



PUDO INC.

INTERIM MANAGEMENT'S DISCUSSION AND ANALYSIS

QUARTERLY HIGHLIGHTS

FOR THE THREE MONTH PERIODS ENDED

MAY 31, 2020 and 2019

(EXPRESSED IN CANADIAN DOLLARS)

Prepared by:

PUDO Inc.

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PUDO Inc.
Interim Management's Discussion & Analysis - Quarterly Highlights
Three Month Period Ended May 31, 2020
Discussion dated: June 25, 2020

Introduction

The following interim Management's Discussion and Analysis – Quarterly Highlights (the “Quarterly Highlights”) of the financial condition and results of the operations of PUDO Inc. (“PUDO” or the “Company”) constitutes management's review of the factors that affected the Company's financial and operating performance for the three month period ended May 31, 2020 (“Q1 FY 2021”), 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. This discussion should be read in conjunction with the Company's unaudited condensed interim consolidated financial statements for the three months ended May 31, 2020, the audited annual consolidated financial statements of the Company for the years ended February 29, 2020 and February 28, 2019, together with the notes thereto, and the Management's Discussion and Analysis (“Annual MD&A”) Report of the Company for the year ended February 29, 2020. All dollar amounts are expressed in Canadian dollars unless otherwise noted.

The Company's condensed interim unaudited financial statements and financial information contained in these Quarterly Highlights were prepared in compliance with International Accounting Standard (“IAS”) 34, Interim Financial Reporting as issued by the International Accounting Standards Board (“IASB”) using the accounting policies the Company adopted in its annual consolidated financial statements as at and for the year ended February 29, 2020, except as for the adoption of new standards effective as of March 1, 2020 and interpretations issued by the IFRS Interpretations Committee (“IFRIC”).

The Company's fiscal year end is February 28.

Further information regarding the Company and its operations are available on the Company's website at www.pudopoint.com and under the Company's SEDAR issuer profile at www.sedar.com, or upon request to the Company at 6600 Goreway Drive Unit D, Mississauga, Ontario, Canada, L4V 1S6.

Description of Business

PUDO is listed on the Canadian Securities Exchange (“CSE”) under the symbol “PDO” and on the OTCQB exchange under the symbol “PDPTF”.

PUDO's purpose is to improve the connection between e-commerce and consumers. PUDO deploys their technology to provide consumers with convenient locations to Pick-Up or Drop-Off (“PUDO” or “Network”) e-commerce parcels. Through collaboration with online retailers, third party logistics companies (“3PL”), Software as a Service (“SaaS”) providers, and courier companies, consumers can take secure delivery of their parcels or drop-off returns where, and when, it's convenient for them.

Existing businesses, such as convenience stores or gas stations, provide services as a PUDOpoint™ (a “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 or drop-off (“PUDO”) e-commerce parcels.

PUDO'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.

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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"). These statements related to future events or the Company's future performance. 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 June 19, 2020.

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.

Highlights

The World Health Organization declared a global emergency on January 30, 2020 as a result of the 2019 novel coronavirus ("COVID-19"), then characterized it as a pandemic on March 11, 2020. The outbreak spread globally causing companies and various jurisdictions, including Canada and the United States, to impose restrictions, such as quarantines, closures, cancellations, and travel restrictions including closing the Canada – United States border. While these effects are expected to be temporary, the duration of the business disruptions and related financial impact cannot be reasonably estimated at this time. At this point, the extent to which COVID-19 may impact the Company's results and business, including parcel volume, is uncertain, however, PUDO's consolidated results in Q1 FY 2021 have been negatively impacted by this event. The impacts of the outbreak are unknown and rapidly evolving. The extent of the impact will depend on future developments.

During Q1 of Fiscal Year 2021, revenue was up 45.9% compared to the same quarter in the prior fiscal year as a result of increased 3PL parcel volume utilizing PUDO's preferred shipping rates and other new services provided by PUDO and utilized by its partners. This revenue increase was offset by decreased border member shipments of 66.7% as compared to the prior fiscal year as member shipments were directly impact by COVID-19 and the Canada-US border closure for most of the quarter.

Operations

PUDOpoint Network

The Company continued to develop the PUDOpoint Network within Canada and the United States while working closely with current partners, identifying strategic areas where they required locations to support their various programs to customers. New locations have been activated where partners have indicated a

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need for PUDO's services, including Failed First Attempts, returns, 3PL parcel shipments, and Hub Counters. This has been partially offset by locations that have had operations suspended due to COVID-19. Additionally, PUDO continues to expand and develop its database of registered PUDOpoint locations that are ready to be activated in support of PUDO partners as they expand into those services and regions.

Parcel Volume Analysis

Parcel volume and other factors within the e-commerce ecosystem can affect PUDO's goals and performance during its continued growth and evolution. During Q1 FY 2021 the COVID-19 pandemic impacted overall parcel volume being delivered within the PUDO Network. With most businesses shut down and employees working from home, first time deliveries failures decreased as someone was home to accept packages reducing the requirement for an alternative delivery location. PUDO's Network is comprised mainly of convenience stores that were deemed essential services. This allowed PUDO's partners to successfully utilize alternative delivery locations when they did require the Network. During Q1 FY 2021, PUDO's Network performed at 95% capacity as very few PUDOpoint locations closed during COVID-19 due to being recognized as an essential service location. The PUDOpoints supported their local communities as a safe haven for parcel deliveries.

While the Company continued to strategically manage the growth and development of the Network throughout Q1 FY 2021, overall parcel volume decreased by 12.1% compared to the three month period ended May 31, 2019 ("Q1 FY 2020"). During this quarter, Q1 FY 2021, partner shipments increased 29.3% over the same quarter in the previous year. During the same three month period, member shipment volumes were down 66.7% as a result of the Canada USA border being closed to non-essential travel due to the COVID-19 pandemic. In Q1 FY 2021, partner shipments represented 83.6% of the Company's total volumes, up from 56.8% in the same quarter in the prior fiscal year.

Below is a summary of PUDO's current parcel services being utilized by partners and customers:

- 📍 ***Courier Pickup Parcels:*** During Q1 FY 2021, PUDO courier pickup service at PUDOpoint locations increased by 312.9% compared to Q1 FY 2020. This is a result of a large customer expanding their use of PUDOpoint locations as drop off locations for courier pickups at a reduced shipping fee. In sequential quarters, courier pickup parcel volumes in Q1 FY 2021 as compared to Q4 FY 2020 increased by 86.6%.
- 📍 ***Third Party Logistics ("3PL") Parcels:*** During Q1 FY 2021, 3PL parcel shipments increased 63.5% over the prior year, Q1 FY 2020. In sequential quarters, 3PL parcel shipments in Q1 FY 2021 as compared to Q4 FY 2020 increased by 6.7%. The increase is a result of PUDO partners increasing the volume of parcel shipments that utilize PUDO's preferred shipping rates.
- 📍 ***Failed First Attempts ("FFA") Parcels:*** During Q1 FY 2021 total FFA parcel volume decreased by 9.1% relative to Q1 FY 2020, while during Q1 FY 2020 FFA parcel volume increased 43.8% as compared to FFA volume for three month period ended May 31, 2018 (Q1 FY 2019). In sequential quarters, parcel volumes in Q1 FY 2021 compared to Q4 FY 2020 decreased by 45.2%. This decrease between these sequential quarters is related to the impact of COVID-19 and customers being home to accept their parcels, reducing the requirement of redirects to PUDO locations.
- 📍 ***Returns Parcels:*** During Q1 FY 2021 returns parcels decreased by 35.5% as compared to the prior year, Q1 FY 2020. In sequential quarters, returns parcel volume in Q1 FY 2021 as compared to Q4 FY 2020 decreased by 33.5%. These decreases resulted from the closure of donation receiving centres that were required to close during COVID-19 and fewer customers shipping parcels with donated goods. As well, the Company is expecting the deployment of pay on return label functionality to be available in early Q2 FY 2021 which can be utilized by PUDO returns partners.
- 📍 ***Member Shipments:*** During Q1 FY 2021 total member parcel volume decreased by 66.7% relative to Q1 FY 2020. Again, this decrease is a direct result of COVID-19 and the closure of the Canada – USA border to non-essential travel during the quarter. In sequential quarters, parcel volumes in

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Q1 FY 2021 compared to Q4 FY 2020 decreased by 65.1%, again due to COVID-19 and the border closure. This compares to a parcel increase of 2.7% in the prior year in comparing Q1 FY 2020 and Q4 FY 2019.

- 📍 **Other Parcels:** As previously disclosed, in Q4 FY 2020 the Company launched and conducted a successful pilot program with a large e-commerce provider, designed to integrate PUDOpoints into their US Hub Counter network. In sequential quarters, Hub Counter parcel volume in Q1 FY 2021 as compared to Q4 FY 2020 decreased by 36.4%. This decrease during sequential quarters is related to normal retail seasonal fluctuations, with a portion of PUDO's previous quarter containing holiday shopping volumes.

As PUDO continues to expand and maintain its services, a greater number of stakeholder partners and consumer members will minimize parcel losses and reduce dependence on specific carriers as PUDO provides a courier agnostic network of locations.

Financial Condition and Performance

Financial Performance

A summary of selected financial information for the three month periods ended May 31, 2020 and 2019 is included below:

PUDO Inc.
Condensed Interim Consolidated Statements of Loss and Comprehensive Loss
(Expressed in Canadian Dollars)
(Unaudited)

	Three Months Ended May 31,	
	2020	2019
Revenue	\$ 313,633	\$ 214,979
Cost of sales	(209,157)	(70,377)
Gross profit	104,476	144,602
Administrative expenses	(388,038)	(559,935)
Share-based compensation*	(39,351)	(153,789)
Operating loss	(322,913)	(569,122)
Finance costs	(6,265)	(30,488)
Net loss and comprehensive loss for the period	(329,178)	\$ (599,610)
Loss per share basic and diluted	\$ (0.01)	\$ (0.03)

*non-cash expense related to the amortization of performance options for management and directors.

During the three month period ended May 31, 2020, revenue was \$313,633 (May 31, 2019 - \$214,979), representing an increase of 45.9% over the same period last year due to new partner volumes and the successful sale of additional PUDO services to other partners, offset by the decrease in Failed First Attempt parcels to PUDOpoints as a result of a higher number of consumers being at home to accept their parcels during COVID-19. The Company reported a net loss of \$329,178 (\$0.01 basic and diluted loss per share),

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a decrease of \$270,432 compared with a net loss of \$599,610 (\$0.03 basic and diluted loss per share) in the corresponding quarter in the prior fiscal year. The majority of this decreased loss was attributable to a reduction in administrative expenses as a result of the decrease in salaries due to the changes in senior management and the non-cash expense related to share-based compensation.

Gross profit for the three month period ended May 31, 2020 was \$104,476 (May 31, 2019 - \$144,602) representing a decrease of \$40,126 or 27.7 % over the same period last year. This is a result of new parcel services for 3PL parcel shipment processing and the fixed costs associated with the shipping fees, which generates a lower gross profit margin than PUDO's FFA and member services.

Financial Condition

As at May 31, 2020, the Company had total assets of \$1,855,238 (February 29, 2020 - \$2,468,321). This decrease was primarily attributed to the related costs associated with operations and repayment of debt owing to a company with a common officer and director during the quarter.

As at May 31, 2020, the Company had a working capital surplus of \$1,252,494 (February 29, 2020 – \$1,545,969), had not yet achieved profitable operations, had used cash in operating activities of \$248,315 for the three month period ended May 31, 2020 (May 31, 2019 - \$308,664), had a deficit of \$10,488,211 as at May 31, 2020 (February 29, 2020 - \$10,159,033) and had shareholders' equity of \$1,380,725 (February 29, 2020 – \$1,670,552). The continuing operations of the Company are dependent upon its ability to commence profitable operations and raise adequate financing 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.

Cash Flows

During the three month period ended May 31, 2020, cash decreased by \$520,388 to \$1,518,105 (February 29, 2020 – \$2,038,493) due to \$248,315 cash used in operating activities, \$25,078 in cash used in investing activities and a total of \$240,699 in cash repayments on a note payable previously provided by a company with a common officer and director.

Liquidity and Capital Resources

As noted in the Annual MD&A and previous Quarterly Highlights, the Company generates limited cash from operations. The Company's primary source of cash to date has been through convertible debentures, a promissory note and more recently through equity financings. The Company's outstanding loans and borrowings as at May 31, 2020 consist of the following:

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	May 31, 2020	February 29, 2020
Loan payable (Atlantic Canada Opportunities Agency)		
12 instalments repayable at \$4,458 per month	\$ 53,496	\$ 66,870
Less: Discount future contractual cash flows	4,109	6,244
	49,387	60,626
Less: Current portion	49,387	47,581
	\$ -	\$ 13,045

Future repayments on the loan as at May 31, 2020 include the following:

June 1, 2020 to February 28, 2021	\$ 40,122
March 1, 2021 to June 22, 2021	13,374
	\$ 53,496

During the three month period ended May 31, 2020, the \$229,460 balance of the promissory note including accrued interest from a company with a common officer and director was fully repaid.

Opening balance – February 29, 2019	\$ -
Promissory note	591,000
Interest expense	63,460
Partial settlement of promissory note	(425,000)
Balance – February 29, 2020	\$ 229,460
Interest expense	3,395
Repayment of promissory note	(232,855)
Balance – May 31, 2020	\$ -

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 reflects material uncertainty which may cast significant 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 month period ended May 31, 2020 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 29, 2020 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.

Related Party Transactions

During the three month period ended May 31, 2020, the Company incurred accounting fees and office rental, which is included in accounting and office expense, of \$29,850 (May 31, 2019 - \$41,850), to a company with a common officer and director.

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During the three period ended May 31, 2020 and 2019, the Company had the following transactions with shareholders, management and directors:

	Three Months Ended May 31,	
	2020	2019
Share-based compensation	\$ 39,351	\$ 153,789
Salaries and benefits	38,952	173,789
Consulting fees	10,566	10,028
	\$ 88,869	\$ 337,603

As at May 31, 2020, balances payable to the related parties noted above amounted to \$142,566 (February 29, 2020 - \$315,099) and are included in trade and other payables. These balances are unsecured, non-interest bearing and are due on demand.

All related party transactions were made on terms equivalent to those that would prevail in arm's length transactions.

Subsequent events

The Company evaluated subsequent events through June 25, 2020, the date these Interim Management's Discussion & Analysis - Quarterly Highlights were approved and authorized for issue. There were no material subsequent events that required recognition or additional disclosure in the Interim Management's Discussion & Analysis - Quarterly Highlights.

Risk Factors

The Annual MD&A for the year ended February 29, 2020, dated May 28, 2020 and filed on SEDAR (www.sedar.com), 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 2021 fiscal year and to the date of this report, other than the impact of the COVID-19 pandemic on the general North American economy, and more specifically on PUDO's operations. This continues to be monitored by PUDO's management team as their customers, partners and members recover from the impact of the COVID-19 outbreak.