



**PUDO INC.**

**INTERIM MANAGEMENT'S DISCUSSION AND ANALYSIS**

**QUARTERLY HIGHLIGHTS**

**FOR THE THREE MONTH PERIOD ENDED**

**MAY 31, 2018**

**(EXPRESSED IN CANADIAN DOLLARS)**

**Prepared by:**

**PUDO Inc.**

**6600 Goreway Drive Unit D, Mississauga,  
Ontario, Canada L4V 1S6**

## **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 months ended May 31, 2018 (“Q1 FY 2019”), together with certain trends and factors that are expected to have an impact in the future.

This Quarterly Highlights has been prepared in compliance with the requirements of section 2.2.1 of Form 51-102F1, in accordance with National Instrument 51-102 - Continuous Disclosure Obligations. The discussion should be read in conjunction with the Company's unaudited condensed interim consolidated financial statements for the three months ended May 31, 2018, the audited annual consolidated financial statements of the Company for the years ended February 28, 2018 and 2017, together with the notes thereto, and the management's discussion and analysis (“Annual MD&A”) of the Company for the year ended February 28, 2018. All dollar amounts are expressed in Canadian dollars unless otherwise noted.

The Company's unaudited condensed interim consolidated financial statements and financial information contained in this Quarterly Highlights are prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”), effective as of March 1, 2018, and interpretations of 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](http://www.pudopoint.com) and under the Company's SEDAR issuer profile at [www.sedar.com](http://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 under the symbol “PDO” and on the OTC-QB exchange under the symbol “PDPTF”.

PUDO's principal activity is using technology 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 E-commerce parcels. Through collaboration with online retailers, third party logistics companies (“3PL”) and courier companies, consumers can take secure delivery of their parcels or drop-off returns where it's convenient, when it's convenient.

Existing businesses, such as convenience stores or gas stations, provide services as PUDO Points™ (“PUDO Points”). PUDO Points are typically open extended hours seven days a week to make it convenient for busy consumers to easily pick up what they've ordered online, or drop off what they need to return.

PUDO's services provide courier companies and retailers with a presence in a broad variety of locations to better serve their customers. The services are not only convenient, but can also save money. Couriers don't have to attempt a second or third delivery, or make other arrangements with customers who miss deliveries. Retailers can ship directly to PUDO Points saving residential delivery costs, and 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 PUDO Point for processing back to the retailer.

### **Cautionary Note Regarding Forward-Looking Information**

This Quarterly Highlight contains certain forward-looking information and forward-looking statements, as defined in applicable securities laws (collectively referred to herein as "forward-looking statements"). All statements other than statements of historical fact are forward-looking statements. Often, but not always, forward-looking statements can be identified by the use of words such as "plans", "expects", "is expected", "budget", "scheduled", "estimates", "continues", "forecasts", "projects", "predicts", "intends", "anticipates" or "believes", or variations of, or the negatives of, such words and phrases, or state that certain actions, events or results "may", "could", "would", "should", "might" or "will" be taken, occur or be achieved. Forward-looking statements address possible future events, conditions and financial performance based upon management's current expectations, estimates, projections and assumptions. Management of the Company considers the assumptions on which the forward-looking information contained herein are based to be reasonable. However, by its very nature, forward-looking statements inherently involve known and unknown risks and uncertainties that may cause actual results to differ materially from those expressed or implied by such forward-looking statements. Such risks include, without limitation those risks discussed in the "Risk Factors" section of PUDO's Annual MD&A dated May 17, 2018. 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 this Quarterly Highlight are made only as of the date of this Quarterly Highlight 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 continued development of the PUDO Point network across Canada and the United States is aligned with areas where customers have a demonstrated need for PUDO's services. Accordingly, PUDO regularly reviews locations and parcel volumes to ensure optimum network placement and some PUDO Point locations have been shifted to areas with increased parcel demand. Additionally, some new locations have been added, as PUDO has worked with existing customers to enhance its share of the addressable market. Pilot testing of a suite of services for new potential customers has been successful and PUDO is in advanced discussions that include implementation planning for these new service offerings.

On May 29 and 30, 2018, PUDO attended the Retail Council of Canada's "Store 2018" trade show in Toronto. The booth was visited by an array of retail businesses in Canada that have an

online presence. PUDO is working with transportation partners to provide an affordable end-to-end solution for new customers. The price point and speed of PUDO's services was well received by a number of retailers and follow up discussions are ongoing.

## **Operations**

### ***PUDO Point Network***

The Company continues to focus on developing the PUDO Point Network and increasing parcel volumes and has been working closely with current customers identifying strategic areas. New locations have been opened where customers have indicated a need for PUDO's services. This has been partially offset by locations that have had operations suspended due to a current lack of demand for services in their immediate area. These and other locations may be activated when required as PUDO attracts new customers, and sees growth in demand and locations for its suite of services.

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

Parcel volumes in Q1 FY 2019 increased by 9% relative to Q1 FY 2018. Compared to the previous quarter, parcel volumes in Q1 2019 increased 1% as a result of activation of new PUDO Points in strategic areas are per requirements of a significant PUDO customer.

### ***Direct to PUDO Program***

PUDO has been expanding its IT integration with transportation partners to enable it to offer end-to-end service directly to a PUDO Point selected by the consumer at checkout. These transportation partners are able to offer attractive delivery rates and speed through this program and these savings can be passed along to retailers looking to offer additional choices to their customers.

### ***Reverse Logistics Program***

PUDO is developing a reverse logistics program with its partners for e-commerce customers facing escalating costs and demanding consumer expectations. PUDO's technology allows partner retailers to let their customers drop-off returns at any PUDO Point. PUDO's network facilitates the returns process while saving shipping costs.

## **Financial Condition and Performance**

### ***Financial Condition***

As of May 31, 2018, the Company had total assets of \$807,018 (\$818,441 as at February 28, 2018). This decrease was primarily related to costs associated with operations, network expansion and IT expenses.

As of May 31, 2018, the Company had working capital (defined as current assets less current liabilities) of \$183,260 (\$188,511 as at February 28, 2018). The Company plans to fund its planned expansion of the PUDO network through equity financings. See "*Liquidity*" below.

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***Financial Performance***

During the three month period ended May 31, 2018, the Company reported a net loss of \$443,996 (\$0.02 basic and diluted loss per share). This compared to a net loss of \$250,562 (\$0.02 basic and diluted loss per share) in the corresponding quarter in the prior fiscal year.

Revenue for the three month period ended May 31, 2018 was \$187,264 (May 31, 2017 – \$176,528), representing a 6% increase over the same period last year due to additional parcel volumes and a modest parcel fee rate increase. Gross profit for the three month period ended May 31, 2018 was \$137,416 (May 31, 2017 – \$128,003).

Administrative expenses for the three month period ended May 31, 2018 were \$549,567 (May 31, 2017 - \$372,378), representing an increase relative to the corresponding quarter in the prior fiscal year. This cost increase relates primarily to addition of full time management and other customer support contractors.

***Cash Flows***

Cash decreased by \$21,745 due to \$396,395 used for operations and \$10,182 in equipment/software purchases, partially offset by \$384,832 in proceeds of warrants being exercised.

***Liquidity and Capital Resources***

PUDO intends to generate the capital necessary to fund the planned expansion through revenue from operations and equity financing activities.

On April 3, 2018, 128,126 common shares of the Company were issued upon the exercise of 75,608 Warrants A at \$1.75 per share and 52,518 warrants at \$1.00 per share for total proceeds of \$184,832.

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 proceeds of \$200,000.

As noted in the Annual MD&A, the Company generates limited cash from operations. The Company's primary source of cash to date has been equity financings. The Company's outstanding loans and borrowings consist of the following:

	<b>May 31, 2018</b>	February 28, 2018
Loan payable (Atlantic Canada Opportunities Agency)		
36 instalments repayable at \$4,458 per month	<b>\$ 160,488</b>	\$ 173,862
Less: Discount future contractual cash flows	<b>31,899</b>	36,932
	<b>128,589</b>	136,930
Less: Current portion	<b>36,655</b>	35,314
	<b>\$ 91,934</b>	\$ 101,616

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

The unaudited condensed interim consolidated financial statements for the three month period ended May 31, 2018 have been prepared with the assumption that the Company will continue operations for the foreseeable future and will be able to realize its assets and discharge its liabilities in the course of operations. They do not include any adjustments that may be required if it were not able to continue as a going concern. The Company's financial statements for the year ended February 28, 2018 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, 2018, the Company incurred bookkeeping fees and office rental, which is included in accounting and office expense, for \$41,850 (May 31, 2017 - \$18,000) to a company with common officers and directors.

During the three month periods ended May 31, 2018 and 2017, the Company had the following transactions with shareholders, management, and directors:

	<b>Three Months Ended May 31, 2018</b>	<b>Three Months Ended May 31, 2017</b>
Salaries and benefits	\$ 162,079	\$ 36,000
Consulting fees	9,750	42,226
	<b>\$ 171,829</b>	<b>\$ 78,226</b>

As at May 31, 2018, balances payable to the related parties noted above amounted to \$94,456 (February 28, 2018 - \$62,533) and are included in trade and other payables. These balances are unsecured, non-interest bearing and due on demand.

### **Risk Factors**

The Annual MD&A filed on SEDAR on May 22, 2018, 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 first fiscal quarter and to the date of this report.