
PUDO INC.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED FEBRUARY 28, 2019 AND 2018

(EXPRESSED IN CANADIAN DOLLARS)

Independent auditor's report

To the Shareholders of
PUDO Inc.

Opinion

We have audited the accompanying consolidated financial statements of PUDO Inc. ("the Company"), which comprise the consolidated statements of financial position as at February 28, 2019 and February 28, 2018, and the statements of loss and comprehensive loss, statements of changes in shareholders' (deficiency) equity and statements of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly in all material respects, the financial position of the Company as at February 28, 2019 and February 28, 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 to the consolidated financial statements which indicates that additional funding will be necessary to advance the Company's development efforts. This condition, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

Information Other than the Consolidated Financial Statements and Auditor's Report Thereon

Management is responsible for the other information. The other information comprises the Management Discussion and Analysis but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRSs), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

PUDO Inc.
Consolidated Statements of Financial Position
As at February 28, 2019 and 2018
(Expressed in Canadian Dollars)

As at	Notes	2019	2018
Assets			
Current assets			
Cash		\$ 50,639	\$ 373,827
Restricted short-term investment	3(m)	25,251	25,000
Trade and other receivables	4, 6	110,698	95,036
Prepaid expenses and deposits		75,286	28,167
Total current assets		261,874	522,030
Non-current assets			
Equipment	7	47,439	26,687
Intangible assets	8	171,320	269,724
Total assets		\$ 480,633	\$ 818,441
Liabilities			
Current liabilities			
Trade and other payables	9, 18	\$ 547,930	\$ 298,205
Loans and borrowings	10	529,078	35,314
Total current liabilities		1,077,008	333,519
Non-current liabilities			
Loans and borrowings	10	60,625	101,616
Total liabilities		1,137,633	435,135
Shareholders' equity			
Share capital	11	6,001,685	5,148,042
Warrant reserve	12	83,944	481,750
Stock option reserve	13	2,473,983	884,654
Equity component of convertible debentures	10	31,624	-
Deficit		(9,248,236)	(6,131,140)
Shareholders' (deficiency) equity		(657,000)	383,306
Total liabilities and shareholders' (deficiency) equity		\$ 480,633	\$ 818,441

Nature of operations and going concern (note 1)

Commitments and contingencies (note 17)

Subsequent events (note 18)

Approved by the Board of Directors:

"Kurtis Arnold"

Director

"Richard Cooper"

Director

See accompanying notes to the consolidated financial statements

PUDO Inc.**Consolidated Statements of Loss and Comprehensive Loss
For the years ended February 28, 2019 and 2018
(Expressed in Canadian Dollars)**

	Notes	2019	2018
Revenue	4	\$ 832,885	\$ 695,960
Cost of sales	14	(270,830)	(189,819)
Gross profit		562,055	506,141
Administrative expenses	14	(2,231,615)	(1,867,704)
Share-based compensation	15	(1,679,973)	(777,139)
Operating loss		(3,349,533)	(2,138,702)
Finance costs	10	(38,286)	(23,068)
Net loss and comprehensive loss for the year		\$ (3,387,819)	\$ (2,161,770)
Loss per share - basic and diluted	3(l)	\$ (0.18)	\$ (0.12)
Weighted average number of shares outstanding - basic and diluted		19,318,691	17,961,876

See accompanying notes to the consolidated financial statements

PUDO Inc.**Consolidated Statements of Changes in Shareholders' (Deficiency) Equity****For the years ended February 28, 2019 and 2018****(Expressed in Canadian Dollars)**

	# of Common Shares	Share Capital	Warrant Reserve	Stock Option Reserve	Equity Component of Convertible Debentures	Deficit	Total
Balance, February 28, 2017	16,531,748	\$ 3,971,811	\$ 136,137	\$ 333,427	\$ -	\$ (4,019,324)	\$ 422,051
Stock options exercised (note 13(ii))	150,000	51,771	-	(21,771)	-	-	30,000
Stock options exercised (note 13(ii))	1,200,000	414,187	-	(174,187)	-	-	240,000
Share-based compensation (note 13)	-	-	-	777,139	-	-	777,139
Share-based compensation forfeited/expired (note 13)	-	-	-	(49,954)	-	49,954	-
Issuance of common shares in private placement (note 11(b)(iii))	869,160	516,947	352,213	-	-	-	869,160
Issuance of common shares in lieu of debt (note 11(b)(iii))	224,726	224,726	-	-	-	-	224,726
Issuance of stock options in lieu of debt (note 13(v))	-	-	-	20,000	-	-	20,000
Transaction costs incurred for private placement (note 11(b)(iii))	-	(58,000)	-	-	-	-	(58,000)
Broker warrants exercised (note 12)	20,000	26,600	(6,600)	-	-	-	20,000
Net loss for the year	-	-	-	-	-	(2,161,770)	(2,161,770)
Balance, February 28, 2018	18,995,634	\$ 5,148,042	\$ 481,750	\$ 884,654	\$ -	\$ (6,131,140)	\$ 383,306
Share-based compensation forfeited/expired (note 13)	-	-	-	(90,644)	-	90,644	-
Share-based compensation (note 13)	-	-	-	1,679,973	-	-	1,679,973
Broker warrants exercised (note 12)	577,190	853,643	(217,727)	-	-	-	635,916
Warrants expired (note 12)	-	-	(180,079)	-	-	180,079	-
Issuance of convertible debentures	-	-	-	-	31,624	-	31,624
Net loss for the year	-	-	-	-	-	(3,387,819)	(3,387,819)
Balance, February 28, 2019	19,572,824	6,001,685	83,944	2,473,983	31,624	(9,248,236)	(657,000)

See accompanying notes to the consolidated financial statements

PUDO Inc.
Consolidated Statements of Cash Flows
For the years ended February 28, 2019 and 2018
(Expressed in Canadian Dollars)

	Notes	2019	2018
Cash flows (used in) provided by operating activities			
Net loss for the year		\$ (3,387,819)	\$ (2,161,770)
Adjustments for:			
Share-based compensation	13	1,679,973	777,139
Amortization	7, 8	151,521	165,903
Finance Cost	10	38,286	23,068
Allowance for doubtful accounts	6	9,820	-
Net change in non-cash working capital:			
Restricted short-term investment		(251)	-
Trade and other receivables		(25,482)	22,700
Prepaid expenses and deposits		(47,119)	(7,071)
Trade and other payables		277,579	71,299
Cash flows used in operating activities		(1,303,492)	(1,108,732)
Cash flows used in investing activities			
Purchase of equipment	7	(46,156)	(25,716)
Purchase of intangible assets	8	(27,713)	(35,112)
Cash flows used in investing activities		(73,869)	(60,828)
Cash flows provided by (used in) financing activities			
Proceeds from exercise of warrants and options	12, 13	606,042	290,000
Proceeds from issuance of convertible debentures	10(b)	500,000	-
Proceeds from issuance of shares and warrants	12	-	869,160
Share issue costs	12	-	(8,000)
Repayment of advances payable and borrowings	10(a)	(53,496)	(53,496)
Cash flows provided by financing activities		1,052,546	1,097,664
Change in cash during the year		(324,815)	(71,896)
Cash, beginning of year		373,827	445,723
Effect of translation of foreign currency		1,627	-
Cash, end of year		\$ 50,639	\$ 373,827
Supplemental information:			
Issuance of common shares in settlement of debt (note 12)		27,854	174,726
Options granted in settlement of debt (note 13)		-	20,000

See accompanying notes to the financial statements

PUDO Inc.

Notes to Consolidated Financial Statements For the Years Ended February 28, 2019 and 2018 (Expressed in Canadian Dollars)

1. Nature of operations and going concern

PUDO Inc.'s (the "Company") purpose is to improve the connection between e-commerce and consumers. Through collaboration with online retailers, third party logistics companies ("3PL"), Software as a Service ("SaaS") and courier companies, consumers can take secure delivery of their parcels or drop-off returns where it's convenient, when it's convenient for them.

Existing businesses, such as convenience stores or gas stations, provide services as a PUDOpoint™ ("PUDOpoint"). PUDOpoints are typically open extended hours, seven days a week to make it convenient for busy consumers to quickly and efficiently collect what they've ordered online or drop off what they need to return. The Company deploys its technology to provide consumers with convenient PUDOpoints (the "Network") to pick-up and drop-off ("PUDO") e-commerce parcels

The Company's services provide courier companies and retailers with a presence in a broad variety of locations to better serve their customers. Not only convenient, these services can also save money. Couriers don't have to attempt delivery a second or third time or make other arrangements with customers who aren't home. Retailers can ship directly to PUDOpoints saving residential delivery costs and reducing the risk of theft or spoilage. PUDO also helps retailers reduce the cost and increase the convenience of their returns program. Consumers can drop off pre-labeled parcels at any PUDOpoint for processing back to the retailer.

Going Concern

These consolidated financial statements have been prepared with the assumption that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. As at February 28, 2019, the Company had a working capital deficiency of \$815,134 (2018 – working capital surplus \$188,511), had not yet achieved profitable operations, had used cash in operating activities of \$1,303,492 for the year ended February 28, 2019 (2018 - \$1,108,732), had a deficit of \$9,248,236 as at February 28, 2019 (2018 - \$6,131,140) and had a shareholders' deficiency of \$657,000 (February 28, 2018 – shareholders' equity \$383,306). These conditions reflect material uncertainties which cast significant doubt about the Company's ability to continue as a going concern. The continuing operations of the Company are dependent upon its ability to continue to raise adequate financing and to commence profitable operations in the future. While the Company has been successful in raising the necessary funding to continue operations in the past, there is no assurance that it will be able to do so in the future. These consolidated financial statements do not include the adjustments that would be necessary should the Company be unable to continue as a going concern. Such adjustments could be material.

2. Basis of preparation

(a) Statement of compliance

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), effective as of March 1, 2018, and interpretations issued by the IFRS Interpretations Committee ("IFRIC").

The consolidated financial statements of the Company for the year ended February 28, 2019 were approved and authorized for issue by the Board of Directors on June 19th, 2019.

(b) Basis of presentation

The consolidated financial statements have been prepared on a historical cost basis. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting except for cash flow information.

(c) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its wholly-owned subsidiaries PUDOpoint Inc., Grandview Gold (USA) Inc., and Recuperacion Realzada, S.A.C.

PUDO Inc.

Notes to Consolidated Financial Statements For the Years Ended February 28, 2019 and 2018 (Expressed in Canadian Dollars)

2. Basis of preparation (continued)

Subsidiaries consist of entities over which the Company is exposed to, or has rights to, variable returns as well as the ability to affect those returns through the power to direct the relevant activities of the entity. Subsidiaries are fully consolidated from the date control is transferred to the Company and are de-consolidated from the date control ceases. The financial statements include all the assets, liabilities, revenues, expenses and cash flows of the Company and its subsidiaries after eliminating inter-entity balances and transactions.

3. Significant accounting policies

(a) New standards not yet adopted and interpretations issued but not yet effective

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting years beginning on or after March 1, 2019. Many are not applicable or do not have a significant impact on the Company. The following have not yet been adopted and are being evaluated to determine their impact on the Company.

IFRS 16 – *Leases* (“IFRS 16”) was amended in January 2016 which replaces IAS 17 - *Leases* and addresses the accounting of leases. IFRS 16 eliminates the classification as an operating lease and requires lessees to recognize a right-of-use asset and a lease liability in the statement of financial position for all leases with exemptions permitted for short-term leases and leases of low value assets. In addition, IFRS 16 changes the definition of a lease, sets the requirement on how to account for the asset and liability, including complexities such as non-lease elements, variable lease payments and options periods. IFRS 16 is effective for annual years beginning on or after January 1, 2019. As of February 28, 2019 the Company does not hold any operating leases, therefore it is expected that adoption of this standard will not have an impact on the Company’s financial statements.

(b) Changes in accounting standards

The Company has adopted the following standards effective March 1, 2018.

IFRS 9 – *Financial Instruments* (“IFRS 9”) was issued by the IASB in November 2009 with additions in October 2010 and August 2013 and replaces IAS 39 *Financial Instruments: Recognition and Measurement* (“IAS 39”). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9, except that an entity choosing to measure a financial liability at fair value will present the portion of any change in its fair value due to changes in the entity’s own credit risk in other comprehensive income, rather than within profit or loss. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual years beginning on or after January 1, 2018. There was no material impact on the adoption of these standards on the Company’s financial statements.

IFRS 15 *Revenue from Contracts with Customers* - On March 1, 2018, the Company adopted IFRS 15 – *Revenue from Contracts with Customers* (“IFRS 15”) which supersedes IAS 18 – *Revenue* (“IAS 18”). IFRS 15 establishes a single five-step model framework for determining the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. The standard is effective for annual periods beginning on or after January 1, 2018. The Company adopted the standard on March 1, 2018 using the full retrospective approach. As the company already observed a similar revenue recognition process, there was no material impact on adoption of IFRS 15. IFRS 15 requires entities to recognize revenue when “control” of goods or services transfers to the customer whereas the previous standard, IAS 18, required entities to recognize revenue when the “risks and rewards” of the goods or services transfer to the customer. The Company provides technology and a network of third party locations where consumers can pick up or drop off parcels and revenue is generated in two ways when (i) a courier cannot deliver a parcel to a residential customer, they may choose to drop the parcel off at a

PUDO Inc.

Notes to Consolidated Financial Statements For the Years Ended February 28, 2019 and 2018 (Expressed in Canadian Dollars)

3. Significant accounting policies (continued)

PUDOpoint; and (ii) consumers choose to have their parcels delivered directly to a Kinek or PUDOpoint. In each event, the Company recognizes revenue when the services are provided, when persuasive evidence of an arrangement exists, the fixed price is determinable and there is reasonable assurance of collection.

The Company has adopted the following amendments effective March 1, 2018.

IFRS 2 – *Share-based Compensation* (“IFRS 2”) was amended by the IASB in June 2016 to clarify the accounting for cash-settled share-based compensation transactions that include a performance condition, the classification of share-based compensation transactions with net settlement features and the accounting for modifications of share-based compensation transactions from cash-settled to equity-settled.

IFRIC 22 – *Foreign Currency Transactions and Advance Consideration* (“IFRIC 22”) was issued in December 2016 and addresses foreign currency transactions or parts of transactions where there is consideration that is denominated in a foreign currency; a prepaid asset or deferred income liability is recognized in respect of that consideration, in advance of the recognition of the related asset, expense or income; and the prepaid asset or deferred income liability is non-monetary. The interpretation committee concluded that the date of the transaction, for purposes of determining the exchange rate, is the date of initial recognition of the non-monetary prepaid asset or deferred income liability. IFRIC 22 is effective for annual periods beginning on or after January 1, 2018.

There was no material impact from the adoption of these amendments on the Company’s financial statements.

(c) Foreign currencies

The functional currency of the Company and its subsidiaries, Grandview Gold (USA) Inc., and Recuperacion Realzada, S.A.C, is the Canadian dollar. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

Prior to March 1, 2018, the functional currency of PUDOpoint Inc., a subsidiary of the Company, was the Canadian dollar. Per IAS 21 – *The Effects of Changes in Foreign Exchange Rates* (“IAS 21”), an entity’s functional currency should reflect the underlying transactions, events and conditions that are relevant to the entity. Management considered primary and secondary indicators in determining functional currency including the currency that influences sales prices, labour, purchases and other costs. Other indicators including the currency in which funds from financing activities are generating and the currency in which receipts from operations are usually retained.

Based on these factors, management concluded that effective March 1, 2018, PUDOpoint Inc.’s functional currency became the United States dollar (“USD”). One of the main factors affecting the decision was that the subsidiary began incurring expenses during the period, all of which were in USD.

The Company has accounted for the change in functional currency prospectively, as provided for under IAS 21 with no impact of this change on prior year comparative information.

(d) Revenue recognition

To determine the amount and timing of revenue to be recognized, the Company follows a 5-step process:

1. Identifying the contract with a customer;
2. Identifying the performance obligations;
3. Determining the transaction price;
4. Allocating the transaction price to the performance obligations; and
5. Recognizing revenue when/as performance obligation(s) are satisfied.

PUDO Inc.

Notes to Consolidated Financial Statements For the Years Ended February 28, 2019 and 2018 (Expressed in Canadian Dollars)

3. Significant accounting policies (continued)

The Company provides technology and a network of third party locations where consumers can pick up or drop off parcels and revenue is generated in two ways when (i) a courier cannot deliver a parcel to a residential customer, they may choose to drop the parcel off at a PUDO Point; and (ii) consumers choose to have their parcels delivered directly to a Kinek or PUDO Point.

In each event, the Company recognizes revenue when the parcel has arrived at the PUDOpoint or KinekPoint which is the point at which the Company has satisfied its performance obligation under its contracts with consumers, couriers and third-party locations and revenue is reliably measurable and collection is reasonably assured.

(e) Equipment

Equipment, which consists primarily of computer tablets and scanners, is initially recorded at cost. Computer tablets and scanners are amortized using the straight-line method over their estimated useful life of 2 years.

(f) Intangible assets

Intangible assets, which consist of computer systems software, including software acquired in a business combination (note 8), are initially recorded at cost. Computer systems software is amortized using the straight-line method over its estimated useful life of 4 years.

(g) Impairment of non-financial assets

At each statement of financial position reporting date, the carrying amounts of the Company's assets are reviewed to determine whether there is an indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in profit or loss in the statements of loss and comprehensive loss for the year. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

At each reporting date, the Company assesses whether there is any indication that previously recognized impairment losses no longer exist. If such an indication exists, the carrying amount of the asset (or cash generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss in the statement of loss and comprehensive loss.

(h) Financial instruments

The Company's accounting policies in respect of its financial instruments are set out below:

Financial assets

Recognition and Initial Measurement

Financial assets and financial liabilities are recognised in the financial statements when the Company becomes party to the contractual provision of a financial instruments. Trades receivable are initially measured at transaction price. Cash, restricted short-term investments and other amounts receivables are initially measured at fair value.

PUDO Inc.

Notes to Consolidated Financial Statements For the Years Ended February 28, 2019 and 2018 (Expressed in Canadian Dollars)

3. Significant accounting policies (continued)

Classification and Subsequent Measurement

The Company classifies financial assets, at the time of initial recognition, according to the instruments attributes and the contractual terms of the cash flows. They are classified to be subsequently measured at amortized cost or fair value through profit or loss ("FVTPL"). The objective of the financial assets is to hold and contractual cash flows are solely payments of principal and interest on the outstanding principal amount. Therefore subsequent measurements are made at amortized cost.

A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. The amount of provision is recorded in profit or loss.

At each reporting date, the Company assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. A financial asset or a group of financial assets is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s), and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

Impairment losses on assets carried at amortized cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses are recognized in profit or loss and reflected in an allowance against loans and receivables. Interest on impaired assets continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Financial liabilities

Financial liabilities are initially recorded at fair value and designated upon inception as fair value through profit or loss or amortized cost. Trade and other payables, advances payable, loans and borrowings are recognized on the trade date at which the Company becomes a party to the contractual provisions of the instrument. Trade and other payables, advances payable, loans and borrowings are initially recognized at fair value. After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest rate method. Financial liabilities are derecognized when the contractual obligations are discharged, cancelled or expire.

Fair value measurement

Financial instruments recorded at fair value on the statement of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels: Level 1 - valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities; Level 2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and Level 3 - valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Offsetting

Financial assets and liabilities are offset and the net amount presented in the financial statements when and only when, the Company has a legal right to set off the recognized amounts and it intends either to settle on a net basis or realize the asset and settle the liability simultaneously.

(i) Share-based compensation

Equity-settled share-based compensation to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in the share-based compensation note.

PUDO Inc.

Notes to Consolidated Financial Statements For the Years Ended February 28, 2019 and 2018 (Expressed in Canadian Dollars)

3. Significant accounting policies (continued)

Fair value is measured at grant date and each tranche is recognized on a graded-vesting basis over the period in which options vest. At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to stock options reserve.

Equity-settled share-based compensation transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

On exercise, the value originally recorded in stock option and warrant reserves is recorded in share capital with proceeds received. For those stock options and warrants that expire after vesting, the recorded value is transferred from stock option and warrant reserves to deficit.

(j) Share capital

Common shares are classified as equity. Transaction costs directly attributable to the issue of common shares are recognized as a deduction from equity, net of any tax effects.

(k) Income taxes

Income tax expense comprises current and deferred taxes. Current taxes and deferred taxes are recognized in profit and loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(l) Loss per share

Basic loss per share is calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the year. Diluted loss per share is determined by adjusting the loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of dilutive instruments such as stock options and warrants. Stock options and warrants are dilutive when the Company has income from operations and the average market price of the common shares during the period exceeds the exercise price of the options and warrants. As the stock options and warrants would be anti-dilutive, they have been excluded from the diluted loss per share calculations for the years ended February 28, 2019 and February 28, 2018.

PUDO Inc.

Notes to Consolidated Financial Statements For the Years Ended February 28, 2019 and 2018 (Expressed in Canadian Dollars)

3. Significant accounting policies (continued)

(m) Short-term investments

Short-term investments are comprised of guaranteed investment certificates with original maturities of greater than three months and up to one year. As at February 28, 2019 and February 28, 2018, the short-term investment was comprised of a cashable guaranteed investment certificate to be held as collateral for a corporate credit card for as long as the credit card is active and has been reflected as a restricted asset. The restricted short-term investment amount would change if there is any change in the credit limit on the credit card.

(n) Segment information

The Company operates in one operating segment: providing technology and a network of third party locations for alternative drop-off and pick up options for parcels.

The Company has identified its operating segment based on the financial information that is reviewed and used by executive management (collectively, the Chief Operating Decision Maker, or “CODM”) in assessing performance and in determining the allocation of resources. The CODM considers the business from a single segment perspective and assesses the performance of the segment based on measures of profit and loss as well as assets and liabilities. These measures include revenue, operating expenditures, working capital, non-current assets and total debt.

Financial information about the operating segment is reported to the CODM on at least a monthly basis. As the operations comprise a single segment, amounts disclosed in the consolidated financial statements also represent segment amounts.

4. Financial risk management

(a) Fair values

The carrying amounts of trade and other receivables, cash, restricted short-term investment, trade and other payables and advances payable approximate their fair values, given their short-term nature.

(b) Financial risk factors

The Company’s activities expose it to a variety of financial risks, including credit risk, liquidity risk, market risk, and capital risk management. This note discloses information about the Company’s exposure to each of the above risks, their objectives, policies and processes for measuring and managing risk and their management of capital.

The board of directors of the Company (the “Board”) has the overall responsibility for the establishment and oversight of the Company’s risk management framework. The Company’s risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company’s activities.

PUDO Inc.

Notes to Consolidated Financial Statements For the Years Ended February 28, 2019 and 2018 (Expressed in Canadian Dollars)

4. Financial risk management (continued)

(i) Credit risk

Credit risk is the risk that an issuer or counterparty will be unable or unwilling to meet commitments it has entered into with the Company. The financial assets that potentially expose the Company to credit risk consist principally of cash or other receivables. The extent of the Company's exposure to credit risk is approximated by the carrying values recorded in the Company's consolidated statement of financial position. The Company has one customer with significant revenues. This customer is comprised of three different businesses operated independently under common control.

	2019		2018
Revenue from one customer	\$ 483,158	\$	363,307
% of total revenue	58%		52%
Account receivable from one customer	\$ 55,722	\$	41,400
% of total accounts receivable	54%		47%

The maximum exposure to credit risk at the reporting date was:

	2019		2018
Cash	\$ 50,639	\$	373,827
Restricted short-term investment	25,251		25,000
Trade and other receivables	110,698		95,036
	\$ 186,587	\$	493,863

(ii) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to finance its operations and to mitigate the effects of fluctuations in cash flows. See going concern discussion in note 1.

The following are the contractual maturities of financial liabilities, including interest, where applicable:

As at February 28, 2019	1 Year or Less	Greater than 1 year	Total
Trade and other payables	\$ 547,930	\$ -	\$ 547,930
Loans and borrowings	541,583	66,870	608,453
	\$ 1,089,513	\$ 66,870	\$ 1,156,383

As at February 28, 2018	1 Year or Less	Greater than 1 year	Total
Trade and other payables	\$ 298,205	\$ -	\$ 298,205
Loans and borrowings	53,496	120,366	173,862
	\$ 351,701	\$ 120,366	\$ 472,067

PUDO Inc.

Notes to Consolidated Financial Statements For the Years Ended February 28, 2019 and 2018 (Expressed in Canadian Dollars)

4. Financial risk management (continued)

In order to meet such cash commitments, the Company will be required to generate sufficient cash inflows from operating and financing activities.

(iii) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return. All of the Company's equipment and intangible assets are located in Canada.

Revenue by geographic region is as follows:

	2019		2018
Canada	\$ 521,521	\$	391,167
United States of America	311,364		304,793
	\$ 832,885	\$	695,960

(iv) Currency risk

Since the Company has a bank account denominated in US dollars, it is exposed to foreign currency risk due to fluctuations in the foreign exchange rate. The Company purchases goods and services in Canadian dollars and US dollars. Since the Company reports its results in Canadian dollars, the functional currency of the Company, it is exposed to changes in the value of the US dollar relative to that of the Canadian dollar. As at February 28, 2019 and 2018, the Company had cash, trade and other receivables and trade and other payables denominated in US dollars as follows:

As at February 28, 2019	USD		CAD	
Cash	\$ 18,409	\$	24,252	
Trade and other receivables	29,225		38,502	
Trade and other payables	(27,642)		(36,416)	
	\$ 19,992	\$	26,338	

As at February 28, 2018	USD		CAD	
Cash	\$ 272,926	\$	346,234	
Trade and other receivables	35,336		44,827	
Trade and other payables	(24,115)		(30,952)	
	\$ 284,147	\$	360,109	

(v) Interest rate risk

The Company's exposure to risks of changes in market interest rates relates primarily to its cash and short-term investment balances. The Company regularly analyzes its interest rate exposure, giving consideration to potential renewals of existing positions, alternative financial positions and the mix of fixed and variable interest rates.

(vi) Capital risk management

The Company reviews and manages its capital position from time to time to maintain a balance between its liability

PUDO Inc.

Notes to Consolidated Financial Statements For the Years Ended February 28, 2019 and 2018 (Expressed in Canadian Dollars)

4. Financial risk management (continued)

and equity levels. The Company uses the capital contributed by investors to finance its working capital requirements. The Board of Directors does not establish quantitative return on capital criteria for management but rather relies on the expertise of the Company's management to sustain future developments of the business. The Company defines capital as shareholders' equity and loans and borrowings. As at February 28, 2019, the Company had a shareholders' deficiency of \$657,000 (2018 – shareholders' equity \$383,306) and loans and borrowings of \$589,703 (2018 - \$136,930).

The Company's capital management objectives, policies and processes have remained materially unchanged during the years ended February 28, 2019 and February 28, 2018.

(vii) Sensitivity analysis

Based on management's knowledge and experience in the financial markets, the Company believes the following movements are reasonably possible over the year. Sensitivity to a plus or minus 1% change in the US-Canadian dollar foreign exchange rate, based on the US dollar denominated balances as at February 28, 2018, would affect the net loss by approximately \$1,000 during a year.

5. Critical accounting estimates and judgments

The Company makes estimates and judgments that affect the reported amounts of assets and liabilities within the next year. Estimates and judgments are regularly evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Intangible assets and equipment

The useful life of intangible assets and equipment is determined by management at the time the software and equipment is acquired and brought into use and is regularly reviewed for appropriateness. For unique software products controlled by the Company, the estimated life is based on management's historical experience with similar products as well as anticipation of future events which may impact their life such as changes in technology. In the determination of carrying values and impairment charges, management looks at the higher of recoverable amount or fair value less costs to sell in the case of assets and at objective evidence, significant or prolonged decline of fair value on financial assets indicating impairment. These determinations and their individual assumptions require that management make a decision based on the best available information at each reporting period end date.

Income, value added, withholding and other taxes

The Company is subject to income, value added, withholding and other taxes. Judgment is required in determining the Company's provisions for taxes. The Company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. The determination of the Company's income, value added, withholding and other tax liabilities requires interpretation of complex laws and regulations. The Company's interpretation of taxation law as applied to transactions and activities may not coincide with the interpretation of the tax authorities. All tax related filings are subject to government audit and potential reassessment subsequent to the financial statement reporting period. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the tax related accruals and deferred income tax provisions in the period in which such determination is made.

Share-based compensation

The Company measures the cost of equity-settled transactions with employees, consultants, officers and directors by reference to the fair value of the equity instruments at the date on which they are granted. Estimating fair value for share-based compensation transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. Assumptions are made and judgment is used in applying valuation techniques.

PUDO Inc.

Notes to Consolidated Financial Statements For the Years Ended February 28, 2019 and 2018 (Expressed in Canadian Dollars)

5. Critical accounting estimates and judgments (continued)

These assumptions and judgments include estimating the future volatility of the stock price, expected dividend yield, future employee turnover rates and future employee stock option exercise behaviours and corporate performance. Such judgments and assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates.

6. Trade and other receivables

	2019		2018
Trade receivables	\$ 91,950	\$	86,252
HST receivable	14,908		2,354
Other receivables	3,840		6,430
	\$ 110,698	\$	95,036

Allowance for doubtful accounts as at February 28, 2019 was \$11,138 (2018 – \$1,318).

7. Equipment

Scanners and Tablets	Cost	Accumulated Amortization	Net Book Value
Balance at February 28, 2017	\$ 149,998	\$ 88,468	\$ 61,530
Additions / amortization	25,716	60,559	(34,843)
Balance at February 28, 2018	\$ 175,714	\$ 149,027	\$ 26,687
Additions / amortization	46,156	25,404	20,752
Balance at February 28, 2019	\$ 221,870	\$ 174,431	\$ 47,439

8. Intangible assets

Computer Software	Cost	Accumulated Amortization and Impairment	Net Book Value
Balance at February 28, 2017	\$ 614,098	\$ 274,142	\$ 339,956
Additions / amortization	35,112	105,344	(70,232)
Balance at February 28, 2018	\$ 649,210	\$ 379,486	\$ 269,724
Additions / amortization	27,713	126,117	(98,404)
Balance at February 28, 2019	\$ 676,923	\$ 505,603	\$ 171,320

PUDO Inc.

Notes to Consolidated Financial Statements For the Years Ended February 28, 2019 and 2018 (Expressed in Canadian Dollars)

9. Trade and other payables

	2019	2018
Trade payables	\$ 347,002	\$ 177,847
Other payables	119,796	56,152
Accrued liabilities	81,132	64,206
	\$ 547,930	\$ 298,205

10. Loans and borrowings

(a) Loans

On March 3, 2016, the Company assumed borrowings from 640624 N.B. Ltd. (o/a Kinek) payable to Atlantic Canada Opportunities Agency. The loan is unsecured and non-interest bearing. Interest equal to 3% higher than the average Bank of Canada discount rate for the previous month is charged on any overdue balances. The present value of non-current borrowings was estimated using the effective interest rate method by discounting the future contractual cash flows at the estimated current market estimated interest rates for an equivalent instrument. The discount rate applied was 15%. The Company recorded accretion expense of \$18,177 (2018 - \$23,068) for the year ended February 28, 2019. The rate used in determining the appropriate present value of the borrowings was subject to management estimation.

	2019	2018
Loan payable (Atlantic Canada Opportunities Agency) 27 instalments repayable at \$4,458 per month	\$ 120,366	\$ 173,862
Less: Discount on future contractual cash flows	18,750	36,932
	101,616	136,930
Less: Current portion	40,991	35,314
	\$ 60,625	\$ 101,616

Future repayments on the borrowings as at February 28, 2019 include the following:

March 1, 2019 to February 29, 2020	\$ 53,496
March 1, 2020 to February 28, 2021	53,496
March 1, 2021 to June 22, 2021	13,374
Principal amount	\$ 120,366

(b) Convertible Debentures

On November 8, 2018, the Company completed a non-brokered private placement of an unsecured convertible debenture in the amount of \$100,000. The debenture carries an interest rate of 12% payable annually with a maturity date of November 8, 2019. At the option of the holder, the principal and the interest may be converted to common shares of the Company at a conversion price of \$0.95 per share and market price, respectively, at any time up to and including the maturity date of the debenture (with a hold period of four months plus one day). The fair value of the liability component of this convertible debenture was estimated to be \$100,520 by calculating the present value of the principal and interest payments, discounted at a rate of 17%, being management's best estimate of the rate that a non-convertible debenture would bear. The fair value of the option component of this convertible debenture at issuance was estimated to be \$4,274 using the residual method. The effective interest rate on this

PUDO Inc.

Notes to Consolidated Financial Statements For the Years Ended February 28, 2019 and 2018 (Expressed in Canadian Dollars)

10. Loans and borrowings (continued)

convertible debenture was estimated to be 17% per annum. The proceeds of the convertible debenture are being used for general corporate purposes.

On November 30, 2018, the Company completed a non-brokered private placement of an unsecured convertible debenture in the amount of \$400,000. The debenture carries an interest rate of 9% payable annually with a maturity date of November 30, 2019. At the option of the holder, the principal and the interest may be converted to common shares of the Company at a conversion price of \$0.95 per share and market price, respectively, at any time up to and including the maturity date of the debenture (with a hold period of four months plus one day). The fair value of the liability component of this convertible debenture was estimated to be \$387,567 by calculating the present value of the principal and interest payments, discounted at a rate of 17%, being management's best estimate of the rate that a non-convertible debenture would bear. The fair value of the option component of this convertible debenture at issuance was estimated to be \$27,350 using the residual method. The effective interest rate on this convertible debenture was estimated to be 17% per annum. The proceeds of the convertible debenture are being used for general corporate purposes.

Opening balance – February 28, 2018	\$	-
Convertible debentures		468,376
Accretion expense		7,410
Interest expense		12,301
Interest payment		-
Balance – February 28, 2019	\$	488,087

11. Share capital

(a) Authorized

Unlimited number of common shares with no par value.

Unlimited number of preference shares. The preference shares are without par value, redeemable, non-voting and non-participating (none currently issued and outstanding).

(b) Issued

Common Shares	Number		Amount
Balance, February 28, 2017	16,531,748	\$	3,971,811
Exercise of stock options (note 13)	1,350,000		465,958
Issuance of common shares in private placement (i)	869,160		869,160
Issuance of common shares in lieu of debt (i)	224,726		224,726
Valuation of warrants issued in private placement (i)	-		(352,213)
Transaction costs incurred for private placement (i)	-		(58,000)
Exercise of broker warrants (note 12)	20,000		26,600
Balance, February 28, 2018	18,995,634	\$	5,148,042
Exercise of broker warrants (note 12)	577,190		853,643
Balance, February 28, 2019	19,572,824	\$	6,001,685

PUDO Inc.

Notes to Consolidated Financial Statements For the Years Ended February 28, 2019 and 2018 (Expressed in Canadian Dollars)

11. Share capital (continued)

(i) In August 2017, the Company closed a non-brokered private placement of 533,580 units. Included in this issuance were 99,000 units, issued to settle a debt of \$198,000. Each unit is comprised of two common shares and two warrants. Each warrant entitles the holder to acquire one common share for \$1.00 per share up to August 24, 2018. In addition to the 533,580 units, 26,726 common shares at an issue price of \$1.00 per common share were issued to certain related party shareholders in settlement of \$26,726 of debt. There were no warrants attached to these units.

The gross proceeds received as a result of the private placement was \$869,160 for 434,580 units.

As part of this private placement the Company settled a total of \$224,726 in debt to certain related party shareholders as follows:

	Units		Amount
Units to settle debt at the private placement issue price of \$2.00 per unit	74,000	\$	148,000
Units to settle debt at the private placement issue price of \$1.00 per unit	26,726		26,726
Units to settle debt of finders fees at issue price of \$2.00 per unit	25,000		50,000
	125,726	\$	224,726

The Company incurred share issue costs of \$58,000 in connection with the private placement which includes a finder's fee of 25,000 units at \$2.00 per unit.

The warrants have an estimated grant date proportionate fair value of \$352,213, using the Black-Scholes valuation model with the following assumptions: risk-free interest rate of 1.17%, expected life of 1.0 year, expected volatility of 98.33% based on the historical volatility of the Company's shares, and expected dividend yield of 0%.

12. Warrant reserve

The following table reflects the continuity of warrants for the years ended February 28, 2019 and February 28, 2018:

	Number of Warrants		Average Exercise Price
Balance, February 28, 2017	211,234	\$	2.34
Warrants issued in private placement (note 11(i))	1,067,160		1.00
Broker warrants exercised (i)	(20,000)		1.00
Balance, February 28, 2018	1,258,394	\$	1.19
Broker warrants exercised (ii)	(75,608)		1.75
Broker warrants exercised (iii)	(501,582)		1.00
Warrants expired (iv)	(545,578)		1.00
Balance, February 28, 2019	135,626	\$	2.33

PUDO Inc.

Notes to Consolidated Financial Statements For the Years Ended February 28, 2019 and 2018 (Expressed in Canadian Dollars)

12. Warrant reserve (continued)

The following table reflects the warrants issued and outstanding as of February 28, 2019:

Expiry Date	Exercise price (\$)	Issue date fair value (\$)	Number of warrants outstanding
March 29, 2019	1.75	20,715	30,009
March 29, 2019	2.50	63,229	105,617
		83,944	135,626

- (i) On January 12, 2018, 20,000 common shares of the Company were issued upon the exercise of 20,000 warrants at \$1.00 per share for total cash proceeds of \$20,000.
- (ii) On April 3, 2018, 75,608 common shares of the Company were issued upon the exercise of 75,608 warrants at \$1.75 per share for total cash proceeds of \$132,314.
- (iii) On April 3, 2018, 52,518 common shares of the Company were issued upon the exercise of 52,518 warrants at \$1.00 per share for total cash proceeds of \$52,518.
On May 31, 2018, 200,000 common shares of the Company were issued upon the exercise of 200,000 warrants at \$1.00 per share for total cash proceeds of \$200,000.
On August 24, 2018, 249,064 common shares of the Company were issued upon the exercise of 249,064 warrants at \$1.00 per share for total cash proceeds of \$221,210 and the remaining \$27,854 was used to settle debt owing to an officer of the Company.
- (iv) On August 24, 2018, 545,578 warrants expired. The estimated grant date fair value of the warrants that expired of \$180,079 was reclassified to the deficit.

13. Stock option reserve

The Company maintains an employee stock option plan under which the Board of Directors, or the compensation committee of the Board of Directors, may from time to time grant to employees, officers, directors or consultants of the Company, options to acquire common shares in such numbers, for such terms and at such exercise prices, as may be determined by the Board of Directors or the compensation committee of the Board of Directors.

The stock option plan provides that the maximum number of common shares in the capital of the Company that may be reserved for issuance for all purposes under the stock option plan shall not exceed 20% of the total issued and outstanding common shares.

PUDO Inc.

Notes to Consolidated Financial Statements For the Years Ended February 28, 2019 and 2018 (Expressed in Canadian Dollars)

13. Stock option reserve (continued)

The following table reflects the continuity of stock options for the years ended February 28, 2019 and February 28, 2018:

	Number of stock options	Exercise Price
Balance, February 28, 2017	1,429,000	\$ 0.30
Options exercised (i)	(1,350,000)	0.20
Options forfeited (ii)	(10,000)	3.00
Granted (iii, iv, and v)	322,000	1.20
Options forfeited (iv)	(5,000)	1.20
Granted (vi)	2,690,000	1.30
Granted (vii)	108,000	2.47
Options expired (viii)	(17,250)	2.25
Balance, February 28, 2018	3,166,750	\$ 1.35
Options forfeited (iv)	(5,000)	1.20
Options expired (viii)	(51,750)	2.25
Balance, February 28, 2019	3,110,000	\$ 1.33

The following table reflects the actual stock options issued and outstanding as at February 28, 2019:

	Exercise Price (\$)	Remaining contractual life (years)	Weighted average number of options outstanding	Options vested (exercisable)	Estimated grant date fair value (\$)
August 16, 2019 (iii)	1.20	0.50	102,000	102,000	25,198
August 31, 2020 (iv)	1.20	1.50	190,000	190,000	58,648
August 31, 2020 (v)	1.20	1.50	20,000	20,000	20,000
October 26, 2022 (vi)	1.30	3.70	2,690,000	1,307,500	3,005,537
January 28, 2021 (vii)	2.47	1.90	108,000	54,000	192,343
	1.33	1.82	3,110,000	1,673,500	3,301,726

(i) During the year ended February 28, 2018, an officer of the Company exercised 1,200,000 options at \$0.20 per share and a director of the Company exercised 150,000 options at \$0.20 per share.

(ii) On March 3, 2016, the Company granted 15,000 options to employees of the Company, 10,000 of which were subsequently forfeited in 2018. The amount of \$20,669 was reclassified to the deficit for the year ended February 28, 2018.

(iii) In July 2017, the Company granted an aggregate of 102,000 options to directors of the Company. The options are exercisable at a price of \$1.20 per common share and vest in 25% increments quarterly with the first 25% having vested on the date of grant. The stock options will expire on August 16, 2019. The grant date fair value of

PUDO Inc.

Notes to Consolidated Financial Statements For the Years Ended February 28, 2019 and 2018 (Expressed in Canadian Dollars)

13. Stock option reserve (continued)

the stock options was estimated to be \$25,198 using the Black-Scholes valuation model with the following weighted average assumptions: expected dividend yield of 0%, expected volatility of 130%, risk-free interest rate of 1.24%,

and expected life of 2.09 years. For the year ended February 28, 2018, \$25,198 was recorded as share-based compensation in the consolidated statement of loss.

(iv) In July 2017, the Company granted an aggregate of 200,000 options to employees and officers of the Company. The options are exercisable at a price of \$1.20 per common share with 30,000 having vested on December 1, 2017 and 170,000 having vested on October 1, 2017. The stock options will expire August 31, 2020. The grant date fair value of the stock options was estimated to be \$61,818 using the Black-Scholes valuation model with the following weighted average assumptions: expected dividend yield of 0%, expected volatility of 130%, risk-free interest rate of 1.32%, and expected life of 3.14 years. For the year ended February 28, 2018, \$61,818 was recorded as share-based compensation in the consolidated statement of loss. On February 9, 2018, 5,000 options to an employee of the Company were forfeited and \$1,585 was reclassified to the deficit for the year ended February 28, 2018. On November 5, 2018, 5,000 options to an employee of the Company were forfeited and \$1,544 was reclassified to the deficit in the year ended February 28, 2019 (February 28, 2018 - \$nil).

(v) In July 2017, the Company granted 20,000 options to an officer of the Company in lieu of debt of \$20,000. The vesting date was October 1, 2017. The options are exercisable at a price of \$1.20 per common share. The stock options will expire on August 31, 2020. For the year ended February 28, 2018, \$nil was recorded as share-based compensation in the consolidated statement of loss.

(vi) In October 2017, the Company granted 2,690,000 stock options to employees, consultants, officers and directors of the Company. The options are exercisable at a price of \$1.30 per common share and will expire on October 26, 2022. Of the total issued, 225,000 were issued to directors and vest in 33.33% increments yearly with the first 33.33% vesting on February 28, 2019. The balance of 2,465,000 options issued to officers vest in 25% increments yearly with the first 25% having vested on February 28, 2018. The grant date fair value of the stock options was estimated to be \$3,005,537 using the Black-Scholes valuation model with the following weighted average assumptions: expected dividend yield of 0%, expected volatility of 130%, risk-free interest rate of 1.76% and expected life of 5 years.

(vii) In January 2018, the Company granted 108,000 stock options to consultants of the Company. The options are exercisable at a price of \$2.47 per common share and will expire on January 8, 2021. The options vest in 50% increments yearly with the first 50% having vested on November 1, 2018. The grant date fair value of the stock options was estimated to be \$192,342 using the Black-Scholes valuation model with the following weighted average assumptions: expected dividend yield of 0%, expected volatility of 130%, risk-free interest rate of 1.79%, and expected life of 3 years.

(viii) On February 1, 2018, 17,250 options of the Company expired. The amount of \$27,700 was reclassified to the deficit for the year ended February 28, 2018. In fiscal 2019, 51,750 options of the company expired. The amount of \$89,100 was reclassified to the deficit for the year ended February 28, 2019.

PUDO Inc.

Notes to Consolidated Financial Statements For the Years Ended February 28, 2019 and 2018 (Expressed in Canadian Dollars)

14. Expenses categorized by nature

Cost of sales	2019	2018
External processing charges	\$ 257,508	\$ 177,741
Computer and web access charges	13,322	12,078
	\$ 270,830	\$ 189,819

Administrative expenses	2019	2018
Salaries and benefits	\$ 1,177,424	\$ 708,288
General and administrative expenses	196,469	150,211
Consulting fees	172,884	394,652
Accounting and office	167,400	107,400
Travel, promotion and business development	127,020	94,062
Professional fees	108,918	136,901
Investor relations	66,536	41,805
Agent and filing fees	44,295	47,410
Foreign exchange loss	19,148	21,072
Amortization (notes 7 and 8)	151,521	165,903
	\$ 2,231,615	\$ 1,867,704

15. Related party balances and transactions

During the year ended February 28, 2019, the Company incurred bookkeeping fees and office rental, which is included in accounting and office expense, of \$167,400 (2018 - \$107,400) to a company with a common officer and director.

During the years ended February 28, 2019 and 2018, the Company had the following transactions with shareholders, management and directors:

	2019	2018
Share-based compensation	\$ 1,679,973	\$ 777,139
Salaries and benefits	671,665	322,121
Consulting fees	39,448	222,510
	\$ 2,391,086	\$ 1,321,770

As at February 28, 2019, balances payable to the related parties noted above amounted to \$243,436 (2018 - \$62,533) and are included in trade and other payables. These balances are unsecured, non-interest bearing and due on demand.

On August 24, 2018, 249,064 common shares of the Company were issued upon the exercise of 249,064 warrants at \$1.00 per share for total cash proceeds of \$221,210 and the remaining \$27,854 was used to settle debt owing to an officer of the Company.

PUDO Inc.

Notes to Consolidated Financial Statements For the Years Ended February 28, 2019 and 2018 (Expressed in Canadian Dollars)

15. Related party balances and transactions (continued)

In November 2018, the Company completed two non-brokered financial transactions by way of issuance of convertible debentures, whereby \$500,000 of the debentures are held by corporations under the control of a common director and officer of the Company (refer to note 10 for terms of the convertible debentures). The convertible debentures are secured against the assets of the Company.

As described in the subsequent event note 18, additional amounts have been advanced by a company with a common director and officer of the Company.

See also notes 9, 11, and 13.

16. Income taxes

a) Provision for income taxes

The Company's effective income tax rate differs from the combined Canadian federal and provincial statutory rate of 26.5% (2018 – 26.5%) as follows:

	<u>2019</u>		<u>2018</u>
(Loss) before income taxes	\$ (3,387,819)	\$	(2,161,770)
Expected income tax recovery based on statutory rate	(897,000)		(573,000)
Adjustment to expected income tax benefit:			
Share-based compensation	445,000		206,000
Non-taxable items	(43,000)		(1,000)
Change in benefit of tax assets not recognized	495,000		368,000
Deferred income tax provision (recovery)	\$ -	\$	-

b) Temporary differences

	<u>2019</u>		<u>2018</u>
Change in non-capital loss carry-forwards	441,000		331,000
Change in other temporary differences	54,000		37,000
	<u>495,000</u>		<u>368,000</u>

Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Company can use the benefits.

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Notes to Consolidated Financial Statements For the Years Ended February 28, 2019 and 2018 (Expressed in Canadian Dollars)

16. Income taxes (continued)

As at February 28, 2019, the Company had non-capital losses for Canadian tax purposes of \$4,535,000 available to reduce future taxable income in Canada, and non-capital losses for United States tax purposes of \$296,000 available to reduce future taxable income in the United States. The non-capital losses expire as follows:

Year	Canada	US	Totals
2034	\$ 26,000		\$ 26,000
2035	281,000		281,000
2036	942,000		942,000
2037	842,000		842,000
2038	1,073,000		1,073,000
2039	1,371,000	296,000	1,667,000
	\$ 4,535,000	\$ 296,000	\$ 4,831,000

17. Commitments and contingencies

The Company has entered into various agreements for services, which if terminated by the Company would not have any significant impact on the Company's financial statements. These amounts have not been accrued in the consolidated financial statements as at February 28, 2019.

18. Subsequent events

PUDO is actively pursuing financing opportunities to support its business growth and future network expansion. In the interim, since the fiscal year end to the date of this report, operating working capital financing has been provided by a company with a common officer and director through a demand promissory note for \$350,000, at an interest rate of 20% per annum.