
PUDO INC.

CONSOLIDATED FINANCIAL STATEMENTS

**FOR THE YEARS ENDED FEBRUARY 29, 2020 AND
FEBRUARY 28, 2019**

(EXPRESSED IN CANADIAN DOLLARS)

Independent auditor's report

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To the Shareholders of
PUDO Inc.

Opinion

We have audited the accompanying consolidated financial statements of PUDO Inc. and its subsidiaries (the "Group"), which comprise the consolidated statements of financial position as at February 29, 2020 and February 28, 2019, and the statements of loss and comprehensive loss, statements of changes in shareholders' equity (deficiency) and statements of cash flows for the years 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 Group as at February 29, 2020 and February 28, 2019, 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 Group 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 Group'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 Group'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 Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group'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 Group'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 Group'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 Group 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 Group 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.

The engagement partner on the audit resulting in this independent auditor's report is Grant Cuyllé, CPA, CA.



PUDO Inc.
Consolidated Statements of Financial Position
As at February 29, 2020 and February 28, 2019

(Expressed in Canadian Dollars)

As at	Notes	2020	2019
Assets			
Current assets			
Cash		\$ 2,038,493	\$ 50,639
Restricted short-term investment	3(l)	25,378	25,251
Trade and other receivables	4, 6	213,701	110,698
Prepaid expenses and deposits		53,121	75,286
Total current assets		2,330,693	261,874
Non-current assets			
Equipment	7	52,942	47,439
Intangible assets	8	84,686	171,320
Total assets		\$ 2,468,321	\$ 480,633
Liabilities			
Current liabilities			
Trade and other payables	4, 9, 15	\$ 507,683	\$ 547,930
Loans and borrowings	4, 10	277,041	529,078
Total current liabilities		784,724	1,077,008
Non-current liabilities			
Loans and borrowings	4, 10	13,045	60,625
Total liabilities		797,769	1,137,633
Shareholders' equity			
Share capital	11	8,260,886	6,001,685
Warrant reserve	12	1,499,079	83,944
Stock option reserve	13	2,069,620	2,473,983
Equity component of convertible debentures	10	-	31,624
Deficit		(10,159,033)	(9,248,236)
Shareholders' equity (deficiency)		1,670,552	(657,000)
Total liabilities and shareholders' equity		\$ 2,468,321	\$ 480,633

Nature of operations and going concern (note 1)

Commitments and contingencies (note 17)

Subsequent events (note 18)

Approved by the Board of Directors:

"Thomas Bijou"

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 29, 2020 and February 28, 2019***(Expressed in Canadian Dollars)*

	Notes	2020	2019
Revenue	4	\$ 1,121,430	\$ 832,885
Cost of sales	14	(515,011)	(270,830)
Gross profit		606,419	562,055
Administrative expenses	14	(1,864,807)	(2,231,615)
Share-based compensation	13, 15	(597,672)	(1,679,973)
Operating loss		(1,856,060)	(3,349,533)
Finance costs	10	(148,126)	(38,286)
Net loss and comprehensive loss for the year		\$ (2,004,186)	\$ (3,387,819)
Loss per share			
basic and diluted	3(k)	\$ (0.08)	\$ (0.18)
Weighted average number of shares			
outstanding – basic and diluted	3(k)	26,511,849	19,318,691

See accompanying notes to the consolidated financial statements

PUDO Inc.

Consolidated Statements of Changes in Shareholders' (Deficiency) Equity For the years ended February 29, 2020 and February 28, 2019

(Expressed in Canadian Dollars)

	# of Common Shares	Share Capital	Warrant Reserve	Stock Option Reserve	Equity Component of Convertible Debentures	Deficit	Total
Balance, February 28, 2018	18,995,634	\$ 5,148,042	\$ 481,750	\$ 884,654	\$ -	\$ (6,131,140)	\$ 383,306
Share-based compensation forfeited (note 13)	-	-	-	(90,644)	-	90,644	-
Share-based compensation (notes 13, 15)	-	-	-	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)
Share-based compensation (notes 13, 15)	-	-	-	597,672	-	-	597,672
Broker warrants expired (note 12)	-	-	(83,944)	-	-	83,944	-
Issuance of common shares in private placement (note 11)	5,223,470	1,791,370	1,194,910	-	-	-	2,914,280
Issuance of common shares in lieu of debt (note 11 (ii))	1,715,555	467,831	304,169	-	-	-	844,000
Renewal of convertible debentures (note 10)	-	-	-	-	2,974	7,410	10,384
Partial Payment of convertible debentures (note 10)	-	-	-	-	(34,598)	-	(34,598)
Options forfeited (note 13)	-	-	-	(1,002,035)	-	1,002,035	-
Net loss for the year	-	-	-	-	-	(2,004,186)	(2,004,186)
Balance, February 29, 2020	26,511,849	\$ 8,260,886	\$ 1,499,079	\$ 2,069,620	\$ -	\$ (10,159,033)	\$ 1,670,552

See accompanying notes to the consolidated financial statements

PUDO Inc.**Consolidated Statements of Cash Flows****For the years ended February 29, 2020 and February 28, 2019***(Expressed in Canadian Dollars)*

	Notes	2020	2019
Cash flows (used in) provided by operating activities			
Net loss for the year		\$ (2,004,186)	\$ (3,387,819)
Adjustments for:			
Share-based compensation	13, 15	597,672	1,679,973
Amortization	7, 8	153,628	151,521
Finance costs	10	148,126	38,286
Allowance for doubtful accounts	6	-	9,820
Net change in non-cash working capital:			
Restricted short-term investment		(127)	(251)
Trade and other receivables		(103,003)	(25,482)
Prepaid expenses and deposits		22,165	(47,119)
Trade and other payables		306,754	277,579
Cash flows used in operating activities		(878,971)	(1,303,492)
Cash flows used in investing activities			
Purchase of equipment	7	(40,022)	(46,156)
Purchase of intangible assets	8	(32,475)	(27,713)
Cash flows used in investing activities		(72,497)	(73,869)
Cash flows provided by (used in) financing activities			
Proceeds from exercise of warrants and options	12, 13	-	606,042
(Repayment of) proceeds from convertible debentures	10(c)	(555,842)	500,000
Proceeds from issuance of private placements	12	2,986,280	-
Proceeds from issuance of promissory note	10(b)	591,000	-
Repayment of loans	10(a)	(53,496)	(53,496)
Cash flows provided by financing activities		2,967,942	1,052,546
Change in cash during the year		2,016,474	(324,815)
Cash, beginning of year		50,639	373,827
Effect of translation of foreign currency		(28,620)	1,627
Cash, end of year		\$ 2,038,493	\$ 50,639
Supplemental information:			
Issuance of common shares in settlement of debt (note 11(ii) 12(ii))		467,831	27,854
Trade payable converted into equity (note 11(ii))		347,000	-
Warrants granted in settlement of debt (notes 12, 13, 15)		304,169	-

See accompanying notes to the financial statements

PUDO Inc.

Notes to Consolidated Financial Statements

For the Years Ended February 29, 2020 and February 28, 2019

(Expressed in Canadian Dollars)

1. Nature of operations and going concern

The principal activity of PUDO Inc. (the "Company") is using technology to improve the connection between e-commerce and consumers. The Company deploys its' 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"), 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 29, 2020, the Company had a working capital surplus of \$1,545,969 (2019 – working capital deficiency \$815,134), had not yet achieved profitable operations, had used cash in operating activities of \$878,971 for the year ended February 29, 2020 (2019 - \$1,303,492), had a deficit of \$10,159,033 as at February 29, 2020 (2019 - \$9,248,236) and had shareholders' equity of \$1,670,552 (2019 – \$657,000 deficiency). 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, 2019, and interpretations issued by the IFRS Interpretations Committee ("IFRIC").

The consolidated financial statements of the Company for the year ended February 29, 2020 were approved and authorized for issue by the Board of Directors on May 28, 2020.

(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.

PUDO Inc.

Notes to Consolidated Financial Statements

For the Years Ended February 29, 2020 and February 28, 2019

(Expressed in Canadian Dollars)

2. Basis of preparation (continued)

(c) Basis of consolidation

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

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) Changes in accounting standards

The Company adopted the following standard effective March 1, 2019

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 at February 29, 2020 the Company does not hold any leases, therefore the adoption of this standard has not had a material impact on the Company’s financial statements.

The Company 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 this standard 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 ownership” 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

PUDO Inc.

Notes to Consolidated Financial Statements

For the Years Ended February 29, 2020 and February 28, 2019

(Expressed in Canadian Dollars)

3. Significant accounting policies (continued)

ways when (i) a courier cannot deliver a parcel to a residential customer, they may choose to drop the parcel off at a PUDOpont; and (ii) consumers choose to have their parcels delivered directly to a Kinekpoint or PUDOpont. 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 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.

(b) 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 PUDOpont 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, PUDOpont 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.

(c) 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 29, 2020 and February 28, 2019

(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 PUDOpoint; and (ii) consumers choose to have their parcels delivered directly to a Kinekpoint or PUDOpoint.

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.

(d) 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.

(e) 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.

(f) 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.

(g) 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. Trade receivables are initially measured at the transaction price. Cash, restricted short-term investments and other amounts receivable are initially measured at fair value.

PUDO Inc.

Notes to Consolidated Financial Statements

For the Years Ended February 29, 2020 and February 28, 2019

(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 them 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 the 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, and 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, and 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.

(h) 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 stock option reserve note 13.

PUDO Inc.

Notes to Consolidated Financial Statements

For the Years Ended February 29, 2020 and February 28, 2019

(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.

(i) 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.

(j) 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 (loss).

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.

(k) 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. Since the stock options and warrants held at the year ended February 29, 2020 and February 28, 2019 were anti-dilutive, they have been excluded from the diluted loss per share calculation.

PUDO Inc.

Notes to Consolidated Financial Statements

For the Years Ended February 29, 2020 and February 28, 2019

(Expressed in Canadian Dollars)

3. Significant accounting policies (continued)

(l) 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 29, 2020 and February 28, 2019, the restricted 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.

(m) 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 cash, trade and other receivables, restricted short-term investment, trade and other payables and loans and borrowings 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 29, 2020 and February 28, 2019

(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 trade and 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.

	2020	2019
Revenue from one customer	\$ 611,780	\$ 483,158
% of total revenue	55%	58%
Account receivable from one customer	\$ 107,189	\$ 55,722
% of total accounts receivable	60%	54%

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

	2020	2019
Cash	\$ 2,038,493	\$ 50,639
Restricted short-term investment	25,378	25,251
Trade and other receivables	213,701	110,698
	\$ 2,277,572	\$ 186,588

(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 29, 2020	1 Year or Less	Greater than 1 year	Total
Trade and other payables	\$ 507,683	\$ -	\$ 507,683
Loans and borrowings	282,952	13,373	296,325
	\$ 790,635	\$ 13,373	\$ 804,008
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

PUDO Inc.

Notes to Consolidated Financial Statements

For the Years Ended February 29, 2020 and February 28, 2019

(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:

		2020		2019
Canada	\$	833,558	\$	521,521
United States of America		287,872		311,364
	\$	1,121,430	\$	832,885

(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 29, 2020 and February 28, 2019, the Company had cash, trade and other receivables and trade and other payables denominated in US dollars as follows:

As at February 29, 2020		USD		CAD
Cash	\$	313,555	\$	421,073
Trade and other receivables		30,456		40,899
Trade and other payables		(49,908)		(67,021)
	\$	294,103	\$	394,951

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

(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.

PUDO Inc.

Notes to Consolidated Financial Statements

For the Years Ended February 29, 2020 and February 28, 2019

(Expressed in Canadian Dollars)

4. Financial risk management (continued)

(vi) Capital risk management

The Company reviews and manages its capital position from time to time to maintain a balance between its liability 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 29, 2020, the Company had a shareholders' equity of \$1,670,552 (2019 – shareholders' deficiency \$657,000) and loans and borrowings of \$290,086 (2019 - \$589,703).

The Company's capital management objectives, policies and processes have remained materially unchanged during the years ended February 29, 2020 and February 28, 2019.

(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 29, 2020, would affect the net loss by approximately \$3,000 during the 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.

PUDO Inc.

Notes to Consolidated Financial Statements

For the Years Ended February 29, 2020 and February 28, 2019

(Expressed in Canadian Dollars)

5. Critical accounting estimates and judgments (continued)

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.

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

	2020	2019
Trade receivables	\$ 179,603	\$ 91,950
HST/QST receivable	9,361	14,908
Other receivables	24,737	3,840
	\$ 213,701	\$ 110,698

Allowance for doubtful accounts as at February 29, 2020 was \$nil (2019 – \$11,138).

7. Equipment

Scanners and Tablets	Cost	Accumulated Amortization	Net Book Value
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
Additions / amortization	40,022	34,519	5,503
Balance at February 29, 2020	\$ 261,892	\$ 208,950	\$ 52,942

8. Intangible assets

Computer Software	Cost	Accumulated Amortization and Impairment	Net Book Value
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
Additions / amortization	32,475	119,109	(86,634)
Balance at February 29, 2020	\$ 709,398	\$ 624,712	\$ 84,686

PUDO Inc.

Notes to Consolidated Financial Statements

For the Years Ended February 29, 2020 and February 28, 2019

(Expressed in Canadian Dollars)

9. Trade and other payables

	2020	2019
Trade payables	\$ 311,246	\$ 347,002
QST payable	6,610	3,458
Other payables	93,738	119,796
Accrued liabilities	96,089	77,674
	\$ 507,683	\$ 547,930

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 \$12,500 (2019 - \$18,177) for the year ended February 29, 2020. The rate used in determining the appropriate present value of the borrowings was subject to management estimation.

	2020	2019
Loan payable (Atlantic Canada Opportunities Agency) 15 instalments repayable at \$4,458 per month	\$ 66,870	\$ 120,366
Less: Discount on future contractual cash flows	6,244	18,750
	60,626	101,616
Less: Current portion	47,581	40,991
	\$ 13,045	\$ 60,625

Future repayments on the borrowings as at February 29, 2020 include the following:

March 1, 2020 to February 28, 2021	\$ 53,496
March 1, 2021 to June 22, 2021	13,374
Principal amount	\$ 66,870

(b) Promissory Note

During the year ended February 29, 2020, the Company raised \$591,000 via a promissory note from a company with a common officer and director. This note carried an interest rate of 20% per annum, payable on demand. On November 7, 2019, \$425,000 of the promissory note was settled by the issuance of 944,445 units of the Company. Each unit entitles the holder to receive one common share of the Company and one warrant with a strike price of \$0.54 and expiration date of November 7, 2020.

PUDO Inc.

Notes to Consolidated Financial Statements

For the Years Ended February 29, 2020 and February 28, 2019

(Expressed in Canadian Dollars)

10. Loans and borrowings (continued)

Opening balance – February 28, 2019	\$	-
Promissory note		591,000
Interest expense		63,460
Interest payment		-
Partial settlement of promissory note		(425,000)
Balance – February 29, 2020	\$	229,460

In March 2020, the promissory note including accrued interest was fully repaid.

(c) 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 carried 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 could have been 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 convertible debenture was estimated to be 17% per annum. The proceeds of the convertible debenture were used for general corporate purposes. On November 8, 2019, the debenture was renewed at the interest and discount rate of 12% and 17% respectively. The fair value of the liability component of the renewed debenture was \$107,214 and the residual option component was \$4,786. On January 31, 2020, the debenture was repaid for \$114,616, including interest incurred to this date.

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 carried 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 could have been 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 were used for general corporate purposes. On November 30, 2019, the debenture was renewed at the interest and discount rate of 9% and 17% respectively. The fair value of the liability component of the renewed debenture was \$406,188 and the residual option component was \$29,812. On January 24, 2020, the debenture was repaid for \$441,226, including interest accrued to this date.

PUDO Inc.

Notes to Consolidated Financial Statements

For the Years Ended February 29, 2020 and February 28, 2019

(Expressed in Canadian Dollars)

10. Loans and borrowings (continued)

Opening balance – February 28, 2018	\$	-
Convertible debentures		468,376
Accretion expense		7,410
Interest expense		12,301
Balance – February 28, 2019	\$	488,087
Accretion expense		27,288
Interest expense		40,467
Repayment		(555,842)
Balance – February 29, 2020	\$	-

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, 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
Common shares issued (i) (ii) (iii) (iv)	6,939,025	2,259,201
Balance, February 29, 2020	26,511,849	\$ 8,260,886

(i) On November 7, 2019, the Company closed a non-brokered private placement financing where the company issued 333,333 units of the Company for proceeds of \$150,000. Each unit consists of one common share and one warrant of the Company. Based on the Black Scholes valuation model, the Company valued the common shares at \$90,900 and the warrants at \$59,100.

(ii) On November 7, 2019, the Company settled \$772,000 of debt owing to a company with a common director or officer by issuing 1,715,555 units of the Company. The settled debt consisted of \$425,000 of a promissory note and \$347,000 of Trade Payables. Each unit issued consisted of one common share and one warrant of the Company. Based on the Black Scholes Model, the Company valued the common shares at \$467,831 and the warrants at \$304,169.

(iii) In December 2019, the Company closed two non-brokered private placements where 180,957 units were issued for total proceeds of \$104,955. Each unit issued consisted of one common share and one warrant of the Company. Based on the Black Scholes valuation model, the Company valued the common shares at \$69,433 and valued the warrants at \$35,522.

PUDO Inc.

Notes to Consolidated Financial Statements

For the Years Ended February 29, 2020 and February 28, 2019

(Expressed in Canadian Dollars)

11. Share capital (continued)

(iv) In January 2020, the Company closed several non-brokered private placements where 4,709,180 units were issued for total proceeds of \$2,731,324. Each unit issued consisted of one common share and one warrant of the Company. Based on the Black Scholes valuation model, the Company valued the common shares at \$1,631,037 and the warrants at \$1,100,288.

12. Warrant reserve

The following table reflects the continuity of warrants for the years ended February 29, 2020 and February 28, 2019:

	Number of Warrants	Average Exercise Price
Balance, February 28, 2018	1,258,394	\$ 1.19
Broker warrants exercised (i)	(75,608)	1.75
Broker warrants exercised (ii)	(501,582)	1.00
Warrants expired (iii)	(545,578)	1.00
Balance, February 28, 2019	135,626	\$ 2.33
Warrants expired (iv)	(135,626)	2.33
Warrants issued (note 11(b)(i))	333,333	0.54
Warrants issued (note 11(b)(ii))	1,715,555	0.54
Warrants issued (note 11(b)(iii))	180,957	0.69
Warrants issued (note 11(b)(iv))	4,709,180	0.69
Balance, February 29, 2020	6,939,025	\$ 0.65

The following table reflects the warrants issued and outstanding as of February 29, 2020:

Expiry Date	Exercise price (\$)	Issue date fair value (\$)	Number of warrants outstanding
November 7, 2019 (note 11(b)(i)(ii))	0.54	363,269	2,048,888
December 20, 2019 (note 11(b)(iii))	0.69	35,522	180,957
January 6, 2010 (note 11(b)(iv))	0.69	41,500	172,414
January 9, 2021 (note 11(b)(iv))	0.69	152,375	633,044
January 24, 2021 (note 11(b)(iv))	0.69	906,413	3,903,722
		1,499,079	6,939,025

(i) 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.

(ii) 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.

PUDO Inc.

Notes to Consolidated Financial Statements

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12. Warrant reserve (continued)

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.

- (iii) 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.
- (iv) On March 29, 2019, 135,626 warrants expired. The estimated grant date fair value of the warrants that expired of \$83,944 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.

The following table reflects the continuity of stock options for the years ended February 29, 2020 and February 28, 2019:

	Number of stock options	Exercise Price
Balance, February 28, 2018	3,166,750	\$ 1.35
Options forfeited (i)	(5,000)	1.20
Options expired (ii)	(51,750)	2.25
Balance, February 28, 2019	3,110,000	\$ 1.33
Options expired (iii)	(102,000)	1.20
Options forfeited (iv)	(10,000)	1.20
Options forfeited (iv)	(25,000)	1.20
Options forfeited (v)	(862,500)	1.30
Balance, February 29, 2020	2,110,500	\$ 1.35

PUDO Inc.

Notes to Consolidated Financial Statements

For the Years Ended February 29, 2020 and February 28, 2019

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13. Stock option reserve (continued)

The following table reflects the actual stock options issued and outstanding as at February 29, 2020:

Expiration date	Exercise Price (\$)	Remaining contractual life (years)	Weighted average number of options outstanding	Options vested (exercisable)	Estimated grant date fair value (\$)
August 31, 2020 (iv)	1.20	0.50	165,000	165,000	50,931
August 31, 2020 (vi)	1.20	0.50	10,000	10,000	10,000
October 26, 2022 (v)	1.30	2.67	1,827,500	1,351,875	2,041,866
January 28, 2021 (vii)	2.47	0.92	108,000	108,000	192,343
	1.35	1.15	2,110,500	1,634,875	2,295,140

(i) 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 170,000 having vested on October 1, 2017 and 30,000 having vested on December 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. 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.

(ii) In March, June and September 2018, 17,250 options expired at each instance, for a total of 51,750 options. The amount of \$89,100 was reclassified to the deficit for the year ended February 28, 2019.

(iii) In July 2017, the Company granted an aggregate of 102,000 options to directors of the Company. The options were 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 expired on August 16, 2019. The grant date fair value of 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. The amount of \$25,198 was reclassified to the deficit for the year ended February 29, 2020.

(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 170,000 having vested on October 1, 2017 and 30,000 having vested on December 1, 2017. The stock options will expire on 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

On April 25, 2019, 5,000 options to an employee of the Company were forfeited and \$1,544 was classified to the deficit for the period ended February 29, 2020. On June 21, 2019, 5,000 options to an employee of the Company were forfeited and \$1,544 was classified to the deficit for the period ended February 29, 2020.

On February 29, 2020, 25,000 options granted to a former officer of the Company were forfeited and \$7,750 was classified to the deficit for the year ended February 29, 2020.

PUDO Inc.

Notes to Consolidated Financial Statements

For the Years Ended February 29, 2020 and February 28, 2019

(Expressed in Canadian Dollars)

13. Stock option reserve (continued)

(v) 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% having vested on February 28, 2019 and 66.67% of the options outstanding having vested by February 29, 2020. The balance of 2,465,000 options issued to officers will vest in 25% increments yearly with the first 25% having vested on February 28, 2018 and 50% of the options outstanding having vested by February 29, 2020. 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. On February 29, 2020, 862,500 options granted to a former officer of the Company were forfeited and \$966,000 was classified to the deficit for the year ended February 29, 2020.

For the period ended February 29, 2020, \$562,700 was recorded as share-based compensation in the consolidated statement of loss.

(vi) 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 November 30, 2020. For the year ended February 29, 2020, \$nil was recorded as share-based compensation in the consolidated statement of loss.

(vii) In January 2018, the Company granted 108,000 stock options to consultants of the Company. The options were 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 and the remainder having vested on November 1, 2019. 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. For the year ended February 29, 2020, \$34,972 was recorded as share-based compensation in the consolidated statement of loss.

14. Expenses categorized by nature

Cost of sales	2020	2019
External processing charges	\$ 503,712	\$ 257,508
Computer and web access charges	11,298	13,322
	\$ 515,010	\$ 270,830

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For the Years Ended February 29, 2020 and February 28, 2019

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14. Expenses categorized by nature (continued)

Administrative expenses	2020	2019
Salaries and benefits	\$ 875,207	\$ 1,177,424
Consulting fees	192,010	172,884
General and administrative expenses	179,603	196,469
Travel, promotion and business development	147,425	127,020
Accounting and office	144,240	167,400
Professional fees	79,196	108,918
Investor relations	54,380	66,536
Agent and filing fees	42,636	44,295
Foreign exchange (gain) loss	(3,518)	19,148
Amortization (notes 7 and 8)	153,628	151,521
	\$ 1,864,807	\$ 2,231,615

15. Related party balances and transactions

During the year ended February 29, 2020, the Company incurred bookkeeping fees and office rental, which is included in accounting and office expense, of \$144,240 (2019 - \$167,400) to a company with a common officer and director.

During the years ended February 29, 2020 and February 28, 2019, the Company had the following transactions with shareholders, management and directors:

	2020	2019
Share-based compensation	\$ 597,672	\$ 1,679,973
Salaries and benefits	448,828	671,665
Consulting fees	67,210	39,448
	\$ 1,113,710	\$ 2,391,086

As at February 29, 2020, balances payable to the related parties noted above amounted to \$140,313 (2019 - \$243,436) and are included in trade and other payables. These balances are unsecured, non-interest bearing and due on demand.

As described in the loans and borrowings note 10(b), as at February 29, 2020 the remaining balance of a promissory note in the amount of \$229,461, including interest at an annual interest rate of 20% was issued to a company with a common director and officer of the Company. In March 2020, the promissory note, including accrued interest was repaid in full.

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

See also notes 9, 10, and 13.

PUDO Inc.

Notes to Consolidated Financial Statements

For the Years Ended February 29, 2020 and February 28, 2019

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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:

	2020	2019
(Loss) before income taxes	\$ (2,004,185)	\$ (3,387,819)
Expected income tax recovery based on statutory rate	(531,000)	(897,000)
Adjustment to expected income tax benefit:		
Share-based compensation	158,000	445,000
Non-taxable items	6,000	(43,000)
Change in benefit of tax assets not recognized	367,000	495,000
Deferred income tax provision (recovery)	\$ -	\$ -

b) Temporary differences

	2020	2019
Change in non-capital loss carry-forwards	334,000	441,000
Change in other temporary differences	33,000	54,000
	367,000	495,000

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.

As at February 29, 2020, the Company had non-capital losses for Canadian tax purposes of \$5,499,000 available to reduce future taxable income in Canada, and non-capital losses for United States tax purposes of \$448,000 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	1,177,000		1,177,000
2039	1,133,000	294,000	1,427,000
2040	1,098,000	154,000	1,252,000
	\$ 5,499,000	\$ 448,000	\$ 5,947,000

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Notes to Consolidated Financial Statements

For the Years Ended February 29, 2020 and February 28, 2019

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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 29, 2020.

18. Subsequent events

Subsequent to year end, the spread of COVID-19 has severely impacted many local economies around the globe. In many countries, including Canada, businesses are being forced to cease or limit operations for long or indefinite periods of time. Measures taken to contain the spread of the virus, including travel bans, quarantines, social distancing, and closures of non-essential services have triggered significant disruptions to businesses worldwide, resulting in an economic slowdown. Global stock markets have also experienced great volatility and a significant weakening. Governments and central banks have responded with monetary and fiscal interventions to stabilize economic conditions.

As of May 28, 2020, the Company has been impacted by COVID-19 through temporary closure of some of the PUDOpoints. As a result, it is expected that the Company will experience limited loss of revenue for the fiscal year that will end February 28, 2021. Not all of the PUDOpoints were impacted by COVID-19, therefore the revenue loss is not expected to be material.

The Company has determined that these events are non-adjusting subsequent events. Accordingly, the financial position and results of operations as of and for the year ended February 29, 2020 have not been adjusted to reflect their impact. The duration and impact of the COVID-19 pandemic, as well as the effectiveness of government and central bank responses, remains unclear at this time. It is not possible to reliably estimate the duration and severity of these consequences, as well as their impact on the financial position and results of the Company for future periods.