



INTERIM MANAGEMENT'S DISCUSSION & ANALYSIS  
QUARTERLY HIGHLIGHTS  
FOR THE THREE AND SIX MONTH PERIODS ENDED AUGUST 31, 2017  
(EXPRESSED IN CANADIAN DOLLARS)

**Prepared by:**

**PUDO Inc.**

**6600 Goreway Dr. Unit D,  
Ontario, Canada, L4V 1S6**

## Introduction

This interim management's discussion and analysis – quarterly highlights (the “Quarterly Highlights”) of the financial condition and results of operations of PUDO Inc. (“PUDO” or the “Company”) constitutes management's review of the financial position and results of operations of PUDO for the three and six month periods ended August 31, 2017, together with certain trends and factors that are expected to have an impact in the future.

These Quarterly Highlights have been prepared in compliance with the requirements of section 2.2.1 of Form 51-102F1, in accordance with National Instrument 51-102 - Continuous Disclosure Obligations. The discussion should be read in conjunction with the unaudited condensed interim consolidated financial statements of the Company for the three and six month periods ended August 31, 2017, the audited annual consolidated financial statements of the Company for the years ended February 28, 2017 and 2016, together with the notes thereto, and the management's discussion and analysis (“Annual MD&A”) of the Company for the year ended February 28, 2017. All dollar amounts are expressed in Canadian dollars unless otherwise noted.

The Company's unaudited condensed interim consolidated financial statements and financial information contained in this Quarterly Highlights are prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations of the IFRS Interpretations Committee (“IFRIC”).

The Company's fiscal year end is February 28.

Further information about the Company and its operations is available on SEDAR under the Company's issuer profile at [www.sedar.com](http://www.sedar.com) and on the company's website, [www.pudopoint.com](http://www.pudopoint.com).

## Cautionary Note Regarding Forward-Looking Information

These Quarterly Highlights contain certain forward-looking information and forward-looking statements, as defined in applicable securities laws (collectively referred to herein as “forward-looking statements”). All statements other than statements of historical fact are forward-looking statements. Often, but not always, forward-looking statements can be identified by the use of words such as “plans”, “expects”, “is expected”, “budget”, “scheduled”, “estimates”, “continues”, “forecasts”, “projects”, “predicts”, “intends”, “anticipates” or “believes”, or variations of, or the negatives of, such words and phrases, or state that certain actions, events or results “may”, “could”, “would”, “should”, “might” or “will” be taken, occur or be achieved. Forward-looking statements address possible future events, conditions and financial performance based upon management's current expectations, estimates, projections and assumptions.

Management of the Company considers the assumptions on which the forward-looking information contained herein are based to be reasonable. However, by its very nature, forward-looking statements inherently involve known and unknown risks and uncertainties that may cause actual results to differ materially from those expressed or implied by such forward-looking statements. Such risks include, without limitation those risks discussed in the “Risk Factors” section of PUDO's Annual MD&A dated February 27, 2017. All forward-looking statements herein are expressly qualified by this cautionary statement. Accordingly, readers should not place undue reliance on forward-looking statements. The forward-looking statements in these Quarterly Highlights are made only as of the date of these Quarterly Highlights or as of the date

specified in such statement. The Company undertakes no obligation to update publicly or otherwise revise any forward-looking statements whether as a result of new information or future events or otherwise, except as may be required by law. If the Company does update one or more forward-looking statements, no inference should be drawn that it will make additional updates with respect to those or other forward-looking statements, unless required by law.

## Description of Business

PUDO was incorporated on Feb. 28, 2015 and is listed on the Canadian Securities Exchange under the symbol “PDO” and on the OTC QB exchange under the symbol “PDPTF”.

The Company’s technology links existing bricks and mortar businesses with retailers, third party logistics companies (3PL’s), courier companies and consumers. PUDO*point*s hold parcels for consumers to pick-up or returns that consumers have dropped off. PUDO’s services provide companies with a presence in a variety of locations to better serve their customers.

## Highlights

The second quarter of the year was focused on diversifying service offerings for the Company’s customers and consumers. The two agreements announced this quarter will make it possible for consumers to choose an alternative to home based delivery. The PUDO*point* network is unique in that any courier can deliver to a PUDO*point*. Consumers can choose any PUDO*point* and e-commerce companies can use the most effective means to deliver their products.

PUDO attracted additional investment with proceeds of more than \$1 Million this quarter. Members of PUDO’s team exercised options and also converted debt into shares. A private placement was also completed where both existing shareholders and new investors acquired additional common shares of the Company.

This summer, efforts have focused on customer integration. Our Canadian Courier partners at Transforce have provided information that will help guide the expansion of the Canadian PUDO*point* footprint. The team is busy recruiting locations in specific postal codes where failed-first-attempt deliveries are looking for the security and convenience of the PUDO*point* solution.

Integration of the IT systems with P2P Mailing Ltd., part of the Delivery Group (“**P2P**”), has been largely accomplished with the first test parcels being shipped to locations across Canada. Testing has been proceeding normally and full integration is expected soon.

The creative management teams at PUDO and Metro Logistics Inc. (“**Metro**”) have also been working on integrating innovative solutions available through PUDO’s unique technology enabled network for current and future customers alike. Testing is underway now, with more information to become available as the various solutions are rolled out with several of Metro’s customers.

## Operations

### **PUDO*point* Network**

The Company is focused on increasing parcel volumes and has been working closely with customers to expand the PUDO*point* network. New locations have been opened where customers have indicated a need for PUDO’s services. This has been partially offset by locations that have had operations suspended due to a current lack of demand for services in

their immediate area. These and other locations may be activated when required as PUDO attracts new customers, and sees growth in demand and locations for its suite of services.

### ***Parcel Volume Analysis***

In the summer of 2016, Canada Post was busy working through labour negotiations that caused concern about potential service disruptions. As a result, PUDO's partners picked up a significant amount of parcel volume, and PUDO saw a significant spike in parcels dropped into our network during the second fiscal quarter, 2017. In the absence of this catalyst, PUDO still managed to see Q2 - FY2018 parcel volumes being 77% of what they were in Q2 - FY2017. Looking more broadly, parcel volumes for the first half of FY2018 are 91% of volumes in the first half of FY2017.

## **Financial Condition and Performance**

### ***Financial Condition***

As of August 31, 2017, the Company had current assets of \$1.2 million (\$0.6 million as at February 28, 2017). This increase in the six months ended August 31, 2017 is attributed primarily to the additional equity raised, offset by the excess of expenses over revenues.

As of August 31, 2017, the Company had working capital (defined as current assets less current liabilities) of \$0.9 million, up from \$0.2 million as at February 28, 2017. The Company plans to fund its planned expansion of the PUDO network through equity financings. See "*Liquidity*" below.

### ***Financial Performance***

During the three months ended August 31, 2017, the Company reported a net loss of \$464,736 (\$0.03 basic and diluted loss per share) on revenue of \$165,894 and a gross profit of \$122,455. This compared to a net loss of \$326,482 (\$0.02 basic and diluted loss per share) in the corresponding quarter in the prior fiscal year. This is attributed to expansion and sales costs associated with network growth and pursuing revenue opportunities with new customers.

Revenue for the six month period ended August 31, 2017 was \$342,422 (six months ended August 31, 2016 – \$378,824). This reduction is primarily associated with more typical summer market forces in the absence of the threat of postal labor disruption. Despite the large spike in FY2017 that wasn't seen in FY2018 from this catalyst, revenue is only down 9%.

Administrative expenses for the three month period ended August 31, 2017 were \$486,335 (\$466,287 – August 31, 2016), representing incremental investments to grow the business and expand the network.

### ***Cash Flows***

In the six month period ended August 31, 2017, cash decreased by \$46,650. This decrease was primarily a result of net cash outflows from costs associated with operations, network expansion and IT expenses, offset with the proceeds from an equity financing in the second quarter.

## **Liquidity and Capital Resources**

PUDO intends to generate the capital necessary to fund the planned expansion through revenue from operations and equity financing activities. As noted in the Annual MD&A, the Company generates limited cash from operations. The Company's primary source of cash to date has been from equity financings. The Company's outstanding loans and borrowings as at August 31, 2017 consist of the following:

|  | As at August 31,<br>2017 |
|--|--------------------------|
| Loan Payable (Atlantic Canada Operations Agency) | <u>\$152,709</u>         |
| Less: Current portion                            | <u>\$ 32,778</u>         |
|  | \$119,931                |

Debt of approximately \$175,000 was reduced due to additional equity being issued to replace the debt in the six months ended August 31, 2017.

PUDO intends to raise equity capital to fund its planned expansion, as well as increase its revenue at existing locations to eliminate operating losses. The Company has a history of successfully raising the capital needed to operate and believes it can continue to raise any necessary capital. However, the history of losses may cast doubt on the ability of the Company to continue to operate as a going concern.

The unaudited condensed interim consolidated financial statements for the three and six month periods ended August 31, 2017 have been prepared with the assumption that the Company will continue operations for the foreseeable future and will be able to realize its assets and discharge its liabilities in the course of operations. They do not include any adjustments that may be required if it were not able to continue as a going concern. The Company's financial statements for the year ended February 28, 2017, contain an emphasis of matter paragraph in its audit opinion related to its ability to continue as a going concern. Management believes that actions currently being taken, which primarily involve increasing revenues, controlling expenses, and raising additional capital will allow the Company to achieve profitability and allow the Company to continue as a going concern. The Company has a history of successfully raising the capital needed to operate the business.

## **Related Party Transactions**

During the three and six month periods ended August 31, 2017 and August 31, 2016, the Company had the following transactions with related parties:

- incurred bookkeeping fees, included in professional fees of \$29,700 and \$47,700, respectively (2016 - \$18,000 and \$36,000) to Cardinal Couriers Ltd., a company with common officers and directors.
- paid, or incurred, salary and consulting fees of \$136,609 and \$214,835, respectively, (August 31, 2016 - \$76,824 and \$145,851) to officers and a director of the corporation.

## **Risk Factors**

The Annual MD&A for the year ended February 28, 2017 filed on SEDAR, sets out a brief summary of certain risk factors for which adverse occurrences may have a material impact on the Company's future financial performance. We draw our readers' attention to that disclosure of

risk factors. No significant changes to those risk factors have occurred in the second fiscal quarter of the 2018 fiscal year and to the date of this report.