# PUDO INC.

## CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE YEARS ENDED FEBRUARY 28, 2018 AND 2017

## (EXPRESSED IN CANADIAN DOLLARS)

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# Independent auditor's report

To the Shareholders of
**PUDO Inc.**

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

### Management's responsibility for the financial statements

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

### Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of PUDO Inc. as at February 28, 2018, and its financial performance and its cash flows for the year ended February 28, 2018 accordance with International Financial Reporting Standards.

### Other Matter

The consolidated financial statements of PUDO Inc. for the year ended February 28, 2017 were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements on June 27, 2017.

### Emphasis of Matter

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

/s/ Grant Thornton LLP
Chartered Professional Accountants
Licensed Public Accountants

Mississauga, Canada
May 17, 2018

# PUDO Inc.
## Consolidated Statements of Financial Position
## As at February 28, 2018 and 2017
## (Expressed in Canadian Dollars)

| As at | Notes | | 2018 | | 2017 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Current assets | | | | | |
| Cash | | $ | **373,827** | $ | 445,723 |
| Restricted short-term investment | 3(m) | | **25,000** | | 25,000 |
| Trade and other receivables | 4, 6 | | **95,036** | | 117,736 |
| Prepaid expenses and deposits | | | **28,167** | | 21,096 |
| **Total current assets** | | | **522,030** | | 609,555 |
| **Non-current assets** | | | | | |
| Equipment | 7 | | **26,687** | | 61,530 |
| Intangible assets | 8 | | **269,724** | | 339,956 |
| **Total assets** | | $ | **818,441** | $ | 1,011,041 |
| **Liabilities** | | | | | |
| Current liabilities | | | | | |
| Trade and other payables | 9, 19 | $ | **298,205** | $ | 406,612 |
| Advances payable | 10 | | **-** | | 15,025 |
| Loans and borrowings | 11 | | **35,314** | | 30,423 |
| **Total current liabilities** | | | **333,519** | | 452,060 |
| **Non-current liabilities** | | | | | |
| Loans and borrowings | 11 | | **101,616** | | 136,930 |
| **Total liabilities** | | | **435,135** | | 588,990 |
| **Shareholders' equity** | | | | | |
| Share capital | 12 | | **5,148,042** | | 3,971,811 |
| Warrant reserve | 13 | | **481,750** | | 136,137 |
| Stock option reserve | 14 | | **884,654** | | 333,427 |
| Deficit | | | **(6,131,140)** | | (4,019,324) |
| **Shareholders' equity** | | | **383,306** | | 422,051 |
| **Total liabilities and shareholders' equity** | | $ | **818,441** | $ | 1,011,041 |

**Nature of operations and going concern** (note 1)
**Commitments and contingencies** (note 19)
**Subsequent events** (note 20)
Approved by the Board of Directors:
"*Kurtis Arnold*"
Director
"*Richard Cooper*"
Director

**See accompanying notes to the consolidated financial statements**

## PUDO Inc.
### Consolidated Statements of Loss and Comprehensive Loss
### For the years ended February 28, 2018 and 2017
### (Expressed in Canadian Dollars)

| | Notes | 2018 | 2017 |
|---|---|---|---|
| Revenue | 4 | $ **695,960** | $ 905,747 |
| Cost of sales | 15 | **(189,819)** | (293,170) |
| **Gross profit** | | **506,141** | 612,577 |
| Administrative expenses | 15 | **(1,867,704)** | (1,817,946) |
| Share-based compensation | 14 | **(777,139)** | (66,254) |
| **Operating loss** | | **(2,138,702)** | (1,271,623) |
| Finance costs | 11, 18 | **(23,068)** | (27,159) |
| **Net loss and comprehensive loss for the year** | | **$ (2,161,770)** | $ (1,298,782) |
| **Loss per share - basic and diluted** | 3(l) | **$ (0.12)** | $ (0.08) |
| **Weighted average number of shares outstanding - basic and diluted** | | **17,961,876** | 16,322,861 |

**See accompanying notes to the consolidated financial statements**

## PUDO Inc.
**Consolidated Statements of Changes in Shareholders' Equity**
**For the years ended February 28, 2018 and 2017**
**(Expressed in Canadian Dollars)**

| | # of common shares | Share capital | Warrant Reserve | Stock option Reserve | Deficit | Total |
|---|---|---|---|---|---|---|
| **Balance, February 29, 2016** | 16,195,515 | $ 3,366,283 | $ 197,805 | $ 277,508 | $(2,928,682) | $ 912,914 |
| Issuance of common shares on acquisition of Kinek (note12(b)(i)) | 116,745 | 350,235 | - | - | - | 350,235 |
| Broker warrants exercised (note 13) | 8,254 | - | - | - | - | - |
| Share-based compensation (note 16) | - | - | - | 66,254 | - | 66,254 |
| Warrants expired (note 13) | - | - | (197,805) | - | 197,805 | - |
| Share-based compensation forfeited (note 14(i)) | - | - | - | (10,335) | 10,335 | - |
| Issuance of common shares in private placement (note 12(b)(ii)) | 211,234 | 265,208 | 136,137 | - | - | 401,345 |
| Transaction costs incurred for private placement (note 12(b)(ii)) | - | (9,915) | - | - | - | (9,915) |
| Net loss for the year | - | - | - | - | (1,298,782) | (1,298,782) |
| **Balance, February 28, 2017** | 16,531,748 | $ 3,971,811 | $ 136,137 | $ 333,427 | $(4,019,324) | $ 422,051 |
| Stock options exercised (note 14(ii)) | 1,350,000 | 465,958 | - | (195,958) | - | 270,000 |
| Share-based compensation (note 14) | - | - | - | 777,139 | - | 777,139 |
| Share-based compensation forfeited (note 14) | - | - | - | (49,954) | 49,954 | - |
| Issuance of common shares in private placement (note 12(b)(iii)) | 869,160 | 516,947 | 352,213 | - | - | 869,160 |
| Issuance of common shares in lieu of debt (note 12(b)(iii)) | 224,725 | 224,726 | - | - | - | 224,726 |
| Issuance of stock options in lieu of debt (note 14(v)) | - | - | - | 20,000 | - | 20,000 |
| Transaction costs incurred for private placement (note 12(b)(iii)) | - | (58,000) | - | - | - | (58,000) |
| Broker warrants exercised (note 13) | 20,000 | 26,600 | (6,600) | - | - | 20,000 |
| Net loss for the year | - | - | - | - | (2,161,770) | (2,161,770) |
| **Balance, February 28, 2018** | 18,995,633 | $ 5,148,042 | $ 481,750 | $ 884,654 | $ (6,131,140) | $ 383,306 |

**See accompanying notes to the consolidated financial statements**

# PUDO Inc.
## Consolidated Statements of Cash Flows
## For the years ended February 28, 2018 and 2017
## (Expressed in Canadian Dollars)

| | Notes | 2018 | 2017 |
|---|---|---|---|
| **Cash flows (used in) provided by operating activities** | | | |
| Net loss for the year | | **$ (2,161,770)** | $ (1,298,782) |
| Adjustments for: | | | |
| Share-based compensation | 14 | **777,139** | 66,254 |
| Amortization | 7, 8 | **165,903** | 190,621 |
| Impairment of intangible assets | 7, 8 | **-** | 177,601 |
| Accretion expense | 11 | **23,068** | 27,159 |
| Loss on disposal of equipment | | **-** | 12,561 |
| Foreign currency translation loss | | **-** | 5,500 |
| Net change in non-cash working capital: | | | |
| Trade and other receivables | | **22,700** | 36,952 |
| Prepaid expenses and deposits | | **(7,071)** | 70,379 |
| Trade and other payables | | **71,299** | 46,142 |
| **Cash flows used in operating activities** | | **(1,108,732)** | (665,613) |
| **Cash flows used in investing activities** | | | |
| Purchase of equipment | | **(25,716)** | (67,226) |
| Purchase of intangible assets | | **(35,112)** | (64,047) |
| **Cash flows used in investing activities** | | **(60,828)** | (131,273) |
| **Cash flows provided by (used in) financing activities** | | | |
| Proceeds from issuance of shares and warrants | 12(b) | **869,160** | 401,345 |
| Share issue costs | 12(b) | **(8,000)** | (9,915) |
| Exercise of warrants and options | | **290,000** | - |
| Repayment of advances payable and borrowings | | **(53,496)** | (40,122) |
| **Cash flows provided by financing activities** | | **1,097,664** | 351,308 |
| **Change in cash during the year** | | **(71,896)** | (445,578) |
| **Cash, beginning of year** | | **445,723** | 891,301 |
| **Cash, end of year** | | **$ 373,827** | $ 445,723 |

| | | | |
|---|---|---|---|
| **Supplemental information:** | | | |
| Shares issued in acquisition of Kinek | 12(i), 18 | **-** | 350,235 |
| Shares issued in settlement of debt | 12(b) | **224,726** | - |
| Options issued in settlement of debt | 12(b) | **20,000** | - |
| Accrued share issue costs | 12(b) | **50,000** | 9,915 |

**See accompanying notes to the financial statements**

## 1. Nature of operations and going concern

PUDO Inc.'s (the "Company") principal activity is providing E-commerce shipment services through collaboration with specific online retailers for delivery of their products and working with national and international courier companies to provide alternate drop-off and pickup options for parcels.

**Going Concern**
These consolidated financial statements have been prepared with the assumption that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. As at February 28, 2018, the Company had working capital of $188,511 (2017 - $157,495), had not yet achieved profitable operations, had used cash of $1,108,732 for the year ended February 28, 2018 (2017 - $665,613) in operating activities, and had a deficit of $6,131,140 as at February 28, 2018 (2017 - $4,019,324). 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, 2017, and interpretations issued by the IFRS Interpretations Committee ("IFRIC").

The consolidated financial statements of the Company for the year ended February 28, 2018 were approved and authorized for issue by the Board of Directors on May 17, 2018.

(b) Basis of presentation

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

(c) Basis of consolidation

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

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

## 3. Significant accounting policies

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

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting years beginning on or after March 1, 2018 or later years. Many are not applicable or do not have a significant impact to the Company and have been excluded. The following have not yet been adopted and are being evaluated to determine their impact on the Company.

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. The amendments are effective for annual periods beginning on or after January 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. The Company is evaluating the impact of the new standard and it is expected that adoption of this standard will not have a significant impact on the Company's financial statements.

IFRS 15 - *Revenue From Contracts With Customers* ("IFRS 15") replaces the previous revenue standards IAS 18 - *Revenue*, IAS 11 - *Construction Contracts*, and some revenue-related interpretations. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. IFRS 15 is effective for annual years beginning on or after January 1, 2018. The Company is evaluating the impact of the new standard and it is expected that adoption of this standard will not have a significant impact on the Company's financial statements.

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.

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.

**3. Significant accounting policies** (continued)

(b) Changes in accounting standards

The Company has adopted the following amendments effective March 1, 2017.

IAS 7 – Statement of Cash Flows ("IAS 7") was amended in January 2016 to clarify that disclosures shall be provided that enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendments are effective for annual periods beginning on or after January 1, 2017.

IAS 12 – Income Taxes ("IAS 12") was amended in January 2016 to clarify that, among other things, unrealized losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary differences regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use; the carrying amount of an asset does not limit the estimation of probable future taxable profits; and estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences. The amendments are effective for annual periods beginning on or after January 1, 2017.

There was no material impact on the adoption of these standards on the consolidated financial statements.

(c) Foreign currencies

The functional currency of the Company and its subsidiaries 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.

(d) Revenue recognition

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

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

(e) Equipment

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

(f) Intangible assets

Intangible assets, which consist of computer systems software, including software acquired in a business combination (note 18), are initially recorded at cost. Computer systems software is amortized using the straight-line method over its estimated useful life of 4 years.

**3. Significant accounting policies** (continued)

(g) Impairment of non-financial assets

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

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

(h) Financial instruments

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

*Financial assets*
Financial assets are initially recorded at fair value and designated upon inception into one of the following categories: held to maturity, available for sale, loans and receivables or at fair value through profit or loss ("FVTPL"). Loans and receivables are recognized on the date of origination. All other financial assets are recognized on the trade date at which the Company becomes party to the contractual provisions of the instrument.

Cash, restricted short-term investments and trade and other amounts receivable are classified as loans and receivables and are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. The amount of provision is recorded in profit or loss.

Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership to another entity.

*Identification and measurement of impairment of financial assets*
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.

**3. Significant accounting policies** (continued)

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

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

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

(i) Share-based compensation

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

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

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

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

(j) Share capital

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

## 3. Significant accounting policies (continued)

(k) Income taxes

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

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

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

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

(l) Loss per share

Basic loss per share is calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the year. Diluted loss per share is determined by adjusting the loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of dilutive instruments such as stock options and warrants. Stock options and warrants are dilutive when the Company has income from operations and the average market price of the common shares during the period exceeds the exercise price of the options and warrants. As the stock options and warrants would be anti-dilutive, they have been excluded from the diluted loss per share calculations for the years ended February 28, 2018 and February 28, 2017.

(m) Short-term investments

Short-term investments are comprised of guaranteed investment certificates with original maturities of greater than three months and less than one year. As at February 28, 2018 and February 28, 2017, the short-term investment was comprised of a cashable guaranteed investment certificate to be held as collateral for a corporate credit card for as long as the credit card is active and has been reflected as a restricted asset. The restricted short-term investment amount would change if there is any change in the credit limit on the credit card.

(n) Segment information

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

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

**(Expressed in Canadian Dollars)**

**3. Significant accounting policies** (continued)

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

## 4. Financial risk management

(a) Fair values

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

(b) Financial risk factors

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

The Board of Directors 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.

(i) Credit risk

Credit risk is the risk that an issuer or counterparty will be unable or unwilling to meet commitments it has entered into with the Company. The financial assets that potentially expose the Company to credit risk consist principally of cash or other receivables. The extent of the Company's exposure to credit risk approximate their carrying values are 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.

| | 2018 | 2017 |
|---|---|---|
| Revenue from one customer | **$ 363,307** | $ 583,497 |
| % of total revenue | **52%** | 64% |
| Account receivable from one customer | **$ 41,400** | $ 67,364 |
| % of total accounts receivable | **47%** | 63% |

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

| | 2018 | 2017 |
|---|---|---|
| Cash | **$ 373,827** | $ 445,723 |
| Restricted short-term investment | **25,000** | 25,000 |
| Trade and other receivables | **95,036** | 117,736 |
| | **$ 493,863** | $ 588,459 |

**4. Financial risk management** (continued)

(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:

| **As at February 28, 2018** | **1 Year or Less** | **Greater than 1 year** | **Total** |
|---|---|---|---|
| Trade and other payables | $ 298,205 | $ - | $ 298,205 |
| Loans and borrowings (39 monthly instalments of $4,458) | 53,496 | 120,366 | 173,862 |
| | $ 351,701 | $ 120,366 | $ 472,067 |

| **As at February 28, 2017** | **1 Year or Less** | **Greater than 1 year** | **Total** |
|---|---|---|---|
| Trade and other payables | $ 406,612 | $ - | $ 406,612 |
| Advances payable | 15,025 | - | 15,025 |
| Loans and borrowings (51 monthly instalments of $4,458) | 53,496 | 173,862 | 227,358 |
| | $ 475,133 | $ 173,862 | $ 648,995 |

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:

| | **2018** | **2017** |
|---|---|---|
| Canada | **$ 391,167** | $ 610,458 |
| United States of America | **304,793** | 295,289 |
| | **$ 695,960** | $ 905,747 |

(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 exchange rate. The Company purchases goods and services in Canadian dollars and US dollars. Since the Company reports its results in Canadian dollars, the functional currency of the Company, it is exposed to changes in the value of the US dollar relative to that of the Canadian dollar. As at February 28, 2018 and 2017, the Company had cash, trade and other receivables and trade and other payables denominated in US dollars as follows:

**(Expressed in Canadian Dollars)**

**4. Financial risk management** (continued)

| **As at February 28, 2018** | | **USD** | | **CAD** |
|---|---|---|---|---|
| Cash | $ | 272,926 | $ | 346,234 |
| Trade and other receivables | | 35,336 | | 44,827 |
| Trade and other payables | | (24,115) | | (30,952) |

| **As at February 28, 2017** | | **USD** | | **CAD** |
|---|---|---|---|---|
| Cash | $ | 220,357 | $ | 288,690 |
| Trade and other receivables | | 30,558 | | 40,034 |
| Trade and other payables | | (60,220) | | (79,503) |

(v) Interest rate risk

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

(vi) Capital risk management

The Company reviews and manages its capital position from time to time to maintain a balance between its liability 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 equity and borrowings. As at February 28, 2018, the Company had equity of $383,306 (2017 - $422,051) and borrowings of $136,930 (2017 - $167,353).

The Company's capital management objectives, policies and processes have remained materially unchanged during the years ended February 28, 2018 and February 28, 2017.

(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 current US dollar denominated balances as at February 28, 2018, would affect the net loss by approximately plus or minus $3,900 during a year.

## 5. Critical accounting estimates and judgments

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

*Intangible assets and equipment*
The useful life of intangible assets and equipment is determined by management at the time the software and equipment is acquired and brought into use and is regularly reviewed for appropriateness. For unique software products controlled by the Company, the estimated life is based on management's historical experience with similar products as well as anticipation of future events which may impact their life such as changes in technology.

**(Expressed in Canadian Dollars)**

## 5. Critical accounting estimates and judgments (continued)

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 year end date.

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

*Share-based compensation*
The Company measures the cost of equity-settled transactions with employees and directors by reference to the fair value of the equity instruments at the date at 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 behaviors and corporate performance. Such judgments and assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates.

## 6. Trade and other receivables

| | **2018** | 2017 |
|---|---|---|
| Trade receivables | **$ 86,252** | $ 107,691 |
| HST receivable | **2,354** | 2,030 |
| Other receivables | **6,430** | 8,015 |
| | **$ 95,036** | $ 117,736 |

Allowance for doubtful accounts as at February 28, 2018 was $1,318 (2017 – Nil).

**(Expressed in Canadian Dollars)**

## 7. Equipment

| | | Scanners and Tablets |
|---|---|---|
| **Cost** | | |
| **Balance at February 28, 2016** | $ | 128,825 |
| Additions | | 67,226 |
| Disposals | | (46,053) |
| **Balance at February 28, 2017** | **$** | 149,998 |
| Additions | | 25,716 |
| **Balance at February 28, 2018** | **$** | **175,714** |
| **Accumulated amortization** | | |
| **Balance at February 28, 2016** | $ | 16,838 |
| Amortization | | 105,122 |
| Disposals | | (33,492) |
| **Balance at February 28, 2017** | $ | 88,468 |
| Amortization | | 60,559 |
| **Balance at February 28, 2018** | **$** | **149,027** |
| **Carrying amounts** | | |
| Balance at February 28, 2017 | $ | 61,530 |
| **Balance at February 28, 2018** | **$** | **26,687** |

## 8. Intangible assets

| | | Computer Software |
|---|---|---|
| **Cost** | | |
| **Balance at February 28, 2016** | $ | 25,000 |
| Additions | | 589,098 |
| **Balance at February 28, 2017** | **$** | 614,098 |
| Additions | | 35,112 |
| **Balance at February 28, 2018** | **$** | **649,210** |
| **Accumulated amortization and impairment** | | |
| **Balance at February 28, 2016** | $ | 11,042 |
| Impairment | | 177,601 |
| Amortization | | 85,499 |
| **Balance at February 28, 2017** | $ | 274,142 |
| Amortization | | 105,344 |
| **Balance at February 28, 2018** | **$** | **379,486** |
| **Carrying amounts** | | |
| Balance at February 28, 2017 | $ | 339,956 |
| **Balance at February 28, 2018** | **$** | **269,724** |

**(Expressed in Canadian Dollars)**

## 8. Intangible assets (continued)

**Prior year impairment**

An impairment exists when the carrying value of an asset or Cash Generating Unit ("CGU") exceeds its recoverable amount, which is the higher of its fair value less costs of disposal ("FVLCD") and its value in use ("VIU"). At February 28, 2017, the Company determined that there were indicators of impairment relating to the Kinek software. The Company determined the VIU and calculated the present value of the expected future cash flows of the intangible asset. The VIU calculation used projections based on the first year of operations since acquisition of Kinek. The key assumptions used in the calculation were an annual revenue growth rate of 2% and a weighted average cost of capital is 25%. As a result of the impairment test, an impairment charge of $177,601, representing the estimated VIU of the Kinek software, was recorded in the statements of loss for the year ended February 28, 2017. There was no impairment in the current year ended February 28, 2018.

## 9. Trade and other payables

| | | **2018** | | **2017** |
|---|---|---|---|---|
| Trade payables | **$** | **177,847** | $ | 286,519 |
| Other payables | | **56,152** | | 31,418 |
| Accrued liabilities | | **64,206** | | 88,675 |
| | **$** | **298,205** | $ | 406,612 |

## 10. Advances payable

At February 28, 2018, the Company had advances payable of $nil (2017 - $15,025) owing to a shareholder of the Company. These advances were settled in exchange for 15,025 common shares on August 24, 2017 (see note 12).

## 11. Loans and borrowings

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 $23,068 (2017 - $27,159) for the year ended February 28, 2018. The rate used in determining the appropriate present value of the borrowings was subject to management estimation.

| | | **2018** | | **2017** |
|---|---|---|---|---|
| Loan payable (Atlantic Canada Opportunities Agency)<br>39 instalments repayable at $4,458 per month | **$** | **173,862** | $ | 227,358 |
| Less: Discount future contractual cash flows | | **36,932** | | 60,005 |
| | | **136,930** | | 167,353 |
| Less: Current portion | | **35,314** | | 30,423 |
| | **$** | **101,616** | $ | 136,930 |

**(Expressed in Canadian Dollars)**

**11. Loans and borrowings** (continued)

Future repayments on the borrowings as at February 28, 2018 include the following:

| | | |
|---|---|---|
| March 1, 2018 to February 28, 2019 | $ | 53,496 |
| March 1, 2019 to February 28, 2020 | | 53,496 |
| March 1, 2020 to February 28, 2021 | | 53,496 |
| March 1, 2021 to June 22, 2021 | | 13,374 |
| Principal amount | **$** | **173,862** |

## 12. 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 29, 2016** | **16,195,515** | **$** | **3,366,283** |
| Exercise of broker warrants (note 13) | 8,254 | | - |
| Issuance of common shares in acquisition of Kinek (i) | 116,745 | | 350,235 |
| Issuance of common shares in private placement (ii) | 211,234 | | 265,208 |
| Transaction costs incurred for private placement (ii) | | | (9,915) |
| **Balance, February 28, 2017** | **16,531,748** | **$** | **3,971,811** |
| Exercise of stock options (note 14) | 1,350,000 | | 465,958 |
| Issuance of common shares in private placement (iii) | 869,160 | | 869,160 |
| Issuance of common shares in lieu of debt (iii) | 224,725 | | 224,726 |
| Valuation of warrants issued in private placement (iii) | | | (352,213) |
| Transaction costs incurred for private placement (iii) | | | (58,000) |
| Exercise of broker warrants (note 13) | 20,000 | | 26,600 |
| **Balance, February 28, 2018** | **18,995,633** | **$** | **5,148,042** |

(i) On March 3, 2016, the Company acquired certain assets and assumed certain liabilities from 640624 N.B. Ltd. (operating as “Kinek”). In consideration for the business acquisition, the Company issued 116,745 common shares to Kinek with a value of $3.00 per share.

(ii) In February 2017, the Company closed a non-brokered private placement of 211,234 units at a price of $1.90 per unit for total proceeds of $401,345. Each unit is comprised of one common share and one-half of one common share purchase warrant A and one-half of one common share purchase warrant B. Each whole warrant A is exercisable into one common share of the Company at $1.75 per share up to March 29, 2019. Each whole warrant B is exercisable into one common share of the Company at $2.50 per share up to March 29, 2019. The warrants have an estimated grant date proportionate fair value of $136,137 (comprised of $72,908 related to Warrant A and $63,229 related to Warrant B), using the Black-Scholes valuation model with the following assumptions: risk-free interest rate of 0.76%, expected life of 2.08 years, expected volatility of 120% based on the historical volatility of

**(Expressed in Canadian Dollars)**

## 12. Share capital (continued)

the Company's shares, and expected dividend yield of 0%. The Company incurred share issue costs of $9,915 in connection with the private placement.

(iii) In August 2017, the Company closed a non-brokered private placement of 533,580 units. Each unit is comprised of two common shares and two warrants. Each warrant entitles the holder to acquire one common share for $1.00 per share up to August 24, 2018. In addition to the 533,580 units, 26,725 common shares at an issue price of $1.00 per common share were issued to certain related party shareholders in settlement of $26,726 of debt. There were no warrants attached to these units.

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

As part of this private placement the Company settled a total of $224,725 in debt to certain shareholders as follows:

| | Units | | Amount |
|---|---|---|---|
| Units to settle debt at the private placement issue price of $2.00 per unit | 74,000 | $ | 148,000 |
| Units to settle debt at the private placement issue price of $1.00 per unit | 26,725 | | 26,726 |
| Units to settle debt of finders fees at issue price of $2.00 per unit | 25,000 | | 50,000 |
| | **125,725** | $ | **224,726** |

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

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

## 13. Warrant reserve

The following table reflects the continuity of warrants for the years ended February 28, 2018 and February 28, 2017:

| | Number of Warrants | | Exercise price |
|---|---|---|---|
| **Balance, February 28, 2016** | **242,737** | **$** | **3.89** |
| Broker warrants exercised | (8,254) | | 0.63 |
| Warrants expired | (234,483) | | 4.00 |
| Warrants A issued in private placement (note 12(b)(ii)) | 105,617 | | 1.75 |
| Warrants B issued in private placement (note 12(b)(ii)) | 105,617 | | 2.50 |
| **Balance, February 28, 2017** | **211,234** | **$** | **2.12** |
| Warrants issued in private placement (note 12(b)(iii)) | 1,067,160 | | 1.00 |
| Broker warrants exercised | (20,000) | | 1.00 |
| **Balance, February 28, 2018** | **1,258,394** | **$** | **1.19** |

(Expressed in Canadian Dollars)

**13. Warrant reserve** (continued)

The following table reflects the warrants issued and outstanding as of February 28, 2018:

| Expiry Date | Exercise price ($) | Issue date fair value ($) | Number of warrants outstanding |
|---|---|---|---|
| March 29, 2019 | 1.75 | 72,908 | 105,617 |
| March 29, 2019 | 2.50 | 63,229 | 105,617 |
| August 24, 2018 | 1.00 | 345,613 | 1,047,160 |
| | | 481,750 | 1,258,394 |

On February 10, 2016, the Company issued 31,746 common shares, upon the exercise of 8,254 broker warrants.

On February 12, 2017, 234,483 warrants expired. The grant date fair value of the warrants of $197,805 was reclassified to the deficit.

On January 12, 2018, the Company issued 20,000 common shares upon the exercise of 20,000 broker warrants.

## 14. 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 28, 2018 and February 28, 2017:

| | Number of stock options | Exercise price |
|---|---|---|
| **Balance, February 29, 2016** | **1,419,000** | **$ 0.30** |
| Granted (i) | 15,000 | 3.00 |
| Options forfeited(i) | (5,000) | 3.00 |
| **Balance, February 28, 2017** | **1,429,000** | **$ 0.30** |
| Options forfeited (i) | (10,000) | 3.00 |
| Options exercised (ii) | (1,350,000) | 0.20 |
| Granted (iii, iv and v) | 322,000 | 1.20 |
| Options forfeited (iv) | (5,000) | 1.20 |
| Granted (vi) | 2,690,000 | 1.30 |
| Granted (vii) | 108,000 | 2.47 |
| Options expired | (17,250) | 2.25 |
| **Balance, February 28, 2018** | **3,166,750** | **$ 1.35** |

**(Expressed in Canadian Dollars)**

**14. Stock option reserve** (continued)

The following table reflects the actual stock options issued and outstanding as at February 28, 2018:

| Expiry date | Exercise price ($) | Remaining contractual life (years) | Weighted average number of options outstanding | Options vested (exercisable) | Estimated grant date fair value |
|---|---|---|---|---|---|
| March 1, 2018 | 2.25 | 0.01 | 17,250 | 17,250 | 28,800 |
| June 1, 2018 | 2.25 | 0.25 | 17,250 | 17,250 | 29,700 |
| September 1, 2018 | 2.25 | 0.50 | 17,250 | 17,250 | 30,600 |
| August 16, 2019 (iii) | 1.20 | 1.50 | 102,000 | 102,000 | 25,198 |
| August 31, 2020 (iv) | 1.20 | 2.50 | 195,000 | 195,000 | 61,818 |
| August 31, 2020 (v) | 1.20 | 2.50 | 20,000 | 20,000 | 20,000 |
| October 26, 2022 (vi) | 1.30 | 4.65 | 2,465,000 | 616,250 | 688,538 |
| October 26, 2022 (vi) | 1.30 | 4.65 | 225,000 | - | - |
| January 28, 2021 (vii) | 2.47 | 2.92 | 108,000 | - | - |
| | 1.35 | 2.16 | 3,166,750 | 985,000 | $ 884,654 |

(i) On March 3, 2016, the Company granted 15,000 options to employees of the Company which were subsequently forfeited – 5,000 options were forfeited in 2017 and 10,000 options were forfeited in 2018. The amount of $20,669 (2017 - $10,335) was reclassified to the deficit.

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

(iii) In July 2017, the Company granted an aggregate of 102,000 options to directors of the Company. The options are exercisable at a price of $1.20 per common share and vest in 25% increments quarterly with the first 25% vesting on the date of grant. The stock options expire August 14, 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. For the year ended February 28, 2018, $25,198 was recorded as share-based compensation in the consolidated statement of loss.

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

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

(vi) In October 2017, the Company granted 2,690,000 stock options to officers and directors of the Company. The options are exercisable at a price of $1.30 per common share and expire on October 26, 2022. Of the total issued, 225,000 were issued to directors and vest in 33.33% increments yearly with the first 33.33% vesting on February 28, 2019. The balance of 2,465,000 options issued to officers vest in 25% increments yearly with the first 25%

**(Expressed in Canadian Dollars)**

## 14. Stock option reserve (continued)

vesting on February 28, 2018. The grant date fair value of the stock options was estimated to be $3,005,537 using the Black-Scholes valuation model with the following weighted average assumptions: expected dividend yield of 0%, expected volatility of 130%, risk-free interest rate of 1.76%, and expected life of 5 years. For the year ended February 28, 2018, $688,538 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 are exercisable at a price of $2.47 per common share and expire on January 8, 2021. The options vest in 50% increments yearly with the first 50% vesting on November 1, 2018. The grant date fair value of the stock options was estimated to be $192,342 using the Black-Scholes valuation model with the following weighted average assumptions: expected dividend yield of 0%, expected volatility of 130%, risk-free interest rate of 1.79%, and expected life of 3 years. For the year ended February 28, 2018, $nil was recorded as share-based compensation in the consolidated statement of loss.

## 15. Expenses categorized by nature

| **Cost of sales** | **2018** | **2017** |
|---|---|---|
| External processing charges | **$ 177,741** | $ 282,524 |
| Computer and web access charges | **12,078** | 10,646 |
| | **$ 189,819** | $ 293,170 |

| **Administrative expenses** | **2018** | **2017** |
|---|---|---|
| Salaries and benefits | **$ 708,288** | $ 496,669 |
| General and administrative expenses | **150,211** | 192,702 |
| Travel, promotion and business development | **94,062** | 125,736 |
| Consulting fees | **394,652** | 239,339 |
| Professional fees | **136,901** | 161,972 |
| Investor relations | **41,805** | 94,735 |
| Accounting and office | **107,400** | 72,000 |
| Agent and filing fees | **47,410** | 46,094 |
| Foreign exchange loss | **21,072** | 7,916 |
| Amortization (notes 7 and 8) | **165,903** | 368,222 |
| Loss on disposal of equipment | **-** | 12,561 |
| | **$ 1,867,704** | $ 1,817,946 |

## 16. Related party balances and transactions

During the year ended February 28, 2018, the Company incurred bookkeeping fees and office rental, which is included in accounting and office expense, for $107,400 (2017 - $72,000) to a company with common officers and directors.

**(Expressed in Canadian Dollars)**

### 16. Related party balances and transactions (continued)

During the years ended February 28, 2018 and 2017, the Company had the following transactions with shareholders, management and directors:

| | | 2018 | | 2017 |
|---|---|---|---|---|
| Share-based compensation | **$** | **777,139** | $ | 66,254 |
| Salaries and benefits | | **322,121** | | 150,208 |
| Consulting fees | | **222,510** | | 157,712 |
| | **$** | **1,321,770** | $ | 374,174 |

As at February 28, 2018, balances payable to the related parties noted above amounted to $62,533 (2017 - $135,806) and are included in trade and other payables. These balances are unsecured, non-interest bearing and due on demand.

See also notes 10, 12, and 14.

### 17. 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% (2017 – 27.3%) as follows:

| | | 2018 | | 2017 |
|---|---|---|---|---|
| (Loss) before income taxes | **$** | **(2,161,770)** | $ | (1,298,782) |
| Expected income tax recovery based on statutory rate | | **(573,000)** | | (355,000) |
| Adjustment to expected income tax benefit: | | | | |
| Share-based compensation | | **206,000** | | 18,000 |
| Expenses not deductible for tax purposes | | **(1,000)** | | 8,000 |
| Change in expected tax rates | | **-** | | (150,000) |
| Change in benefit of tax assets not recognized | | **368,000** | | 479,000 |
| Deferred income tax provision (recovery) | **$** | **-** | $ | - |

b) Temporary differences

| | 2018<br>$ | 2017<br>$ |
|---|---|---|
| Change in non-capital loss carry-forwards | **331,000** | 223,000 |
| Change in other temporary differences | **37,000** | 256,000 |
| | **368,000** | 479,000 |

**(Expressed in Canadian Dollars)**

**17. Income taxes** (continued)

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 28, 2018, the Company had approximately $3,315,000 (2017 - $2,066,000) of non-capital losses in Canada. The non-capital losses expire as follows:

| | | |
|---|---|---|
| 2034 | $ | 26,000 |
| 2035 | | 245,000 |
| 2035 | | 36,000 |
| 2036 | | 942,000 |
| 2037 | | 817,000 |
| 2038 | | 1,249,000 |
| | $ | 3,315,000 |

## 18. Acquisition

On March 3, 2016, the Company acquired certain assets and assumed certain liabilities from 640624 N.B. Ltd. (o/a Kinek), a New Brunswick-based corporation. The Company issued 116,745 common shares to Kinek with a value of $3.00 per share, based on the market share price on the date of issuance, for a total cost of $350,235. The principal reason for this acquisition was to acquire software, gain access to active members using services similar to PUDO and to expand the network locations. Kinek locations are primarily along the U.S.-Canadian border. Acquisition costs of $8,000 arose as a result of the transaction. These have been recognised as part of administrative expenses in the consolidated statements of loss.

In accordance with IFRS 3, Business Combinations, the substance of the transaction constitutes a business combination as Kinek meets the definition of a business under the standard. The acquisition of Kinek was accounted for as a business combination and, accordingly, the assets acquired and the liabilities assumed have been recorded at their respective estimated fair values as of the acquisition date. The purchase price allocation is based on the Company's management's best estimates.

Details of the carrying amount and the fair value of identifiable assets and liabilities acquired and purchase consideration paid is as follows:

| **Consideration paid** | | |
|---|---|---|
| Common shares | $ | 350,235 |

| **Identifiable assets (liabilities) acquired** | | |
|---|---|---|
| Intangible assets – web based software | $ | 537,605 |
| Loans and borrowings (note 11) | | (187,370) |
| **Total identifiable net assets** | $ | 350,235 |

The Company used an income-based approach to estimate fair value based on discounted future cash flows. The inputs in the assessment, including a weighted average cost of capital of 25%, expected inflation rate of 2%, and expected growth rate of 0%, are classified as Level 3 in the fair value hierarchy.

(Expressed in Canadian Dollars)

## 18. Acquisition (continued)

The acquisition of certain assets and liabilities of Kinek on March 3, 2016 resulted in an increase in revenues, cost of sales and gross margin. The following table reflects the revenue and gross profit contributed by the Kinek business for the years ended February 28, 2018 and 2017:

| | | 2018 | | 2017 |
|---|---|---|---|---|
| Revenue | **$** | **305,568** | $ | 295,288 |
| Cost of sales | | **(12,812)** | | (10,746) |
| Gross profit | **$** | **292,756** | $ | 284,542 |

## 19. Commitments and contingencies

The Company has entered into various agreements for services, which if terminated by the Company would not have any significant impact on the Company's financial statements. These amounts have not been accrued in the consolidated financial statements as at February 28, 2018.

## 20. Subsequent events

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.