



## Management’s Discussion and Analysis of Financial Condition and Results of Operations as at September 30, 2020 and 2019

The following is management’s discussion and analysis (“MD&A”) of Peekaboo Beans Inc.’s financial condition and results of operations for the year ended September 30, 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 herein refer to the audited financial statements and related notes for the year ended September 30, 2020 and 2019, except where otherwise indicated. 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 30 (“year-end”). Reference to a “fiscal year” means the Company’s year commencing on October 1<sup>st</sup> of that year and ending on September 30 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.

### Organization of the MD&A

#### Part 1 – Overview and Outlook

The Company .....	2
Overall Performance .....	4

#### Part 2 – Financial Performance Review

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

#### Part 3 – Capitalization

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

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

## PART 1 – OVERVIEW AND OUTLOOK

### 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. We 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](http://www.peekaboobeans.com) to [www.pkbeans.com](http://www.pkbeans.com).

In Fall 2020, the Company launched its rebranded product. Since pivoting the business model, the Company has strategically grown its online presence and received notable return on ad-spend metrics. In addition to the Fall 2020 launch, the Company continued to gain momentum through new inventory coming and their growing sustainable PK Replay initiative, and partnerships with local manufacturers supplying masks for children and adults adapting to COVID-19 demands. The Company has also started a new Wholesale program to further expand their omni-channel business model, brand awareness and customer-reach.

During fiscal 2019, the Company introduced the adventure subscription box “PKB Explorers Club”. This is a monthly subscription that will extend the Company’s retail apparel brand into children adventure play space. The objective of this initiative is to enhance the brand and convert the steps taken in marketing into a profitable recurring revenue stream. In addition, this can also be an opportunity to increase licensing prospects and broadening the omni-channel platform.

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

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

Due to the COVID-19 outbreak, the Company made the decision to close their Flagship store location from March 19, 2020 to June 2, 2020. The Company’s website does remain open for customers. The Company has been working with manufactures and suppliers to ensure a continued flow of services and inventory.

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

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

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

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

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

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

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

## **Overall Performance**

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 and online sales. 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 2021, the Company will continue to execute on the new Social Retailing business model.

During the year, the Company raised \$103,000 through a warrant exercise program, and \$1,126,485 in debt financing to fund continuing operations.

## PART 2 – FINANCIAL PERFORMANCE REVIEW

### Selected Annual Information

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

	2020	% <sup>1</sup>	2019	% <sup>1</sup>	YoY% <sup>2</sup>
Sales	\$ 1,523,645	-	\$ 1,481,157	-	3%
Cost of goods sold	1,640,095	108%	1,254,685	85%	31%
Gross profit	(116,450)	-8%	226,472	15%	-151%
Operating costs	1,659,898	109%	2,584,801	175%	-36%
Total assets	593,783	-	1,477,093	-	-60%
Total liabilities	2,698,820	-	1,834,686	-	56%
Shareholder equity (deficiency)	(2,105,037)	-	(357,593)	-	487%

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

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

### Summary of Annual Financial Information

*For the year ended September 30, 2020:*

The following analysis of the Company's operating results for the fiscal year ended September 30, 2020, includes a comparison to the corresponding comparative year ended September 30, 2019. Please refer to the Statement of Operations and Statement of Cash Flows.

Cost of goods sold includes apparel manufacturing, product and design costs and commissions paid to agents for selling apparel.

Gross margin decreased to -8% of sales to \$(116,450) from 15% of sales a year earlier due to selling inventory at lower pricing for cash flow generation. Gross margin is calculated after including inventory obsolescence.

Operating expenses related to the operation of the business decreased to \$1.66-million compared to \$2.58-million, a year earlier. This is due to a significant decrease in salaries, administrative expenses and marketing during the COVID-19 pandemic.

Employee salaries decreased from \$755,785 in the prior year to \$482,198 in the current year, as during the pandemic the level of salaries and wages paid was lowered as the flagship store was closed for two months, and overall reductions in staffing was carried out.

Professional fees and public company costs increased from \$197,003 in the prior year to \$224,698 in the current year. Distribution and information technology costs decreased from \$290,397 to \$92,908 due to elimination of legacy technology systems relating to the Stylist platform.

Share-based compensation for employees and executives totaled \$28,406, down from \$62,245 in the prior year.

Loan interest and other finance costs increased to \$247,418 compared to \$117,976 in the prior year, largely due to the Company taking on additional loans during this fiscal year.

The Company reported a net loss of \$1.96-million in fiscal 2020 compared to \$2.4-million in fiscal 2019. The basic loss per weighted average number of common shares was \$0.05 and a loss of \$0.08 for the respective periods.

## Liquidity and Capital Resources

The following analysis of the Company's liquidity and capital resources for the fiscal year ended September 30, 2020, includes a comparison to the corresponding, comparative year ended September 30, 2019. Please refer to the Statement of Financial Position and Statement of Cash Flows.

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

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

Total assets decreased to \$593,783 compared to \$1.48-million the previous year due to lower inventories.

Cash increased to a balance of \$122,499 from an overdraft of \$20,800. Amounts receivable include mainly subsidies which is the Canadian Emergency Wage Subsidy and the Canadian Emergency Rental Subsidy.

Apparel production deposits increased to \$21,217 from \$15,361 as the Company has placed an order with the clothing factory, which requires an upfront deposit when placing a purchase order.

Inventories decreased to \$420,971 from \$1.45-million year-over-year. The Company also recorded an allowance of \$24,953 in obsolete and slow-moving inventory from previous collections as the collections had reduced value due to the trend changes in apparel.

Prepaid expense decreased to \$9,508 from \$10,883 the previous year due to changes in the lease payments and an accrual of the wage subsidy for the year.

Total debt or liabilities increased 56% to \$2.69-million year-over-year and includes \$2.68-million in debt that is repayable within the year and \$19,563 in long-term debt.

Debt repayable within the year consisted of trade payables and accrued liabilities of \$1,403,988, loans that are current totaling \$1,271,534 and commission payable of \$3,735.

Current loans predominately include a loan payable to the Company's e-commerce platform of \$113,500 and \$119,928 in an unsecured promissory note due to the Company's CEO. Current loans also include \$233,958 by way of an unsecured convertible promissory note owing to the Company's former CFO. Another unsecured convertible promissory note received in the previous fiscal year has a balance of \$337,836 owing.

Long-term debts include the Canada Emergency Business loan of \$40,000 in principal, which was received during the year, discounted to its present value.

Trade payables and other accrued liabilities increased 59% year-over-year to \$1,403,988, with the variance over the prior year mostly attributable to timing of payments to vendors.

The shareholder equity decreased to a deficit of \$2,105,037 from of \$357,593 a year earlier due to net losses during the year, offset by share capital raises and warrant exercises.

The statement of cash flows shows the structure of and changes in cash during the reported period. The statement contains cash changes in operating activities, investing activities and financing activities. During fiscal 2020, the Company generated \$143,299 of cash to hold a balance of \$122,499 at fiscal year-end. Operating activities used \$123,605 in cash predominately from operating losses during the year. Financing activities generated cash of \$266,939 due to proceeds of exercise of warrants and loans, offset by loan and lease repayments of \$902,065 and \$60,480 respectively.

## Summary of Reported Period Results

*For the quarter ending September 30, 2020.*

The following analysis of the Company's operating results for the three months ending September 30, 2020 and includes a comparison to the corresponding comparative year ended September 30, 2019.

Sales totaled \$257,003 compared to \$343,540 in the comparative period while cost of sales totaled \$345,538 compared to \$447,138 in the prior comparative period.

Operating loss decreased to \$719,790 in the current period as compared to \$750,755 in the comparative prior period.

## PART 3 – CAPITALIZATION

As of September 30, 2020:

### Shares

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

### Warrants

The Company has the following warrants outstanding:

- 375,000 warrants outstanding exercisable at \$0.30 per share until October 4, 2020
- 5,440,000 warrants outstanding exercisable at \$0.15 per share until December 21, 2021
- 120,000 warrants outstanding exercisable at \$0.195 per share until March 22, 2022
- 3,370,000 warrants outstanding exercisable at \$0.15 per share until May 31, 2022
- 210,000 warrants outstanding exercisable at \$0.15 per share until August 7, 2022

During Q2 2020, the Company's warrant exercise incentive program ran from February 14<sup>th</sup> to March 4<sup>th</sup>, 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 18<sup>th</sup>. The Company issued 2,060,000 common shares valued at \$103,000 pursuant to exercise of warrants at \$0.05 per share in the current year.

### Stock Options

During Q4 2020, 850,000 stock options were issued. As at September 30, 2020, the Company had 2,767,442 stock options outstanding, with exercise prices ranging from \$0.05 to \$0.60 and expiry dates ranging from 5 to 10 years after issuance.

During the year ended September 30, 2019, 1,212,442 stock options were issued to employees, directors, and consultants, exercisable into one common share of the Company at exercise prices of \$0.10 to \$0.195.

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

The weighted average number of common shares outstanding for fiscal 2020 was 37,648,282 and 28,878,298 for fiscal 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 the year ended September 30, 2020 and 2019:

(a) The Company paid its Chief Executive Officer salary of \$105,876 (2019 - \$172,417). The Company paid a company owned by its Chief Financial Officer \$95,000 (2019 - \$97,333) in consulting and professional services fees, owing \$85,575 as at September 30, 2020.

(b) The Company recorded \$23,064 (2019 - \$35,963) in share-based compensation to officers and directors.

(c) At September 30, 2020, the Company owes its former Chief Financial Officer \$233,958 (2019 - \$245,121) under an unsecured convertible promissory note. Total interest accrued during the year ended September 30, 2020 was \$28,325 (2019 - \$29,745).

(d) At September 30, 2020, the Company owes its Chief Executive Officer \$119,928 under an unsecured promissory note (Note 18). Total interest accrued during the year ended September 30, 2020 was \$16,168 (2019 - \$12,000).

### **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 Vietnamese dong, the currency of Vietnam, 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 dated references CSA Staff Notice 51-330 Guidance regarding the Application of Forward-Looking Information Requirements under National Instrument 51-102 Continuous Disclosure Obligations dated November 20, 2009.

### **Accounting Policy**

Financial information for fiscal 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 Peekaboo's financial statements, business operations, and the direct-selling industry.

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

Critical accounting estimates and judgments outline the estimates and assumptions that management made that can significantly affect PK Beans' financial statements and include inventory valuation, income taxes, and stock-based compensation during fiscal 2020.

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