,497,695 | $ 13,903,715 | $ 2,653,322 | $ (16,261,644) | $ (71,198) | $ 224,195 |
| | | | | | | | |
| At September 30, 2019 | | 35,044,885 | $ 14,432,485 | $ 2,732,567 | $ (17,516,573) | $ (6,073) | $ (357,594) |
| Adjustment on adoption of IFRS 16 | 4 | - | - | - | (5,862) | - | (5,862) |
| At October 1, 2019 | | 35,044,885 | $ 14,432,485 | $ 2,732,567 | $ (17,522,435) | $ (6,073) | $ (363,456) |
| Settlement of debt | 16 | 500,000 | 15,000 | - | - | - | 15,000 |
| Shares issued for services | 16 | 1,440,000 | 57,600 | - | - | - | 57,600 |
| Exercise of warrants | 16 | 1,810,000 | 90,500 | - | - | - | 90,500 |
| Share-based compensation | 16 | - | - | 19,476 | - | - | 19,476 |
| Net loss | | - | - | - | (1,022,025) | - | (1,022,025) |
| Currency translation adjustment | | - | - | - | - | (363) | (363) |
| At March 31, 2020 | | 38,794,885 | $ 14,595,585 | $ 2,752,043 | $ (18,544,460) | $ (6,436) | $ (1,203,268) |

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

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

| | Six months ended March 31, 2020 | 2019 |
|---|---|---|
| OPERATING ACTIVITIES | | |
| Loss for the period | $ (1,022,025) | $ (1,154,452) |
| Adjustments for: | | |
| Share-based compensation | 19,476 | 22,364 |
| Non-cash consulting fees | 72,599 | - |
| Accrued interest on loans | 8,318 | 44,908 |
| Accrued interest on leases | 3,092 | - |
| Amortization | 58,822 | 528 |
| Changes in non-cash working capital items: | | |
| Amounts receivable | (8,075) | (67,491) |
| Inventories | 831,120 | (156,696) |
| Apparel production deposits | (82,007) | 35,529 |
| Prepaid expenses | (12,786) | 64,073 |
| Trade payables and accrued liabilities | (23,542) | 537,390 |
| Interest paid on lease liabilities | (3,092) | - |
| Cash used in operating activities | (158,100) | (673,847) |
| INVESTING ACTIVITIES | | |
| Purchase of equipment | - | (456) |
| Cash used in investing activities | - | (456) |
| FINANCING ACTIVITIES | | |
| Loan advances | 145,290 | 275,000 |
| Loan repayments | (89,032) | (226,345) |
| Repayment of principal on lease liabilities | (59,997) | - |
| Exercise of warrants | 90,500 | - |
| Share issuances, net of issuance costs | - | 675,000 |
| Cash provided by financing activities | 86,761 | 723,655 |
| Effect of foreign exchange on cash | (363) | (61,003) |
| Change in cash during the period | (71,702) | (11,651) |
| Cash (bank overdraft), beginning of period | (20,800) | 229,089 |
| Cash (bank overdraft), end of period | $ (92,502) | $ 217,438 |

*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. is a children's apparel brand with a focus on environmentally responsible clothes which are sold through an omni-channel approach. Children playwear apparel is sold through social platforms and online retailers.

Peekaboo Beans Inc. is incorporated in the Province of British Columbia, Canada, and has its head office is located at 170 – 11120 Bridgeport Road, Richmond, BC, V6X 1T2. Peekaboo Beans Inc. and its wholly-owned subsidiaries are referred to as the "Company" or "Peekaboo Beans".

To date, the Company has incurred losses and further losses are anticipated as the Company 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 Canadian Securities Exchange ("CSE") 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, 2019. 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, 2019.

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, 2019. 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, 2019.

The Company's board of directors approved the release of these financial statements on June 1, 2020.

## 3. SIGNIFICANT ACCOUNTING POLICIES

These interim financial statements have been prepared using the accounting policies as outlined in note 3 of the Fiscal 2019 audited consolidated financial statements, with the exception of the accounting standards adopted in the year ended September 30, 2020 ("Fiscal 2020"). Changes to significant accounting policies are described below.

## 4. SIGNIFICANT NEW ACCOUNTING STANDARDS

### Standards recently adopted

<u>IFRS 16 – Leases</u>

In January 2016, the IASB issued IFRS 16, Leases ("IFRS 16"), which sets out a new model for lease accounting replacing IAS 17, Leases ("IAS 17") and related interpretations. The standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. Lessors continue to classify leases as finance and operating leases. Other areas of the lease accounting model have been impacted, including the definition of a lease. IFRS 16 became effective for annual periods beginning on or after January 1, 2019. The Company adopted the standard on October 1, 2019 using the modified retrospective method, with the cumulative effect initially recognized in retained earnings, with no restatement of prior comparative period.

Substantially all of the Company's existing leases are real estate leases for its retail store, distribution centers and support offices and all were classified as operating leases prior to adoption of IFRS 16. The Company recognized right-of-use assets and lease liabilities for leases previously classified as operating leases under IAS 17. The depreciation expense on the right-of-use assets and the finance charge on the lease liabilities substantially replaced the lease-related expenses recorded in selling, general and administrative expenses, previously recognized on a straight-line basis over the lease term under IAS 17. Variable lease payments and non-lease components are expensed as incurred.

The new standard does not change the amount of cash transferred between the lessor and lessee, but changes the presentation of the operating and financing cash flows presented on the Company's consolidated statements of cash flows.

The Company has elected to apply the following recognition exemptions and practical expedients, as described under IFRS 16:

i) recognition exemption of short term leases;
ii) recognition exemption of low-value leases;
iii) grandfather prior conclusions on contracts containing leases on transition;
iv) a single discount rate was applied to a portfolio of leases with similar characteristics on transition;
v) initial direct costs were excluded in the measurement of the right-of-use assets on transition;
vi) hindsight was used in determining lease term at the date of transition.

The lease liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as at October 1, 2019. The right-of-use assets were measured as if the standard had been applied since the commencement date of the lease, but discounted using the lessee's incremental borrowing rate at the date of initial application. The cumulative adjustment was recognized directly to retained earnings at October 1, 2019.

The following table summarizes the adjustments to opening balances resulting from the initial adoption of IFRS 16:

*(Expressed in Canadian dollars - unaudited)*

4. SIGNIFICANT NEW ACCOUNTING STANDARDS (continued)

IFRS 16 – Leases (continued)

| | As reported previously under IAS 17, September 30, 2019 | IFRS 16 transition adjustments | Balance at October 1, 2019 |
|---|---|---|---|
| Assets | | | |
| Right-of-use assets | $ - | $ 106,944 | $ 106,944 |
| Total impact on assets | $ - | $ 106,944 | $ 106,944 |
| Liabilities | | | |
| Lease liabilities | $ - | $ 112,806 | $ 112,806 |
| Retained earnings (deficit) | - | (5,862) | (5,862) |
| Total impact on liabilities and shareholders' equity (deficit) | $ - | $ 106,944 | $ 106,944 |

Upon adoption of IFRS 16, the Company updated its lease accounting policies as follows:

The Company assesses whether a contract is or contains a lease at the inception of the contract. Leases are recognized as a right-of-use asset and corresponding lease liability at the lease commencement date. The lease liability is measured at the present value of the future fixed payments and variable lease payments that depend on an index or rate over the lease term, less any lease incentives receivable, discounted using the lessee's incremental borrowing rate, unless the implicit interest rate in the lease can be easily determined. Lease liabilities are subsequently measured at amortized cost using the effective interest rate method.

Lease terms applied are the contractual non-cancellable periods of the lease, plus periods covered by renewal or termination options, if the Company is reasonably certain to exercise those options. Lease liabilities are remeasured (with a corresponding adjustment to the right-of-use asset) when there is a change in the lease term, a change in the future lease payments resulting from a change in an index or rate used to determined those payments, or when the lease contract is modified and the lease modification is not accounted for as a separate lease.

The right-of-use assets include the initial measurement of the corresponding lease liabilities, lease payments at or before the commencement date, any initial direct costs, less any lease incentives received before the commencement date. The right-of-use assets are subsequently measured at cost and are depreciated on a straight-line basis from the date the underlying asset is available for use over the lease term.

Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liabilities and are recognized in cost of goods sold and selling, general and administrative expenses as incurred.

## 5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of unaudited condensed interim consolidated financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Estimates and assumptions are continuously evaluated and are based on management's best judgments and experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Actual results may differ from these estimates.

In preparing these interim financial statements, the significant judgments made by management in applying the Company's accounting policies and key sources of estimation of uncertainty were the same as those applied in note 5 of the Fiscal 2019 audited consolidated financial statements, except as noted below relating to the adoption of IFRS 16.

The Company exercises judgment in determining the appropriate lease term on a lease by lease basis and considers all facts and circumstances that create an economic incentive to exercise a renewal or termination option. The periods covered by renewal options are included in the least term only if the Company is reasonably certain it will exercise such renewal options.

The Company uses the lessee's incremental borrowing rate when determining the carrying amount of right-of-use assets and lease liabilities, as the interest rates implicit in the lease agreements are not readily available. The Company determines the incremental borrowing rate of each leased asset as the rate of interest that the Company would have to pay to borrow, over a similar term with a similar security, the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment.

## 6. APPAREL PRODUCTION DEPOSITS

| | March 31, 2020 | September 30, 2019 |
|---|---|---|
| Apparel Production Deposits | $ 97,368 | $ 15,361 |

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).

## 7. INVENTORIES

Inventory consists of children's playwear apparel which is purchased from third party manufacturers. As at March 31, 2020, the Company holds finished goods of $615,579 (September 30, 2019 - $1,446,699).

Inventory expensed in net loss and included in cost of goods sold for the three and six months ended March 31, 2020 was $662,431 and $1,107,748 (2019 - $196,778 and $514,080), respectively.

*(Expressed in Canadian dollars - unaudited)*

## 8. 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, 2020, commissions earned but unpaid totaled $3,002 (September 30, 2019 - $1,871) recorded as commissions payable.

## 9. LEASES

The following table reconciles the change in right -of-use assets for the period ended March 31, 2020:

| | | Right-of-use assets |
|---|---|---|
| Cost | | |
| Balance on transition, October 1, 2019 | $ | 211,652 |
| Additions | | - |
| Balance, December 31, 2019 | $ | 211,652 |
| Accumulated amortization | | |
| Balance on transition, October 1, 2019 | $ | 104,707 |
| Amortization | | 58,333 |
| Balance, March 31, 2020 | $ | 163,040 |
| Net carrying value | | |
| As at date of transition, October 1, 2019 | $ | 106,944 |
| As at March 31, 2020 | $ | 48,612 |

The following table reconciles the change in lease liabilities for the period ended March 31, 2020:

| | | Lease liabilities |
|---|---|---|
| Balance on transition, October 1, 2019 | $ | 112,806 |
| Accretion of lease liabilities | | 5,286 |
| Repayment of interest and principal on lease liabilities | | (65,284) |
| Balance, March 31, 2020 | $ | 52,808 |

## 10. ADMINISTRATIVE

| | Three months ended March 31, 2020 | Three months ended March 31, 2019 | Six months ended March 31, 2020 | Six months ended March 31, 2019 |
|---|---|---|---|---|
| Credit card processing and miscellaneous | $ 1,593 | $ 19,795 | $ 2,873 | $ 31,192 |
| Consulting | 30,092 | 109,226 | 128,068 | 210,163 |
| Insurance | 7,659 | 8,947 | 18,760 | 24,951 |
| Travel, meals and entertainment | 6,797 | 13,214 | 15,412 | 29,883 |
| Amortization and office cost | 43,951 | 23,238 | 87,424 | 62,039 |
| | $ 90,092 | $ 174,420 | $ 252,537 | $ 358,228 |

*(Expressed in Canadian dollars - unaudited)*

## 11. DISTRIBUTION AND INFORMATION TECHNOLOGY

| | Three months ended March 31, 2020 | Three months ended March 31, 2019 | Six months ended March 31, 2020 | Six months ended March 31, 2019 |
|---|---|---|---|---|
| Rent and utilities | $ 5,201 | $ 24,944 | $ 9,370 | $ 67,956 |
| Information technology | 22,658 | 60,736 | 40,382 | 73,356 |
| | $ 27,859 | $ 85,680 | $ 49,752 | $ 141,312 |

## 12. EXECUTIVE AND EMPLOYEE COMPENSATION

| | Three months ended March 31, 2020 | Three months ended March 31, 2019 | Six months ended March 31, 2020 | Six months ended March 31, 2019 |
|---|---|---|---|---|
| Executive and employee salary compensation | | | | |
| Executive officer salaries | $ 27,104 | $ 43,750 | $ 83,854 | $ 84,917 |
| Employee salaries | 137,120 | 134,651 | 268,862 | 310,058 |
| | $ 164,224 | $ 178,401 | $ 352,716 | $ 394,975 |

## 13. PROFESSIONAL FEES AND PUBLIC COMPANY COSTS

| | Three months ended March 31, 2020 | Three months ended March 31, 2019 | Six months ended March 31, 2020 | Six months ended March 31, 2019 |
|---|---|---|---|---|
| Legal | $ 25,000 | $ (6,277) | $ 55,895 | $ 40,788 |
| Audit and accounting | 26,735 | 50,758 | 39,953 | 50,758 |
| Other listing and transfer agent fees | 6,311 | 21,210 | 16,358 | 33,053 |
| | $ 58,046 | $ 65,691 | $ 112,206 | $ 124,599 |

## 14. SOFTWARE AND EQUIPMENT

| | Computer Hardware | Computer Software and Development | Total |
|---|---|---|---|
| Cost | | | |
| Balance, September 30, 2019 | $ 5,435 | $ 42,615 | $ 48,050 |
| Acquisitions | - | - | - |
| Balance, March 31, 2020 | $ 5,435 | $ 42,615 | $ 48,050 |
| Accumulated Amortization | | | |
| Balance, September 30, 2019 | $ 4,173 | $ 41,997 | $ 46,171 |
| Amortization | 258 | 232 | 490 |
| Balance, March 31, 2020 | $ 4,431 | $ 42,229 | $ 46,660 |
| Net Book Value | | | |
| As at September 30, 2019 | $ 1,262 | $ 618 | $ 1,880 |
| As at March 31, 2020 | $ 1,004 | $ 386 | $ 1,390 |

*(Expressed in Canadian dollars - unaudited)*

## 15. TRADE AND OTHER PAYABLES

| | March 31, 2020 | September 30, 2019 |
|---|---|---|
| Trade payables | $ 605,174 | $ 544,457 |
| Accruals | 52,667 | 80,167 |
| Other non-trade payables | 199,722 | 257,612 |
| | $ 857,563 | $ 882,236 |

## 16. 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, 2020, the Company had 38,794,885 common shares issued and outstanding. Details of the issuance of share capital are as follows:

### (a) Issued and Outstanding

During the six months ended March 31, 2020, the Company:

(i) Issued 500,000 common shares valued at $15,000 pursuant to settlement of $50,000 of debt and recorded a gain on settlement of liabilities of $35,000. The common shares were valued at the trading price of the Company's stock at the time of issuance.

(ii) Issued 1,440,000 common shares valued at $57,600 pursuant to settlement of services with a value of $72,000 and recorded a gain on settlement of liabilities of $14,400. The common shares were valued at the trading price of the Company's stock at the time of issuance.

(iii) Issued 1,810,000 common shares valued at $90,500 pursuant to exercise of warrants at $0.05 per share.

During the six months ended March 31, 2019, the Company:

(i) Issued 750,000 units at a price of $0.20 per unit for settlement of services with a value of $150,000. Each unit consists of one common share and one-half of one common share purchase warrant, exercisable at $0.30 until October 4, 2020.

(ii) Issued 701,162 common shares valued at $105,174 pursuant to settlement of $140,232 of accounts payable and recorded a gain on settlement of accounts payable of $35,058. The common shares were valued at $105,174 which is the trading price of the Company's stock at the time of issuance.

(iii) Issued 5,850,000 units at a price of $0.10 per unit for aggregate gross proceeds of $585,000. Each unit consists of one common share and one common share purchase warrant, exercisable at $0.15 until December 4, 2021. The share purchase warrants had no value under the residual method since the fair value of common shares was equal to the private placement unit price on the date of issuance. In connection with the private placement, the Company issued 340,000 common shares and 340,000 finders' warrants exercisable at $0.30 until December 4, 2021. The Company recorded $1,701 as share issuance cost in relation to the finders' warrants issued.

*(Expressed in Canadian dollars - unaudited)*

## 16. SHARE CAPITAL (continued)

### (a) Issued and Outstanding (continued)

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 Canadian Securities Exchange is equal to or greater than $1.55 over a period of 10 consecutive trading days.

### (b) Stock Options

In 2016, and revised in 2019, the Company adopted a stock option plan. 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.

A summary of options activity to March 31, 2020 is as follows:

| | Options Outstanding | Weighted Average Exercise Price |
|---|---|---|
| September 30, 2019 | 1,917,442 | $ 0.38 |
| Issued | - | - |
| March 31, 2020 | 1,917,442 | 0.38 |
| Exercisable | 1,199,332 | $ 0.44 |

Share-based compensation for the three and six months ended March 31, 2020 was $1,070 and $19,476 (2019 - $1,320 and $7,318) for stock options that were granted or vested in the period.

| | Three months ended March 31, | | Six months ended March 31, | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| Executive, officer and director | $ 2,641 | $ 1,320 | $ 16,417 | $ 1,320 |
| Employee | - | - | - | 5,998 |
| Consultant | (1,571) | - | 3,059 | - |
| | $ 1,070 | $ 1,320 | $ 19,476 | $ 7,318 |

The grant date fair value of the options granted and vested during the three and six months ended March 31, 2020 was valued using the Black-Scholes Option Pricing Model with the following assumptions:

| | 2020 | 2019 |
|---|---|---|
| Volatility | 76-133% | 66-68% |
| Risk-free interest rate | 1.5% | 1.5% |
| Expected life of option | 2 - 10 years | 2 years |
| Dividend yield | 0% | 0% |

*(Expressed in Canadian dollars - unaudited)*

## 16. SHARE CAPITAL (continued)

### (c) Warrants

A summary of warrant activity to March 31, 2020 is as follows:

| | Warrants Outstanding | Weighted Average Exercise Price |
|---|---|---|
| **September 30, 2019** | **15,175,181** | **$ 0.27** |
| Exercised | (1,810,000) | 0.18 |
| Expired | (2,163,981) | 0.85 |
| **March 31, 2020** | **11,201,200** | **$ 0.17** |

At March 31, 2020, the weighted average remaining life of the outstanding warrants is 1.67 years (September 30, 2019 – 1.96 years).

During the six months ended March 31, 2019, 460,000 consultant, agent, corporate finance, or finders' warrants were issued and the Company recorded share-based compensation expense of $15,046 and share issuance cost of $1,701. The warrants issued in the six months ended December 31, 2018 were valued using the Black-Scholes Option Pricing Model with the following weighted average assumptions:

| | 2019 |
|---|---|
| Volatility | 86-107% |
| Risk-free interest rate | 1.5% |
| Expected life of option | 2 years |
| Dividend yield | 0% |

## 17. LOANS

| Debt Ranked by Seniority | | March 31, 2020 | September 30, 2019 |
|---|---|---|---|
| Current loans: | | | |
| Short-term loans | (a),(b),(c)(i) | $ 673,066 | $ 625,034 |
| Non-current loans: | | | |
| Convertible promissory note | (c)(ii) | 321,290 | 304,745 |
| | | **$ 994,356** | **$ 929,799** |

Movement on short term loans

| | Amount |
|---|---|
| **Balance at September 30, 2019** | **$ 625,034** |
| Additions | 238,098 |
| Interest | 34,015 |
| Repayments | (224,082) |
| **Balance at March 31, 2020** | **$ 673,066** |

Movement on non-current loans

| | Amount |
|---|---|
| **Balance at September 30, 2019** | **$ 304,745** |
| Additions | - |
| Interest | 16,545 |
| Repayments | - |
| **Balance at March 31, 2020** | **$ 321,290** |

17. LOANS (continued)

(a) Apparel loans

As at December 31, 2019, the Company has an apparel loan of $83,479 (September 30, 2019 - $83,479) owing to an apparel finance company. The loan is secured by specific apparel inventory and is charged a quarterly finance fee.

(b) Unsecured promissory notes

(i) The Company has a $184,489 (September 30, 2019 – $184,661) unsecured promissory note bearing interest at 12% per annum, maturing on March 9, 2020. Total interest accrued on the loan during the six months ended March 31, 2020 is $11,124 (2019 – $11,385). The loan is now due on demand and continues to accrue interest.

(ii) The Company's Chief Executive Officer is owed $126,223 by way of an unsecured promissory note bearing interest at 12% per annum, maturing on November 12, 2018. Total interest accrued on the loan during the six months ended March 31, 2020 is $8,480 (2019 – $5,984). The loan is now due on demand and continues to accrue interest.

(iii) As at March 31, 2020, the Company has advances payable in the amount of $46,336 (2019 - $15,785). The advances are to be repaid through a specified percentage of 20% of the Company's product sales and has no specified repayment date.

(c) Unsecured convertible promissory notes

(i) The Company's former Chief Financial Officer is owed $232,538 (September 30, 2019 - $245,121) by way of an unsecured convertible promissory note. The loan was 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, 2020 is $14,410 (2019 - $14,672). The loan is currently being renegotiated and continues to accrue interest.

(ii) During the year ended September 30, 2019, the Company received $275,000 by way of an unsecured convertible promissory note. The note bears interest at 12% per annum, matures on November 6, 2021, and is convertible into units at $0.20 per unit. Each unit will consist of one share and one half of one share purchase warrant, exercisable at $0.30 per share until November 6, 2021. On initial receipt of the loan, 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, 2020 is $16,545 (2018 - $13,200).

18. LOSS PER SHARE

Diluted loss per share for the six months ended March 31, 2020 is the same as basic loss per share as the effect of warrants and options would be anti-dilutive.

*(Expressed in Canadian dollars - unaudited)*

## 19. RELATED PARTY TRANSACTIONS

During the six months ended March 31, 2020:

(a) The Company paid its Chief Executive Officer $83,854 (2019 - $84,917) in salary (Note 12).
(b) The Company recorded $16,034 (2019 - $1,320) in share-based compensation to officers and directors.
(c) The Company owes its Chief Executive Officer $126,223 by way of an unsecured promissory note bearing interest at 12% per annum (Note 17(b)(ii)). Total interest accrued on the loan during the six months ended March 31, 2020 is $8,480 (2019 – $5,984).

## 20. 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:

| | |
|---|---|
| 2020 | $ 97,925 |

## 21. 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 March 31, 2020, the Company had a cash overdraft of $92,502 (2019 – overdraft of $20,800) available to settle current liabilities of $1,648,495 (2019 - $1,529,941). 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, debt as well as equity financing.

21. FINANCIAL INSTRUMENTS (continued)

Liquidity Risk (continued)

The following table identifies the undiscounted contractual maturities of the Company's financial liabilities as at March 31, 2020:

| | Within one year | After one but not more than five years | After five years | Total |
|---|---|---|---|---|
| Bank overdraft | $ 92,502 | $ - | $ - | $ 92,502 |
| Trade and other payables | 857,563 | - | - | 857,563 |
| Commissions payable | 3,002 | - | - | 3,002 |
| Short-term loan | 673,066 | - | - | 673,066 |
| Lease liabilities | 52,808 | - | - | 52,808 |
| Notes payable | - | 321,290 | - | 321,290 |
| | $ 1,678,941 | $ 321,290 | $ - | $ 2,000,231 |

Market Risk – foreign exchange risk

At March 31, 2020, 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, 2020, 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.

Market Risk – interest rate risk

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, 2020, cash consisted of cash on hand and balances (overdraft) with banks. Financial assets and financial liabilities that bear interest at fixed rates are subject to fair value interest rate risk.

Fair Values

At March 31, 2020, and September 30, 2019, 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.

*(Expressed in Canadian dollars - unaudited)*

## 22. CAPITAL MANAGEMENT

As at March 31, 2020, the Company's capital is composed of interest-bearing debt, its loan facility, 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 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 and short-term and long-term 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, 2020.

## 23. REVENUE SEGMENTS

Geographic information – revenue from external customers:

| | Three months ended March 31, | | Six months ended March 31, | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| Canada | $ 488,982 | $ 364,950 | $1,036,918 | $ 767,343 |
| USA | 13,975 | 48,918 | 13,975 | 115,402 |
| Total | $ 502,957 | $ 413,868 | $1,050,893 | $ 882,745 |

## 24. SUBSEQUENT EVENTS

Subsequent to March 31, 2020, the COVID-19 outbreak had significant impacts for the Company, leading it to close all its retail locations. The Company will continue to actively monitor developments and evaluate the impact on its business. The duration and impact of the outbreak is unknown at this time, as is the efficacy of government interventions. As a result, it is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and financial condition of the Company in future periods.

## SCHEDULE C

## MANAGEMENT DISCUSSION AND ANALYSIS

## FOR THE QUARTER ENDED MARCH 31, 2020

**Peekaboo Beans Inc.**
MANAGEMENT'S DISCUSSION AND ANALYSIS
Second Quarter Ended March 31, 2020

June 1, 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 March 31, 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 "Q2 2020" are to our three months ended March 31, 2020, to "Q2 2019" are to our three months ended March 31, 2019. All financial information is expressed in Canadian dollars (“$”). 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 Q2 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.

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 prefect 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.

The Company launched a new core style, their children's sleepwear, "Bean Jammies". The new styles meet children's sleepwear safety regulations, made of 100% cotton with the same environmental, sustainable and intentional designs for children's comfort and play the brand is recognized for. The sleepwear is supported by Dr. Deborah MacNamara, a clinical counsellor and developmentalist on faculty at the Neufeld Institute, with messages designed to be used as a tool to help bridge the nighttime separation between a child and their parents.

Due to the COVID-19 outbreak, the Company made the decision to close their Flagship store location indefinitely, effective March 19, 2020. However, their website does remain open for customers. They had implemented scheduling adjustments and followed the social distancing and precautionary measures at their Head Office and Warehouse in Richmond. The Company has been working with manufactures and suppliers to ensure a continued flow of services and inventory during Q2 and for the remainder of 2020.

In light for the growing concern of COVID-19 the Company strongly advised shareholder to not to physically the attend the annual meeting which was held on April 15th, 2020. A virtual meeting was implemented through a telecast provider.

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 dying 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 Q2 2020, the Company generated quarterly sales of $502,957, a decrease of 8% from Q1 2020 and an increase of 20% over Q2 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.

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 Q2 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 Q2 | 2020 Q1 | 2019 Q4 | 2019 Q3 | 2019 Q2 | 2019 Q1 | 2018 Q4 | 2018 Q3 |
|---|---|---|---|---|---|---|---|---|
| Revenue | $ 502,957 | $ 547,936 | $ 343,539 | $ 254,873 | $ 413,868 | $ 468,877 | $ 544,992 | $ 695,346 |
| Net loss | (603,478) | (418,081) | (751,755) | (503,175) | (367,655) | (786,797) | (1,333,582) | (439,869) |
| Loss per share, basic and diluted | $ (0.02) | $ (0.01) | $ (0.02) | $ (0.02) | $ (0.01) | $ (0.03) | $ (0.06) | $ (0.03) |

## Summary of Reported Results

*For the three months ended March 31, 2020*

The following analysis of the Company's operating results for Q2 2020, includes a comparison to the corresponding comparative Q2 2019. Please refer to the Interim Consolidated Statements of Comprehensive Loss.

| | March 31, 2020 | %[1] | March 31, 2019 | %[1] | YoY%[2] |
|---|---|---|---|---|---|
| Sales | $ 502,957 | - | $ 413,868 | - | 22% |
| Cost of sales | | | | | |
| Cost of goods sold | 662,431 | 131% | 196,778 | 48% | -237% |
| Stylist commission | 8,561 | 2% | 6,630 | 2% | -29% |
| Gross profit | (168,035) | -33% | 210,460 | 51% | -180% |
| Operating costs | 407,239 | 81% | 572,779 | 138% | 29% |

Sales increased by 20% from the prior comparative period Q2 2019 due to better-positioned online advertising spend and marketing efforts.

Gross margin decreased to ($168,035) from $210,460 a year earlier, due to discounts applied on sales during the COVID-19 pandemic, and in order to generate cash flows to sustain operations.

Operating expenses related to the operation of the business decreased to $407,239 compared to $572,779, a year earlier as a result of streamlining operations and reducing overhead expenses in the current period.

Employee salaries remained consistent from $134,651 in the prior comparative period to $137,120 in the current year.

Professional fees and public company costs decreased from $65,691 in the prior comparative period to $58,046 in the current year. Distribution and information technology costs decreased from $85,680 to $27,859 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 $1,070, down from $16,366 in the prior comparative period.

Loan interest and other finance cost increased slightly to $28,649 compared to $26,040 in the prior comparative period.

The Company reported a net loss of $603,944 in Q2 2020 compared to $367,655 in Q2 2019. The basic loss per weighted average number of common shares was $0.02 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 Q2 2020, includes a comparison to the corresponding, comparative year Q2 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 trade receivables and software and equipment.

Total assets decreased to $796,963 compared to $1.47-million the previous period as the Company continued to sell through its existing inventory on hand to generate cash.

Cash increased to an overdraft of $92,502 from $20,800, while trade 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 $97,368 from $15,361 as the Company placed some new purchase orders for Fall/Winter 2020 during Q2 2020.

Inventories decreased to $615,579 from $1.446-million compared to the prior year as the Company continued to sell through its inventories to generate cash flow.

Prepaid expense increased to $23,669 from $10,883 in the prior year, due to the addition of director insurance which required advance payment.

Total debt or liabilities increased 10% to $2-million from the prior year, and includes $1.68-million in debt that is repayable within the year and $321,290 in long-term debt.

Debt repayable within the year consisted of trade payables and accrued liabilities of $857,563, loans that are current totaling $673,066, commission payable of $3,002, and lease liabilities of $52,808.

Current loans include $83,479 owing to a Canadian apparel finance company and $126,223 in an unsecured promissory note due to the Company's CEO. Current loans also include $232,538 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 decreased 28% from the prior year to $857,563, with the variance over the prior year mostly attributable to timing of payments to vendors.

Shareholders' equity increased to a deficit of $1,203,268 from a deficit of $357,593 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 Q2 2020, the Company used $71,702 of cash to hold an overdraft of $92,502 at period-end. Operating activities used $158,100 in cash predominately from operating losses during the year, a stark improvement from the $673,847 cash used in operating activities during Q2 2019. Financing activities generated cash of approximately $86,761 due to loans received, offset by loan repayments of $89,032.

## PART 3 – CAPITALIZATION

As of March 31, 2020:

### Shares

As at March 31, 2020, the Company had 38,794,885 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
- 6,190,000 warrants outstanding exercisable at $0.15 per share until December 21, 2020
- 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 1,810,000 common shares valued at $90,500 pursuant to exercise of warrants at $0.05 per share in the current period.

### Stock Options

During Q2 2020, no stock options were issued. As at March 31, 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 Q2 2020 was 38,794,885 and 28,497,695 for Q2 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 Q2 2020 and 2019:

(a) The Company paid its Chief Executive Officer $83,854 (2019 - $84,917) in salary (Note 12).
(b) The Company recorded $16,034 (2019 - $1,320) in share-based compensation to officers and directors.
(c) The Company owes its Chief Executive Officer $126,223 by way of an unsecured promissory note bearing interest at 12% per annum (Note 17(b)(ii)). Total interest accrued on the loan during the six months ended March 31, 2020 is $8,480 (2019 – $5,984).

### 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 Q2 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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