



**PEEKABOO BEANS INC.**

**INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE AND SIX MONTHS ENDED  
MARCH 31, 2019 AND 2018**

**(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, 2019	September 30, 2018
<b>ASSETS</b>			
<b>Current assets</b>			
Cash		\$ 217,438	\$ 229,089
Trade receivables		83,521	16,031
Apparel production deposits	4	-	35,529
Prepaid expense		33,961	98,034
Inventories	5	1,972,475	1,815,779
<b>Total current assets</b>		<b>2,307,395</b>	<b>2,194,462</b>
<b>Non-current assets</b>			
Software and equipment	12	2,496	2,568
<b>Total assets</b>		<b>\$ 2,309,891</b>	<b>\$ 2,197,030</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities</b>			
Trade payables and accrued liabilities	13, 18	\$ 1,122,059	\$ 735,547
Commissions payable	6	61,275	75,571
Loans	15	366,461	563,597
<b>Total current liabilities</b>		<b>1,549,795</b>	<b>1,374,715</b>
<b>Non-current liabilities</b>			
Loans	15	535,901	245,202
<b>Total liabilities</b>		<b>2,085,696</b>	<b>1,619,917</b>
<b>Shareholders' equity</b>			
Share capital	14	13,903,715	13,065,242
Reserves	14	2,653,322	2,629,257
Deficit		(16,261,644)	(15,107,191)
Accumulated other comprehensive loss		(71,198)	(10,195)
<b>Total shareholders' equity</b>		<b>224,195</b>	<b>577,113</b>
<b>Total liabilities and equity</b>		<b>\$ 2,309,891</b>	<b>\$ 2,197,030</b>

Note 1, "Nature of Operations and Going Concern"

Note 18, "Commitments and Contingencies"

On behalf of the Board of Directors of Peekaboo Beans Inc. on May 28, 2019

/s/ Traci Costa

/s/ Darrell Kopke

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Ms. Traci Costa, CEO and Director

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Mr. Darrell Kopke, Director

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

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

		Three months ended March 31,		Six months ended March 31,	
	Note	2019	2018	2019	2018
<b>Sales</b>		\$ 413,868	\$ 752,227	\$ 882,745	\$ 1,512,768
<b>Cost of goods sold</b>	5	196,778	375,667	514,080	839,388
<b>Commissions</b>	6	6,630	107,477	49,338	262,903
<b>Gross profit</b>		<u>210,460</u>	<u>269,083</u>	<u>319,327</u>	<u>410,477</u>
<b>Operating expenses</b>					
Stylists training, recruitment and marketing	7	18,720	73,143	389,213	129,895
Administrative	9	174,420	252,564	358,228	439,201
Distribution and information technology	10	85,680	64,221	141,312	198,970
Executive and employee salary compensation	8	178,401	237,174	394,975	485,332
Share-based compensation	14	16,366	54,862	22,364	86,923
Professional fees and public company costs	11	65,691	71,277	124,599	110,384
Investor relations		33,501	402,275	85,383	444,683
Total operating expenses		<u>572,779</u>	<u>1,155,516</u>	<u>1,516,074</u>	<u>1,895,388</u>
<b>Loss before other expenses</b>		<u>(362,319)</u>	<u>(886,433)</u>	<u>(1,196,747)</u>	<u>(1,484,911)</u>
<b>Other expenses</b>					
Interest and finance costs		26,040	54,121	56,906	120,100
Gain on settlement of accounts payable		-	(5,009)	(35,058)	(5,009)
Foreign exchange and other expense		(20,704)	(200)	(64,143)	12,471
<b>Net loss for the period</b>		<u>(367,655)</u>	<u>(935,345)</u>	<u>(1,154,452)</u>	<u>(1,612,473)</u>
<b>Other comprehensive loss</b>					
Currency translation adjustment on foreign operations		(22,411)	-	(61,003)	-
<b>Comprehensive loss for the period</b>		<u>\$ (390,066)</u>	<u>\$ (935,345)</u>	<u>\$ (1,215,455)</u>	<u>\$ (1,612,473)</u>
<b>Basic and diluted loss per common share</b>		<u>\$ (0.01)</u>	<u>\$ (0.07)</u>	<u>\$ (0.04)</u>	<u>\$ (0.12)</u>
<b>Weighted average number of common shares outstanding</b>		<u>28,497,695</u>	<u>13,640,840</u>	<u>28,497,695</u>	<u>13,640,840</u>

**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
<b>At September 30, 2017</b>		<b>11,894,535</b>	<b>\$ 9,345,299</b>	<b>\$ 2,239,816</b>	<b>\$ (11,721,177)</b>	<b>\$ -</b>	<b>\$ (136,062)</b>
Issuance of shares pursuant to private placements, net of share issuance costs (cash)	14	5,471,833	2,876,422	416,667	-	-	3,294,089
Share issuance costs on agent warrants	14	-	(159,632)	159,632	-	-	-
Share issuance cost on corporate finance shares	14	254,832	(20,883)	20,883	-	-	-
Exercise of warrants	14	25,333	15,200	-	-	-	15,200
Transfer of warrant exercise value	14	-	9,811	(9,811)	-	-	-
Share-based compensation	14	-	-	86,924	-	-	86,923
Net loss		-	-	-	(1,612,473)	-	(1,612,473)
<b>At March 31, 2018</b>		<b>17,646,533</b>	<b>\$ 12,066,216</b>	<b>\$ 2,915,111</b>	<b>\$ (13,333,650)</b>	<b>\$ -</b>	<b>\$ 1,647,677</b>
<b>At September 30, 2018</b>		<b>20,856,533</b>	<b>\$ 13,065,242</b>	<b>\$ 2,629,257</b>	<b>\$ (15,107,191)</b>	<b>\$ (10,195)</b>	<b>\$ 577,113</b>
Issuance of shares pursuant to private placements, net of share issuance costs (cash)	14	6,600,000	735,000	-	-	-	735,000
Share issuance costs on agent warrants	14	-	(1,701)	1,701	-	-	-
Share issuance cost on finders' shares	14	340,000	-	-	-	-	-
Settlement of accounts payable	14	701,162	105,174	-	-	-	105,174
Share-based compensation	14	-	-	22,364	-	-	22,364
Net loss		-	-	-	(1,154,453)	-	(1,154,453)
Other comprehensive loss		-	-	-	-	(61,003)	(61,003)
<b>At December 31, 2018</b>		<b>28,497,695</b>	<b>\$ 13,903,715</b>	<b>\$ 2,653,322</b>	<b>\$ (16,261,644)</b>	<b>\$ (71,198)</b>	<b>\$ 224,195</b>

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

	<b>Six months ended</b>	
	<b>March 31,</b>	
	<b>2019</b>	<b>2018</b>
<b>OPERATING ACTIVITIES</b>		
Loss for the period	\$ (1,154,452)	\$ (1,612,473)
Adjustments for:		
Share-based compensation	22,364	86,924
Gain on settlement of payables	-	(5,009)
Accrued interest in excess of interest paid	44,908	20,715
Amortization	528	904
Changes in non-cash working capital items:		
Trade receivables	(67,491)	(16,080)
Inventories	(156,696)	(578,946)
Apparel production deposits	35,529	(42,910)
Prepaid expenses	64,073	127,056
Trade payables and accrued liabilities	537,390	(336,951)
Commissions payable	-	1,297
<b>Cash used in operating activities</b>	<b>(673,847)</b>	<b>(2,355,473)</b>
<b>INVESTING ACTIVITIES</b>		
Purchase of equipment	(456)	-
<b>Cash used in investing activities</b>	<b>(456)</b>	<b>-</b>
<b>FINANCING ACTIVITIES</b>		
Loan advances	275,000	-
Loan repayments	(226,345)	(265,150)
Share issuances, net of issuance costs	675,000	3,309,288
<b>Cash provided by financing activities</b>	<b>723,655</b>	<b>3,044,138</b>
Effect of foreign exchange on cash	(61,003)	-
<b>Change in cash during the period</b>	<b>(11,651)</b>	<b>688,665</b>
<b>Cash, beginning of period</b>	<b>229,089</b>	<b>183,880</b>
<b>Cash, end of period</b>	<b>\$ 217,438</b>	<b>\$ 872,545</b>

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

**PEEKABOO BEANS INC.**  
**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**MARCH 31, 2019**

*(Expressed in Canadian dollars – unaudited)*

**1. NATURE OF OPERATIONS AND GOING CONCERN**

Peekaboo Beans Inc. is an online retailer of children's apparel and sells its apparel through an affiliate marketing program referred to as "Social Retailing". In its prior year, the Company sold its apparel primarily through a direct-sales network of independent sales representatives, referred to as "Stylists". Stylists encouraged parents to host sales parties or "Pop-ups" in their homes to demonstrate and sell the apparel.

Peekaboo Beans Inc. is incorporated in the Province of British Columbia, Canada, and has its head office located at 170 – 11120 Bridgeport Road, Richmond, BC, V6X 1T2. The Company was originally incorporated under the Business Corporations Act of the Province of Alberta and was continued under the Canada Business Corporations Act on July 8, 2002. On December 21, 2005, the Company was continued to the jurisdiction of the Province of British Columbia. 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 further develops its business. The continuing operations of the Company are dependent upon its ability to generate profitable operations in the future, and to continue to secure additional financing. There can be no assurance that the Company will be successful in its efforts to raise additional financing or if financing is available or that it will be on terms that are acceptable to the Company. These events and conditions indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

The Company's common shares are listed for trading on the 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, 2018. 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, 2018.

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, 2018. 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, 2018.

The Company's board of directors approved the release of these financial statements on May 28, 2019.

**3. SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies set out below have been applied consistently to all years and quarters presented in these financial statements unless otherwise indicated.

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(a) Basis of Consolidation**

The following entities have been consolidated within these financial statements:

<b>Entity</b>	<b>Registered</b>	<b>Holding</b>
Peekaboo Beans Inc.	British Columbia, Canada	Parent, public holding
Peekaboo Beans (Canada) Inc.	British Columbia, Canada	100% owned
Peekaboo Beans, Inc.	Delaware, United States	100% owned

The subsidiaries are controlled by the Company. Control exists when the Company is exposed, or has rights, to the variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements.

**(b) Foreign Currency Transactions**

The functional currency is measured using the currency of the primary economic environment in which that entity operates. The financial statements are presented in Canadian dollars which is the functional currency of the Company and its Canadian subsidiary. The functional currency of the Company's United States subsidiary is the United States dollar.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the period-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items or on settlement of monetary items are recognized in gain or loss in the statement of comprehensive loss in the period in which they arise, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognized in other comprehensive income in the statement of comprehensive loss to the extent that gains and losses arising on those non-monetary items are also recognized in other comprehensive income. Where the non-monetary gain or loss is recognized in profit or loss, the exchange component is also recognized in profit or loss.

The financial results and position of foreign operations whose functional currency is different from presentation currency are translated as follows:

- Assets and liabilities are translated at year-end exchange rates prevailing at that reporting date; and
- Income and expenses are translated at monthly average exchange rates during the year.

Exchange differences arising on translation of foreign operations are transferred directly to currency translation on foreign operations on the statement of comprehensive loss and are reported as a separate component of equity in accumulated other comprehensive loss. These differences are recognized in profit or loss in the year in which the operation is disposed of.

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(c) Cash and cash equivalents**

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions and other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and subject to an insignificant risk of change in value. For cash flow statement presentation purposes, cash and cash equivalents includes bank overdrafts. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash. The Company had no cash equivalents as at March 31, 2019.

**(d) Inventory**

Finished goods are valued at the lower of average cost, which is net of vendor rebates, and net realizable value. Net realizable value is the estimated selling price of inventory in the ordinary course of business, less any estimated selling costs. Cost of inventory includes expenditures in acquiring the inventories, production costs and other cost incurred in bringing them to their existing location. Provision is made for obsolete, slow-moving or defective items, where appropriate.

**(e) Sales revenue recognition and other income**

Revenue represents sales of children apparel and catalogues. Sale of children apparel and catalogues, net of returns, is recognized when the significant risks and rewards of ownership of the goods have passed to the customer, usually on delivery of the goods.

**(f) Cost of sales**

Cost of sales includes cost of goods or the manufacturing costs of children apparel and other costs incurred in bringing them to their existing location and Stylists' sales commission.

**(g) Software and equipment**

Software and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses. Equipment is stated at historical cost less accumulated amortization and accumulated impairment losses. Amortization is calculated on a declining balance method to write off the cost of the assets to their residual values over their estimated useful lives. The amortization rates applicable to each category of equipment are as follows:

<b>Class</b>	<b>Amortization rate</b>
Computer software and development	50%
Computer hardware	30%

**(h) Stock-based compensation**

Share options granted by the Company allow Directors, Executive Officers, Managers, Employees and Consultants to acquire shares of the Company. Share-based payments to Employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The corresponding amount is recorded to the option reserve. The fair value of options is determined using the Black-Scholes Option Pricing Model. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.



**PEEKABOO BEANS INC.**  
**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**MARCH 31, 2019**  
*(Expressed in Canadian dollars - unaudited)*

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(i) Loss per share**

Basic loss per share is calculated using the weighted average number of shares outstanding during the period. The diluted earnings per share are calculated by adjusting the weighted average number of shares outstanding to include additional shares issued from the assumed exercise of stock options and warrants, if dilutive. The number of additional shares is calculated by assuming that the proceeds from such exercises are used to purchase common shares at the average market price for the period.

**4. APPAREL PRODUCTION DEPOSITS**

	<b>March 31, 2019</b>	<b>September 30, 2018</b>
<b>Apparel Production Deposits</b>	\$ -	\$ 35,529

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

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

**5. INVENTORIES**

Inventory consists of children's playwear apparel which is purchased from third party manufacturers. As at March 31, 2019, the Company holds finished goods of \$1,972,475 (September 30, 2018 - \$1,815,779).

Inventory expensed in net loss and included in cost of goods sold for the three and six months ended March 31, 2019 was \$196,778 and \$514,080 (2018 - \$375,667 and \$839,388), respectively.

**6. COMMISSIONS PAYABLE**

The Company accrues sales commissions that are payable to its Stylists when they elect not to have their sales commissions paid by cash immediately and choose to apply outstanding commissions owed against future apparel purchases. As at March 31, 2019, commissions earned but unpaid totaled \$61,275 (September 30, 2018 - \$75,571) recorded as commissions payable.

**7. STYLISTS TRAINING, RECRUITMENT, AND MARKETING**

Various costs are incurred in the training and recruitment of stylists and are included in the earnings for the period incurred. Pop-up hostesses receive product credit and discounts for hosting sales parties. From time to time, direct-sales industry management consultants are engaged and payments are included in the period incurred.

	<b>Three months ended March 31,</b>		<b>Six months ended March 31,</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Training	\$ -	\$ 19,660	\$ -	\$ 40,420
Recruitment	-	721	-	3,852
Marketing	18,720	52,762	389,213	85,623
	<b>\$ 18,720</b>	<b>\$ 73,143</b>	<b>\$ 389,213</b>	<b>\$ 129,895</b>

**PEEKABOO BEANS INC.**  
NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
MARCH 31, 2019  
*(Expressed in Canadian dollars - unaudited)*

**8. ADMINISTRATIVE**

	Three months ended March 31,		Six months ended March 31,	
	2019	2018	2019	2018
Credit card processing and miscellaneous	\$ 19,795	\$ 19,796	\$ 31,192	\$ 39,904
Consulting	109,226	150,514	210,163	264,431
Insurance	8,947	25,483	24,951	33,445
Travel, meals and entertainment	13,214	27,328	29,883	59,146
Amortization and office cost	23,238	29,443	62,039	42,275
	<b>\$ 174,420</b>	<b>\$ 252,564</b>	<b>\$ 358,228</b>	<b>\$ 439,201</b>

**9. DISTRIBUTION AND INFORMATION TECHNOLOGY**

	Three months ended March 31,		Six months ended March 31,	
	2019	2018	2019	2018
Rent and utilities	\$ 24,944	\$ 24,547	\$ 67,956	\$ 47,069
Information technology	60,736	39,674	73,356	151,901
	<b>\$ 85,680</b>	<b>\$ 64,221</b>	<b>\$ 141,312</b>	<b>\$ 198,970</b>

**10. EXECUTIVE AND EMPLOYEE COMPENSATION**

	Three months ended March 31,		Six months ended March 31,	
	2019	2018	2019	2018
<b><u>Executive and employee salary compensation</u></b>				
Executive officer salaries	\$ 43,750	\$ 41,875	\$ 84,917	\$ 83,750
Employee salaries	134,651	195,299	310,058	401,582
	<b>\$ 178,401</b>	<b>\$ 237,174</b>	<b>\$ 394,975</b>	<b>\$ 485,332</b>

**11. PROFESSIONAL FEES AND PUBLIC COMPANY COSTS**

	Three months ended March 31,		Six months ended March 31,	
	2019	2018	2019	2018
Legal	\$ (6,277)	\$ 26,768	\$ 40,788	\$ 91,249
Audit and accounting	50,758	31,202	50,758	-
Other including listing and transfer agent fees	21,210	13,307	33,053	19,135
	<b>\$ 65,691</b>	<b>\$ 71,277</b>	<b>\$ 124,599</b>	<b>\$ 110,384</b>

**12. SOFTWARE AND EQUIPMENT**

	Computer Hardware	Computer Software and Development	Total
	<b><u>Cost</u></b>		
Balance, September 30, 2018	\$ 5,047	\$ 42,616	\$ 47,663
Acquisitions	388	69	457
<b>Balance, March 31, 2019</b>	<b>\$ 5,435</b>	<b>\$ 42,685</b>	<b>\$ 48,051</b>
<b><u>Accumulated Amortization</u></b>			
Balance, September 30, 2018	\$ 3,716	\$ 41,379	\$ 45,095
Amortization	235	294	529
<b>Balance, March 31, 2019</b>	<b>\$ 3,951</b>	<b>\$ 41,673</b>	<b>\$ 45,624</b>

**PEEKABOO BEANS INC.**  
**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**MARCH 31, 2019**  
*(Expressed in Canadian dollars - unaudited)*

**12. SOFTWARE AND EQUIPMENT (continued)**

<u>Net Book Value</u>			
As at September 30, 2018	\$ 1,331	\$ 1,237	\$ 2,568
As at March 31, 2019	<u>\$ 1,484</u>	<u>\$ 1,012</u>	<u>\$ 2,496</u>

**13. TRADE AND OTHER PAYABLES**

	<u>March 31, 2019</u>	<u>September 30, 2018</u>
Trade payables	\$ 872,496	\$ 430,251
Accruals	-	206,093
Other non-trade payables	249,563	99,203
	<u>\$ 1,122,059</u>	<u>\$ 735,547</u>

**14. SHARE CAPITAL**

The Company has authorized an unlimited number of common shares and preferred shares without par value. All common shares issued have equal rights to dividends and shareholders are entitled to one vote per share at annual and general meetings of the Company.

As at March 31, 2019, the Company had 28,497,695 common shares issued and outstanding, of which 301,717 were held in escrow. Details of the issuance of share capital are as follows:

**(a) Issued and Outstanding**

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

- (a) Issued 750,000 Units pursuant to private placement at a price of \$0.20 per Unit for aggregate gross proceeds 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.
- (b) 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 the trading price of the Company's stock at the time of issuance.
- (c) Issued 5,850,000 Units pursuant to non-brokered private placement 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. In connection with the private placement, the Company issued 340,000 common shares and 340,000 warrants exercisable at \$0.30 until December 4, 2021 to finders who introduced subscribers to the private placement. The Company recorded \$1,701 as share issuance cost in relation to the finders' Warrants issued.

During the six months ended March 31, 2018, the Company:

- (a) Issued 2,488,500 common shares pursuant to private placement at a price of \$0.60 per share for aggregate gross proceeds of \$1,493,100. A commission of \$101,400 was paid and an aggregate of 169,066 Agents warrants were issued. Each warrant is exercisable for one common share at a price of \$0.60 per common share for a period of 24 months, valued at \$68,643. A corporate finance fee was settled with the issuance of 105,666 common shares, valued at \$63,400 and recorded as share issuance cost.
- (b) Issued 2,983,333 units for aggregate proceeds of \$2,237,500 at a price of \$0.75 per unit pursuant to a brokered private placement. Each unit consisted of one share and one half of one share purchase warrant to purchase another share at \$1.00 for a period of two years. The share purchase warrants were valued at \$417,667 using the residual method. The Company paid share issuance costs of \$267,136 and issued 238,666 share purchase warrants exercisable for two years at \$0.75 for agent's commission. The finders' warrants were valued at \$90,989. The Company also issued the agents 149,166 Units as a corporate finance fee in connection with the private placement. The share purchase warrants on the Units issued as corporate finance fee were valued at \$20,883 using the residual method.

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

MARCH 31, 2019

*(Expressed in Canadian dollars - unaudited)***14. 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 TSX Venture Exchange is equal to or greater than \$1.55 over a period of 10 consecutive trading days.

**(b) Stock Options**

In 2016, the Company adopted a stock option plan which conforms to the rules and policies of the CSE. The stock option plan will be a 10% rolling plan, whereby the total number of common shares that may be reserved for issuance will be 10% of the issued and outstanding shares of the Company at the time of grant, less any shares reserved for issuance pursuant to the grant of stock options under any other share compensation arrangements.

During the year ended September 30, 2018, 870,000 stock options were issued to consultants and management, exercisable into one common share of the Company at exercise prices of \$0.24 to \$0.80 and expiry dates ranging from 5 to 10 years after issuance.

During the six months ended March 31, 2019, 130,000 stock options were issued to employees and directors, exercisable into one common share of the Company at exercise prices of \$0.16.

A summary of options activity to March 31, 2019 is as follows:

	<b>Options Outstanding</b>	<b>Weighted Average Exercise Price</b>
<b>September 30, 2018</b>	<b>1,670,000</b>	<b>\$ 0.65</b>
Issued	130,000	0.16
<b>March 31, 2019</b>	<b>1,800,000</b>	<b>0.61</b>
<b>Exercisable</b>	<b>1,430,000</b>	<b>\$ 0.58</b>

Share-based compensation for the three and six months ended March 31, 2019 was \$1,320 and \$7,318 (2018 - \$32,061 and \$54,862) for stock options that were granted and vested in the period.

	<b>Three months ended March 31,</b>		<b>Six months ended March 31,</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Executive, officer and director	\$ 1,320	\$ 29,331	\$ 1,320	\$ 33,171
Employee	-	3,518	5,998	12,158
Consultant	-	22,013	-	41,594
	<b>\$ 1,320</b>	<b>\$ 54,862</b>	<b>\$ 7,318</b>	<b>\$ 86,923</b>

**PEEKABOO BEANS INC.**  
NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
MARCH 31, 2019  
*(Expressed in Canadian dollars - unaudited)*

**14. SHARE CAPITAL (continued)**

**(b) Stock Options (continued)**

The grant date fair value of the options granted and vested during the six months ended March 31, 2019 and 2018 was valued using the Black-Scholes Option Pricing Model with the following assumptions:

	<b>2019</b>	<b>2018</b>
Volatility	76-89%	66-68%
Risk-free interest rate	1.5%	1.5%
Expected life of option	2 - 10 years	2 years
Dividend yield	0%	0%

**(c) Warrants**

A summary of warrant activity to March 31, 2019 is as follows:

	<b>Warrants Outstanding</b>	<b>Weighted Average Exercise Price</b>
<b>September 30, 2018</b>	<b>6,278,717</b>	<b>\$ 0.71</b>
Issued	6,685,000	0.14
Expired	(300,000)	0.80
<b>March 31, 2019</b>	<b>12,663,717</b>	<b>\$ 0.41</b>

At March 31, 2019, the weighted average remaining life of the outstanding warrants is 1.78 years (September 30, 2018 – 1.25 years).

During the six months ended March 31, 2019, 460,000 (2018 – 407,732) consultant, agent, corporate finance, or finders' warrants were issued and the Company recorded share-based compensation expense of \$15,046 (2018 - \$nil, recorded as share issuance cost). The warrants were valued using the Black-Scholes Option Pricing Model with the following weighted average assumptions:

	<b>2019</b>	<b>2018</b>
Volatility	86%-107%	77-147%
Risk-free interest rate	1.5%	0.68%
Expected life of option	2 years	2 years
Dividend yield	0%	0%

**15. LOANS**

<b>Debt Ranked by Seniority</b>		<b>March 31, 2019</b>	<b>September 30, 2018</b>
<b><u>Current loans:</u></b>			
Short-term loans	(a)-(b)	\$ 366,461	\$ 563,597
<b><u>Non-current loans:</u></b>			
Convertible promissory note	(c)	535,901	245,202
		<b>\$ 902,362</b>	<b>\$ 808,799</b>

**Movement on short term loans**

	<b>Amount</b>
Balance at September 30, 2018	\$ 563,597
Additions	-
Interest	17,037
Repayments	(214,172)
<b>Balance at March 31, 2019</b>	<b>\$ 366,461</b>

**PEEKABOO BEANS INC.**  
**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**MARCH 31, 2019**  
*(Expressed in Canadian dollars - unaudited)*

**15. LOANS (continued)**

**Movement on convertible promissory notes**

	Amount
Balance at September 30, 2018	\$ 245,202
Additions	275,000
Interest	27,872
Repayments	(12,173)
<b>Balance at March 31, 2019</b>	<b>\$ 535,901</b>

**(a) Apparel loans**

As at March 31, 2019, the Company has an apparel loan of \$78,250 (September 30, 2018 - \$278,250) owing to an apparel finance company of which a former Director of the Company was an officer and a shareholder. The loan is secured by specific apparel inventory and is charged a quarterly finance fee.

**(b) Unsecured promissory notes**

(i) The Company has a \$192,192 (September 30, 2018 – \$184,722) unsecured promissory note bearing interest at 12% per annum, that matured on December 31, 2017. Total interest accrued on the loan during the six months ended March 31, 2019 is \$11,053 (2018 – \$11,385). The loan is currently being renegotiated.

(ii) The Company's Chief Executive Officer is owed \$96,019 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, 2019 is \$5,984. The loan is currently being renegotiated.

**(c) Unsecured convertible promissory notes**

(i) The Company's former Chief Financial Officer is owed \$247,701 (September 30, 2018 - \$245,202) by way of an unsecured convertible promissory note. The loan was originally due December 31, 2017, bore interest at 8% per annum and was convertible into units at \$1.05 per unit but was amended on September 28, 2017. The loan is now due on December 31, 2019, bearing interest of 12% per annum and convertible into units at \$0.60 per unit. Each unit will consist of one share and one half of one share purchase warrant, 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, 2019 is \$14,672 (2018 - \$14,780).

(ii) During the six months ended March 31, 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, 2019 is \$13,200 (2018 - \$nil).

**16. LOSS PER SHARE**

Diluted loss per share for the three months ended March 31, 2019 is the same as basic loss per share as the effect of warrants and options would be anti-dilutive.

**17. RELATED PARTY TRANSACTIONS**

During the six months ended March 31, 2019:

- (a) The Company paid its Chief Executive Officer \$84,917 (2018 - \$44,500) and its former Chief Financial Officer \$nil (2018 - \$39,250) in salary (Note 10).
- (b) The Company paid \$1,320 (2018 - \$33,171) in share-based compensation to officers and directors.
- (c) The Company owes its former Chief Financial Officer \$247,701 under a convertible promissory note (Note 15(c)(i)). Total interest accrued during the six months ended March 31, 2019 is \$14,762 (2018 - \$14,780).
- (d) The Company owes its Chief Executive Officer \$96,019 by way of an unsecured promissory note bearing interest at 12% per annum (Note 15(b)(ii)). Total interest accrued on the loan during the six months ended March 31, 2019 is \$5,984.

**18. COMMITMENTS AND CONTINGENCIES**

The commercial premises from which the Company carries out its head office and warehouse locations are leased from third parties. This rental contract is classified as operating lease since there is no transfer of risks and rewards inherent to ownership.

The minimum rent payable under non-cancellable operating leases are as follows:

2019	\$ 46,475
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**19. FINANCIAL INSTRUMENTS**

The Company is exposed to certain financial risks as listed below. There has been no change in the exposure to risk, nor its objectives, policies and process for managing the risk from the prior year. Disclosures relating to exposure to risks, in particular credit risk, liquidity risk, foreign exchange risk and interest rate risk are provided below.

**Credit Risk**

Credit risk is the risk of an unexpected loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company's financial instruments that are exposed to concentrations of credit risk are primarily cash. The Company limits its exposure to credit risk with respect to cash by investing available cash with major Canadian chartered banks.

The Company's cash is not subject to any external restrictions.

**19. FINANCIAL INSTRUMENTS (continued)**

**Liquidity Risk**

As at March 31, 2019, the Company had a cash balance of \$217,438 (September 30, 2018 - \$229,089) available to settle current liabilities of \$1,549,795 (September 30, 2018 - \$1,374,715). The Company's liquidity follows a seasonal pattern based on the timing of inventory purchases. The Company expects to finance its inventory purchases and administrative expenditures through cash flows from operations, bank debt, as well as equity financing.

The following table identifies the undiscounted contractual maturities of the Company's financial liabilities as at March 31, 2019:

	Within one year	After one but not more than five years	After five years	Total
Trade and other payables	\$ 1,122,059	\$ -	\$ -	\$ 1,122,059
Commissions payable	61,275	-	-	61,275
Short-term loan	366,461	-	-	366,461
Notes payable	-	535,901	-	535,901
	<b>\$ 1,549,795</b>	<b>\$ 535,901</b>	<b>\$ -</b>	<b>\$ 2,085,696</b>

**Market Risk – foreign exchange risk**

At March 31, 2019, 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, 2019, the Company does not have significant financial assets or liabilities denominated in US dollars.

In order to protect itself from the risk of losses should the value of the Canadian dollar decline compared to the foreign currency, the Company may consider using forward contracts to fix the exchange rate of a portion of its expected U.S. dollar requirements. The contracts will be matched with anticipated foreign currency purchases.

Financial instruments that potentially subject the Company to cash flow interest rate risk include financial assets and liabilities with variable interest rates and consist of cash and the credit facility. As at March 31, 2019, cash consisted of cash on hand and balances with banks.

Financial assets and financial liabilities that bear interest at fixed rates are subject to fair value interest rate risk. The Company's bank debt is the only financial liability bearing a variable interest rate. It is recorded at amortized cost.

**Fair Values**

At March 31, 2019, and September 30, 2018, 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.



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

MARCH 31, 2019

*(Expressed in Canadian dollars - unaudited)***20. CAPITAL MANAGEMENT**

As at March 31, 2019, 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, 2019.

**21. REVENUE SEGMENTS**

Geographic information – revenue from external customers:

	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>March 31,</b>		<b>March 31,</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Canada	\$ 399,893	\$ 703,309	\$ 868,770	\$ 1,397,366
USA	13,975	48,918	13,975	115,402
Total	<b>\$ 413,868</b>	<b>\$ 752,227</b>	<b>\$ 882,745</b>	<b>\$ 1,512,768</b>