
PUDO INC.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**FOR THE THREE AND SIX MONTH PERIODS ENDED AUGUST 31,
2018**

(EXPRESSED IN CANADIAN DOLLARS)

(UNAUDITED)

NOTICE TO READER

The accompanying unaudited condensed interim consolidated financial statements of PUDO Inc. have been prepared by and are the responsibility of management. The unaudited condensed interim consolidated financial statements have not been reviewed by the Company's auditors.

PUDO Inc.

Condensed Interim Consolidated Statements of Financial Position (Expressed in Canadian Dollars) (Unaudited)

As at	Notes	August 31, 2018	February 28, 2018
Assets			
Current assets			
Cash		\$ 295,584	\$ 373,827
Restricted short-term investment		25,126	25,000
Trade and other receivables	4, 6	129,270	95,036
Prepaid expenses and deposits		20,339	28,167
Total current assets		470,319	522,030
Non-current assets			
Equipment	7	31,245	26,687
Intangible assets	8	212,694	269,724
Total assets		\$ 714,258	\$ 818,441
Liabilities			
Current liabilities			
Trade and other payables	9, 15	\$ 398,856	\$ 298,205
Loans and borrowings	10	38,047	35,314
Total current liabilities		436,903	333,519
Non-current liabilities			
Loans and borrowings	10	81,884	101,616
Total liabilities		518,787	435,135
Shareholders' equity			
Share capital	11	6,001,685	5,148,042
Warrant reserve	12	83,944	481,750
Stock option reserve	13	1,889,687	884,654
Deficit		(7,779,845)	(6,131,140)
Shareholders' equity		195,471	383,306
Total liabilities and shareholders' equity		\$ 714,258	\$ 818,441

Nature of operations and going concern (note 1)

Commitments and contingencies (note 16)

Approved by the Board of Directors:

"Kurtis Arnold"

Director

"Richard Cooper"

Director

See accompanying notes to the unaudited condensed interim consolidated financial statements

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

		Three Months Ended August 31,		Six Months Ended August 31,	
	Notes	2018	2017	2018	2017
Revenue	4	\$ 178,285	\$ 165,894	\$ 365,549	\$ 342,422
Cost of sales	14	(53,199)	(43,439)	(103,046)	(91,964)
Gross profit		125,086	122,455	262,503	250,458
Administrative expenses	14	(526,841)	(486,335)	(1,076,408)	(858,711)
Share-based compensation	13	(1,036,819)	(94,943)	(1,063,533)	(94,943)
Operating loss		(1,438,574)	(458,823)	(1,877,438)	(703,196)
Finance costs	10	(4,715)	(5,913)	(9,846)	(12,101)
Net loss and comprehensive loss for the period		\$(1,443,289)	\$ (464,736)	\$(1,887,284)	\$ (715,297)
Loss per share - basic and diluted		\$ (0.07)	\$ (0.03)	\$ (0.10)	\$ (0.04)
Weighted average number of shares outstanding - basic and diluted		19,333,155	17,285,425	19,193,005	16,957,907

See accompanying notes to the unaudited condensed interim consolidated financial statements

PUDO Inc.

Consolidated Statements of Changes in Shareholders' Equity

(Expressed in Canadian Dollars)

(Unaudited)

	# of Common Shares	Share Capital	Warrant Reserve	Stock Option Reserve	Deficit	Total
Balance, February 28, 2017	16,531,748	\$ 3,971,811	\$ 136,137	\$ 333,427	\$(4,019,324)	\$ 422,051
Stock options exercised (note 13(i))	150,000	51,771	-	(21,771)	-	30,000
Stock options exercised (note 13(i))	1,200,000	414,187	-	(174,187)	-	240,000
Share-based payment	-	-	-	94,943	-	94,943
Share-based compensation forfeited (note 13(ii))	-	-	-	(20,669)	20,669	-
Issuance of common shares in private placement (note 11(b)(iii))	869,160	516,947	352,213	-	-	869,160
Issuance of common shares in lieu of debt (note 11(b)(i))	224,725	224,726	-	-	-	224,726
Transaction costs incurred for private placement (note 11(b)(i))	-	(58,000)	-	-	-	(58,000)
Net loss for the six month period ended August 31, 2017	-	-	-	-	(715,297)	(715,297)
Balance, August 31, 2017	18,975,633	\$ 5,121,442	\$ 488,350	\$ 211,743	\$(4,713,952)	\$ 1,107,583
Share-based compensation (note 13)	-	-	-	682,196	-	682,196
Share-based compensation forfeited (note 13)	-	-	-	(29,285)	29,285	-
Issuance of stock options in lieu of debt (note 13(v))	-	-	-	20,000	-	20,000
Broker warrants exercised (note 12)	20,000	26,600	(6,600)	-	-	20,000
Net loss for the six month period ended February 28, 2018	-	-	-	-	(1,446,473)	(1,446,473)
Balance, February 28, 2018	18,995,633	\$ 5,148,042	\$ 481,750	\$ 884,654	\$(6,131,140)	\$ 383,306
Share-based compensation forfeited (note 13)	-	-	-	(58,500)	58,500	-
Share-based compensation (note 13)	-	-	-	1,063,533	-	1,063,533
Broker warrants exercised (note 12)	1,122,768	853,643	(217,727)	-	-	635,916
Warrants expired	-	-	(180,079)	-	180,079	-
Net loss for the six month period ended August 31, 2018	-	-	-	-	(1,887,284)	(1,887,284)
Balance, August 31, 2018	20,118,401	\$ 6,001,685	\$ 83,944	\$ 1,889,687	\$(7,779,845)	\$ 195,471

See accompanying notes to the unaudited condensed interim consolidated financial statements

PUDO Inc.**Condensed Interim Consolidated Statements of Cash Flows****(Expressed in Canadian Dollars)****(Unaudited)**

	Notes	Six Months Ended August 31, 2018	Six Months Ended August 31, 2017
Cash flows used in operating activities			
Net loss for the period		\$ (1,887,284)	\$ (715,297)
Adjustments for:			
Amortization	7, 8	81,323	91,394
Accretion expense	10	9,746	12,101
Share-based compensation	13	1,063,533	94,943
Net change in non-cash working capital:			
Restricted short-term investment		(126)	-
Trade and other receivables		(34,234)	(12,958)
Prepaid expenses and deposits		7,828	1,569
Trade and other payables		128,494	(57,262)
Cash flows used in operating activities		(630,720)	(585,510)
Cash flows used in investing activities			
Purchase of equipment	7	(18,763)	(8,590)
Purchase of intangible assets	8	(10,088)	(5,912)
Cash flows used in investing activities		(28,851)	(14,502)
Cash flows provided by (used in) financing activities			
Proceeds from exercise of warrants and options		600,943	270,000
Proceeds from issuance of common shares		-	869,160
Subscriptions receivable		-	(577,798)
Transaction costs incurred for private placement		-	(8,000)
Repayment of advances payable and borrowings		(26,746)	-
Cash flows provided by financing activities		574,197	553,362
Change in cash during the period		(85,374)	(46,650)
Cash, beginning of period		373,827	445,723
Effect of translation of foreign currency denominated cash		7,131	-
Cash, end of period		\$ 295,584	\$ 399,073
Supplemental information:			
Issuance of common shares in lieu of debt (note 11)		-	224,726
Options granted in settlement of debt (note 13)		-	6,341
Finance costs paid on borrowings (note 10)		-	12,101

See accompanying notes to the unaudited condensed interim consolidated financial statements

PUDO Inc.

Notes to Condensed Interim Consolidated Financial Statements

Six Months Ended August 31, 2018 and 2017

(Expressed in Canadian Dollars)

(Unaudited)

1. Nature of operations and going concern

PUDO Inc.'s (the "Company") principal activity is using technology to improve the connection between E-commerce and consumers. The Company deploys their technology to provide consumers with convenient locations to pick-up or drop-off E-commerce parcels. Through collaboration with online retailers, third party logistics companies ("3PL") and courier companies, consumers can take secure delivery of their parcels or drop-off returns where it's convenient, when it's convenient. Existing businesses, such as convenience stores or gas stations, provide services as PUDOpoints™ ("PUDOpoints").

Going Concern

These condensed interim 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 August 31, 2018, the Company had working capital of \$33,416 (February 28, 2018 - \$188,511), had not yet achieved profitable operations, had used cash in operating activities of \$630,720 for the six month period ended August 31, 2018 (August 31, 2017 - \$585,510), and had a deficit of \$7,779,845 as at August 31, 2018 (February 28, 2018 - \$6,131,140). 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 condensed interim 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 condensed interim consolidated financial statements of the Company were prepared in accordance with International Accounting Standard ("IAS") 34, Interim Financial Reporting as issued by the International Accounting Standards Board ("IASB") using the accounting policies the Company adopted in its annual condensed consolidated financial statements as at and for the year ended February 28, 2018, except for the adoption of new standards effective as of March 1, 2018 and interpretations issued by the IFRS Interpretations Committee ("IFRIC").

The condensed interim consolidated financial statements of the Company for the six month period ended August 31, 2018 were approved and authorized for issue by the Board of Directors on September 27, 2018.

(b) Basis of presentation

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

(c) Basis of consolidation

The condensed interim 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.

PUDO Inc.

Notes to Condensed Interim Consolidated Financial Statements

Six Months Ended August 31, 2018 and 2017

(Expressed in Canadian Dollars)

(Unaudited)

3. Significant accounting policies

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

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting years beginning on or after March 1, 2019 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 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.

(b) Changes in accounting standards

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

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

IFRS 15 Revenue from Contracts with Customers

On March 1, 2018, the Company adopted IFRS 15 – Revenue from Contracts with Customers (“IFRS 15”) which supersedes IAS 18 – Revenue (“IAS 18”). IFRS 15 establishes a single five-step model framework for determining the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. The standard is effective for annual periods beginning on or after January 1, 2018. The Company adopted the standard on March 1, 2018 using the full retrospective approach. As the company already observed a similar revenue recognition process, there was no material impact on adoption of IFRS 15.

IFRS 15 requires entities to recognize revenue when ‘control’ of goods or services transfers to the customer whereas the previous standard, IAS 18, required entities to recognize revenue when the “risks and rewards’ of the goods or services transfer to the customer.

The Company provides technology and a network of third party locations where consumers can pick up or drop off parcels and revenue is generated in two ways (i) when 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 Kinek or PUDOpoint.

In each event, the Company recognizes revenue when the services are provided, when persuasive evidence of an arrangement exists, the fixed price is determinable and there is reasonable assurance of collection.

PUDO Inc.

Notes to Condensed Interim Consolidated Financial Statements

Six Months Ended August 31, 2018 and 2017

(Expressed in Canadian Dollars)

(Unaudited)

3. Significant accounting policies (continued)

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

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

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

There was no material impact on the adoption of these amendments on the condensed interim consolidated financial statements.

(c) Foreign currencies

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

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

Based on these factors, management concluded that effective March 1, 2018, PUDOpoint Inc.’s functional currency is the United States dollar (“USD”). One of the main factors affecting the decision was that the subsidiary began incurring expenses during the period, all which were in USD. As there have been no changes to the Company’s operations, its functional currency remains CAD.

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

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.

PUDO Inc.

Notes to Condensed Interim Consolidated Financial Statements Six Months Ended August 31, 2018 and 2017 (Expressed in Canadian Dollars) (Unaudited)

4. Financial risk management (continued)

(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. A significant portion of the Company's revenues are from one customer. This customer is comprised of three different businesses operated independently under common control.

	Three Months Ended August 31,		Six Months Ended August 31,	
	2018	2017	2018	2017
Revenue from one customer	\$ 95,440	\$ 83,300	\$ 188,498	\$ 178,300
% of total revenue	54%	50%	52%	52%

	August 31, 2018	February 28, 2018
Account receivable from one customer	\$ 53,442	\$ 41,400
% of total accounts receivable	53%	47%

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

	August 31, 2018	February 28, 2018
Cash	\$ 295,584	\$ 373,827
Restricted short-term investment	25,126	25,000
Trade and other receivables	129,270	95,036
	\$ 449,980	\$ 493,863

(ii) Liquidity risk

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

PUDO Inc.

Notes to Condensed Interim Consolidated Financial Statements Six Months Ended August 31, 2018 and 2017 (Expressed in Canadian Dollars) (Unaudited)

4. Financial risk management (continued)

The following are the contractual maturities of financial liabilities:

August 31, 2018	1 Year or Less	Greater than 1 year	Total
Trade and other payables	\$ 398,856	\$ -	\$ 398,856
Loans and borrowings (monthly instalments of \$4,458)	53,496	93,618	147,114
	\$ 452,352	\$ 93,618	\$ 545,970

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

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 for the three and six month periods ended is as follows:

	Three Months Ended August 31,		Six Months Ended August 31,	
	2018	2017	2018	2017
Canada	\$ 98,766	\$ 89,974	\$ 198,271	\$ 194,786
USA	79,519	75,920	167,278	147,636
	\$ 178,285	\$ 165,894	\$ 365,549	\$ 342,422

(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 and generates revenues 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 August 31, 2018 and February 28, 2018, the Company had cash, trade and other receivables and trade and other payables denominated in US dollars as follows:

PUDO Inc.

Notes to Condensed Interim Consolidated Financial Statements Six Months Ended August 31, 2018 and 2017 (Expressed in Canadian Dollars) (Unaudited)

4. Financial risk management (continued)

As at August 31, 2018	USD	CAD Equivalent
Cash	\$ 186,482	\$ 242,166
Trade and other receivables	34,194	44,304
Trade and other payables	(11,310)	(14,707)
	\$ 209,366	\$ 271,762

As at February 28, 2018	USD	CAD Equivalent
Cash	\$ 272,926	\$ 346,234
Trade and other receivables	35,336	44,827
Trade and other payables	(24,115)	(30,592)
	\$ 284,147	\$ 360,469

(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, loans and borrowings. As at August 31, 2018, the Company had equity of \$195,471 (February 28, 2018 - \$383,306) and loans and borrowings of \$119,931 (February 28, 2018 - \$136,930).

The Company's capital management objectives, policies and processes have remained materially unchanged during the six month period ended August 31, 2018 and year ended February 28, 2018.

(vii) Sensitivity analysis

Based on management's knowledge and experience in the financial markets, the Company believes the following movements are reasonably possible over the year. Sensitivity to a plus or minus 1% change in the US-Canadian dollar foreign exchange rate, based on the current US dollar denominated balances as at August 31, 2018, would affect the net loss by approximately plus or minus \$3,000 during a year.

PUDO Inc.

Notes to Condensed Interim Consolidated Financial Statements

Six Months Ended August 31, 2018 and 2017

(Expressed in Canadian Dollars)

(Unaudited)

5. Critical accounting estimates and judgments

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

Intangible assets and equipment

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

Income, value added, withholding and other taxes

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

Share-based compensation

The Company measures the cost of equity-settled transactions with employees 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

	August 31, 2018	February 28, 2018
Trade receivables	\$ 98,665	\$ 86,252
HST receivable	17,649	2,354
Other receivables	12,956	6,430
	\$ 129,270	\$ 95,036

Allowance for doubtful accounts as at August 31, 2018 was \$1,977 (February 28, 2018 – \$1,318).

PUDO Inc.

Notes to Condensed Interim Consolidated Financial Statements Six Months Ended August 31, 2018 and 2017 (Expressed in Canadian Dollars) (Unaudited)

7. Equipment

Scanners and Tablets	Cost	Accumulated Amortization	Net Book Value
Balance at February 28, 2017	\$ 149,998	\$ 88,468	\$ 61,530
Additions / amortization	25,716	60,559	86,275
Balance at February 28, 2018	\$ 175,714	\$ 149,027	\$ 26,687
Additions / amortization	18,763	14,205	32,968
Balance at August 31, 2018	\$ 194,477	\$ 163,232	\$ 31,245

8. Intangible Assets

Computer Software	Cost	Accumulated Amortization	Net Book Value
Balance at February 28, 2017	\$ 614,098	\$ 274,142	\$ 339,956
Additions / amortization	35,112	105,344	140,456
Balance at February 28, 2018	\$ 649,210	\$ 379,486	\$ 269,724
Additions / amortization	10,088	67,118	77,206
Balance at August 31, 2018	\$ 659,298	\$ 446,604	\$ 212,694

9. Trade and other payables

	August 31, 2018	February 28, 2018
Trade payables	\$ 226,072	\$ 177,847
Other payables	79,381	56,152
Accrued liabilities	93,403	64,206
	\$ 398,856	\$ 298,205

10. 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 \$5,131 and \$9,746, respectively for the three and six month periods ended August 31, 2018 (August 31, 2017 - \$5,913 and \$12,101). The rate used in determining the appropriate present value of the borrowings was subject to management estimation.

PUDO Inc.

Notes to Condensed Interim Consolidated Financial Statements

Six Months Ended August 31, 2018 and 2017

(Expressed in Canadian Dollars)

(Unaudited)

10. Loans and borrowings (continued)

	August 31, 2018	February 28, 2018
Loan payable (Atlantic Canada Opportunities Agency)		
33 instalments repayable at \$4,458 per month	\$ 147,114	\$ 173,862
Less: Discount future contractual cash flows	<u>27,183</u>	<u>36,932</u>
	119,931	136,930
Less: Current portion	<u>38,047</u>	<u>35,314</u>
	<u>\$ 81,884</u>	<u>\$ 101,616</u>

Future repayments on the borrowings as at August 31, 2018 include the following:

Future repayments on the borrowings as at August 31, 2018

September 1, 2018 to February 28, 2019	\$ 26,748
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	<u>13,374</u>
	<u>\$ 147,114</u>

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).

PUDO Inc.

Notes to Condensed Interim Consolidated Financial Statements Six Months Ended August 31, 2018 and 2017 (Expressed in Canadian Dollars) (Unaudited)

11. Share capital (continued)

(b) Issued

Common Shares	Number	Amount
Balance, February 28, 2017	16,531,748	\$ 3,971,811
Exercise of stock options (note 13)	1,350,000	465,958
Issuance of common shares in private placement (i)	869,160	869,160
Issuance of common shares in lieu of debt (i)	224,725	224,726
Valuation of warrants issued in private placement (i)	-	(352,213)
Transaction costs incurred for private placement (i)	-	(58,000)
Balance, August 31, 2017	18,975,633	\$ 5,121,442
Exercise of broker warrants (note 12)	20,000	26,600
Balance, February 28, 2018	18,995,633	\$ 5,148,042
Exercise of broker warrants (note 12)	577,190	\$ 853,643
Balance, August 31, 2018	19,572,823	\$ 6,001,685

(i) 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 \$224,726 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%.

PUDO Inc.

Notes to Condensed Interim Consolidated Financial Statements Six Months Ended August 31, 2018 and 2017 (Expressed in Canadian Dollars) (Unaudited)

12. Warrant reserve

The following table reflects the continuity of warrants for the six month period ended August 31, 2018 and the year ended February 28, 2018:

	Number of Warrants	Average Exercise Price
Balance, February 28, 2017	211,234	\$ 2.34
Warrants issued in private placement (note 11(i))	1,067,160	1.00
Balance, August 31, 2017	1,278,394	\$ 1.19
Broker warrants exercised (i)	(20,000)	1.00
Balance, February 28, 2018	1,258,394	\$ 1.19
Broker warrants exercised (ii)	(75,608)	1.75
Broker warrants exercised (iii)	(501,582)	1.00
Warrants expired (iv)	(545,578)	1.00
Balance, August 31, 2018	135,626	\$ 2.33

The following table reflects the warrants issued and outstanding as of August 31, 2018:

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

- (i) On January 12, 2018, the Company issued 20,000 common shares upon the exercise of 20,000 broker warrants.
- (ii) On April 3, 2018, 75,608 common shares of the Company were issued upon the exercise of 75,608 warrants at \$1.75 per share for total cash proceeds of \$132,314.
- (iii) On April 3, 2018, 52,518 common shares of the Company were issued upon the exercise of 52,518 warrants at \$1.00 per share for total cash proceeds of \$52,518.
- On May 31, 2018, 200,000 common shares of the Company were issued upon the exercise of 200,000 warrants at \$1.00 per share for total cash proceeds of \$200,000.
- On August 24, 2018, 249,064 common shares of the Company were issued upon the exercise of 249,064 warrants at \$1.00 per share for total cash proceeds of \$216,111 and the remaining \$27,854 was used to settle debt owing to an officer of the Company.
- (iv) On August 24, 2018, 545,578 warrants expired. The estimated grant date fair value of the warrants of \$180,079 was reclassified to the deficit.

PUDO Inc.

Notes to Condensed Interim Consolidated Financial Statements

Six Months Ended August 31, 2018 and 2017

(Expressed in Canadian Dollars)

(Unaudited)

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 six month period ended August 31, 2018 and the year ended February 28, 2018:

	Number of stock options	Average Exercise Price
Balance, February 28, 2017	1,429,000	\$ 0.30
Options exercised (i)	(1,350,000)	0.20
Options forfeited (ii)	(10,000)	3.00
Granted (iii, iv, and v)	322,000	1.20
Balance, August 31, 2017	391,000	\$ 1.38
Options forfeited (iv)	(5,000)	1.20
Granted (vi)	2,690,000	1.30
Granted (vii)	108,000	2.47
Options expired (viii)	(17,250)	2.25
Balance, February 28, 2018	3,166,750	\$ 1.35
Options expired (viii)	(34,500)	2.25
Balance, August 31, 2018	3,132,250	\$ 1.34

The following table reflects the actual stock options issued and outstanding as at August 31, 2018:

	Exercise Price (\$)	Remaining contractual life (years)	Weighted average number of options outstanding	Options vested (exercisable)	Estimated grant date fair value (\$)
September 1, 2018	2.25	0.25	17,250	17,250	30,600
August 16, 2019 (iii)	1.20	1.25	102,000	102,000	25,198
August 31, 2020 (iv)	1.20	2.25	195,000	195,000	60,233
August 31, 2020 (v)	1.20	2.25	20,000	20,000	20,000
October 26, 2022 (vi)	1.30	4.40	2,690,000	616,250	3,005,537
January 28, 2021 (vii)	2.47	2.67	108,000	15,000	192,342
	1.34	2.18	3,132,250	965,500	3,333,910

PUDO Inc.

Notes to Condensed Interim Consolidated Financial Statements

Six Months Ended August 31, 2018 and 2017

(Expressed in Canadian Dollars)

(Unaudited)

13. Stock option reserve (continued)

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

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

(iii) In July 2017, the Company granted an aggregate of 102,000 options to directors of the Company. The options are exercisable at a price of \$1.20 per common share and vest in 25% increments quarterly with the first 25% having vested on the date of grant. The stock options will expire on August 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 having vested on December 1, 2017 and 170,000 having vested on October 1, 2017. The stock options will expire August 31, 2020. The grant date fair value of the stock options was estimated to be \$61,818 using the Black-Scholes valuation model with the following weighted average assumptions: expected dividend yield of 0%, expected volatility of 130%, risk-free interest rate of 1.32%, and expected life of 3.14 years. For the year ended February 28, 2018, \$61,818 was recorded as share-based compensation in the consolidated statement of loss. On February 9, 2018, 5,000 options to an employee of the Company were forfeited and \$1,585 was reclassified to the deficit for the year ended February 28, 2018.

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

(vi) In October 2017, the Company granted 2,690,000 stock options to officers and directors of the Company. The options are exercisable at a price of \$1.30 per common share and will expire on October 26, 2022. Of the total issued, 225,000 were issued to directors and vest in 33.33% increments yearly with the first 33.33% vesting on February 28, 2019. The balance of 2,465,000 options issued to officers vest in 25% increments yearly with the first 25% having vested on February 28, 2018. The grant date fair value of the stock options was estimated to be \$3,005,537 using the Black-Scholes valuation model with the following weighted average assumptions: expected dividend yield of 0%, expected volatility of 130%, risk-free interest rate of 1.76%, and expected life of 5 years. For the three and six month periods ended May 31, 2018 and August 31, 2018, respectively, \$nil and \$951,623 was recorded as share based compensation in the consolidated statement of loss (August 31, 2017 - \$nil and \$nil).

(vii) In January 2018, the Company granted 108,000 stock options to consultants of the Company. The options are exercisable at a price of \$2.47 per common share and will expire on January 8, 2021. The options vest in 50% increments yearly with the first 50% 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 three and six month periods ended May 31, 2018 and August 31, 2018, respectively, \$26,714 and \$111,910 was recorded as share-based compensation in the consolidated statement of loss (August 31, 2017 - \$nil and \$nil).

(viii) On February 1, 2018, 17,250 options of the Company expired. The amount of \$27,700 was reclassified to the deficit for the year ended February 28, 2018. On March 1, 2018, 17,250 options of the Company expired. The amount of \$28,800 was reclassified to the deficit for the three month period ended May 31, 2018. On June 1, 2018, 17,250

PUDO Inc.

Notes to Condensed Interim Consolidated Financial Statements Six Months Ended August 31, 2018 and 2017 (Expressed in Canadian Dollars) (Unaudited)

13. Stock option reserve (continued)

options of the Company expired. The amount of \$29,700 was reclassified to the deficit for the three month period ended August 31, 2018.

14. Expenses categorized by nature

Cost of sales	Three Months Ended August 31,		Six Months Ended August 31,	
	2018	2017	2018	2017
External processing charges	\$ 48,122	\$ 40,015	\$ 95,053	\$ 86,306
Computer and web access charges	5,077	3,424	7,993	5,658
	\$ 53,199	\$ 43,439	\$ 103,046	\$ 91,964

Administrative expenses	Three Months Ended August 31,		Six Months Ended August 31,	
	2018	2017	2018	2017
Salaries and benefits	\$ 278,150	162,164	\$ 577,620	262,351
General and administrative expenses	47,507	36,283	86,402	76,041
Travel promotion and business development	26,636	48,034	57,063	91,734
Consulting fees	43,881	65,950	87,461	138,801
Professional fees	30,841	35,382	56,705	80,825
Investor relations	3,986	24,050	7,045	30,746
Accounting and office	41,850	29,700	83,700	47,700
Agent and filing fees	14,354	20,832	27,379	27,567
Foreign exchange loss (gain)	5,376	17,340	11,710	11,552
Amortization (notes 7 and 8)	34,260	46,600	81,323	91,394
	\$ 526,841	\$ 486,335	\$ 1,076,408	\$ 858,711

15. Related party balances and transactions

During the three and six month periods ended August 31, 2018 and 2017, the Company incurred bookkeeping fees and office rental, which is included in accounting and office expense, of \$41,850 and \$83,700 (August 31, 2017 - \$18,000 and \$36,000) to a company with a common officer and director.

PUDO Inc.

Notes to Condensed Interim Consolidated Financial Statements Six Months Ended August 31, 2018 and 2017 (Expressed in Canadian Dollars) (Unaudited)

15. Related party balances and transactions (continued)

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

	Three Months Ended August 31,		Six Months Ended August 31,	
	2018	2017	2018	2017
Salaries and benefits	\$ 163,514	\$ 92,250	\$ 325,594	\$ 128,250
Consulting fees	9,786	40,034	19,536	82,260
	\$ 173,300	\$ 132,284	\$ 345,129	\$ 210,510

As at August 31, 2018, balances payable to the related parties noted above amounted to \$124,336 (February 28, 2018 - \$62,533) and are included in trade and other payables. These balances are unsecured, non-interest bearing and due on demand.

During the three and six month periods ended May 31, 2018 and August 31, 2018, nil and 27,854, respectively, common shares were issued to an officer of the Company (August 31, 2017 - nil) pursuant to the exercise of warrants in settlement of \$27,854 debt owing to the officer.

See also notes 11 and 13.

16. 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 condensed interim consolidated financial statements as at August 31, 2018.