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# **PUDO INC.**

## **CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE THREE AND NINE MONTH PERIODS ENDED  
NOVEMBER 30, 2019**

**(EXPRESSED IN CANADIAN DOLLARS)**

**(UNAUDITED)**

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### **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)**

<b>As at</b>	<b>Notes</b>	<b>November 30, 2019</b>	<b>February 28, 2019</b>
<b>Assets</b>			
Current assets			
Cash		\$ 56,138	\$ 50,639
Restricted short-term investment		25,251	25,251
Trade and other receivables	4, 6	178,138	110,698
Prepaid expenses and deposits		45,508	75,286
<b>Total current assets</b>		<b>305,035</b>	261,874
<b>Non-current assets</b>			
Equipment	7	47,638	47,439
Intangible assets	8	103,958	171,320
<b>Total assets</b>		<b>\$ 456,631</b>	\$ 480,633
<b>Liabilities</b>			
Current liabilities			
Trade and other payables	9, 15	\$ 493,459	\$ 547,930
Loans and borrowings	10	828,667	529,078
<b>Total current liabilities</b>		<b>1,322,126</b>	1,077,008
<b>Non-current liabilities</b>			
Loans and borrowings	10, 12	25,613	60,625
<b>Total liabilities</b>		<b>1,347,739</b>	1,137,633
<b>Shareholders' (deficiency) equity</b>			
Share capital	11	6,560,416	6,001,685
Warrant reserve	12	363,269	83,944
Stock option reserve	13	2,902,694	2,473,983
Equity component of convertible debentures	10	34,598	31,624
Deficit		(10,752,085)	(9,248,236)
<b>Shareholders' (deficiency) equity</b>		<b>(891,108)</b>	(657,000)
<b>Total liabilities and shareholders' (deficiency) equity</b>		<b>\$ 456,631</b>	\$ 480,633

Nature of operations and going concern (note 1)

Commitments and contingencies (note 16)

Approved by the Board of Directors:

"Thomas Bijou"

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 November 30		Nine Months Ended November 30	
	Notes	2019	2018	2019	2018
Revenue	4	\$ 277,567	\$ 243,965	\$ 722,517	\$ 609,514
Cost of sales	14	(122,866)	(87,938)	(279,466)	(190,984)
<b>Gross profit</b>		<b>154,701</b>	156,027	<b>443,051</b>	418,530
Administrative expenses	14	(407,419)	(546,238)	(1,480,084)	(1,622,646)
Share-based compensation	13	(149,418)	(317,838)	(456,996)	(1,381,371)
<b>Operating loss</b>		<b>(402,136)</b>	(708,049)	<b>(1,494,029)</b>	(2,585,487)
Finance costs	10	(38,763)	(5,311)	(129,449)	(15,157)
<b>Net loss and comprehensive loss for the period</b>		<b>\$ (440,899)</b>	\$(713,360)	<b>\$ (1,623,478)</b>	\$(2,600,644)
<b>Loss per share - basic and diluted</b>		<b>\$ (0.02)</b>	\$ (0.04)	<b>\$ (0.07)</b>	\$ (0.13)
<b>Weighted average number of shares outstanding - basic and diluted</b>		<b>21,621,712</b>	19,318,691	<b>24,621,712</b>	19,318,691

See accompanying notes to the unaudited condensed interim consolidated financial statements

**PUDO Inc.**  
**Consolidated Statements of Changes in Shareholders' (Deficiency) Equity**  
**(Expressed in Canadian Dollars)**  
(Unaudited)

	# of Common Shares	Share Capital	Warrant Reserve	Stock Option Reserve	Equity Component of Convertible Debentures	Deficit	Total
<b>Balance, February 28, 2018</b>	<b>18,995,634</b>	<b>\$ 5,148,042</b>	<b>\$ 481,750</b>	<b>\$ 884,654</b>	<b>\$ -</b>	<b>\$ (6,131,140)</b>	<b>\$ 383,306</b>
Share-based compensation forfeited (note 13)	-	-	-	(90,644)	-	90,644	-
Share-based compensation (note 13)	-	-	-	1,381,371	-	-	1,381,371
Broker warrants exercised (note 12)	577,190	853,643	(217,727)	-	-	-	635,916
Warrants expired	-	-	(180,079)	-	-	180,079	-
Issuance of convertible debenture	-	-	-	-	31,624	-	31,624
Net loss for the nine month period ended November 30, 2018	-	-	-	-	-	(2,600,644)	(2,600,644)
<b>Balance, November 30, 2018</b>	<b>19,572,824</b>	<b>\$ 6,001,685</b>	<b>\$ 83,944</b>	<b>\$ 2,175,381</b>	<b>\$ 31,624</b>	<b>\$ (8,461,061)</b>	<b>\$ (168,427)</b>
Share-based compensation (note 13)	-	-	-	298,602	-	-	298,602
Net loss for the three month period ended February 28, 2019	-	-	-	-	-	(787,175)	787,175
<b>Balance, February 28, 2019</b>	<b>19,572,824</b>	<b>\$ 6,001,685</b>	<b>\$ 83,944</b>	<b>\$ 2,473,983</b>	<b>\$ 31,624</b>	<b>\$ (9,248,236)</b>	<b>\$ (657,000)</b>
Share-based compensation (note 13)	-	-	-	456,996	-	-	456,996
Broker warrants expired (note 12)	-	-	(83,944)	-	-	83,944	-
Issuance of common shares in private placement (note 11)	333,333	90,900	59,100	-	-	-	150,000
Issuance of common shares in lieu of debt (note 11)	1,715,555	467,831	304,169	-	-	-	772,000
Re-issuance of convertible debenture (note 10)	-	-	-	-	2,974	7,400	10,374
Share-based compensation forfeited (note 13)	-	-	-	(28,285)	-	28,285	-
Net loss for the nine month period ended November 30, 2019	-	-	-	-	-	(1,623,478)	(1,623,478)
<b>Balance, November 30, 2019</b>	<b>21,621,712</b>	<b>\$ 6,560,416</b>	<b>\$ 363,269</b>	<b>\$ 2,902,694</b>	<b>\$ 34,598</b>	<b>\$ (10,752,085)</b>	<b>\$ (891,108)</b>

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	Nine Months Ended November 30, 2019	Nine Months Ended November 30, 2018
<b>Cash flows used in operating activities</b>			
Net loss for the period		\$ (1,623,478)	\$ (2,600,644)
Adjustments for:			
Amortization	7, 8	119,069	116,264
Accretion expense	10	126,528	14,445
Share-based compensation	13	456,996	1,381,371
Allowance for doubtful accounts	6	510	9,132
Net change in working capital:			
Restricted short-term investment		-	(126)
Trade and other receivables		(67,440)	(83,146)
Prepaid expenses and deposits		29,778	(44,258)
Trade and other payables		272,593	241,296
<b>Cash flows used in operating activities</b>		<b>(685,444)</b>	<b>(965,666)</b>
<b>Cash flows used in investing activities</b>			
Purchase of equipment	7	(26,787)	(35,886)
Purchase of intangible assets	8	(25,125)	(27,713)
<b>Cash flows used in investing activities</b>		<b>(51,912)</b>	<b>(63,599)</b>
<b>Cash flows provided by (used in) financing activities</b>			
Proceeds from exercise of warrants and options	12,13	-	600,943
Proceeds from issuance of convertible debt	10	-	500,000
Proceeds from director or officer	10	50,000	-
Proceeds from issuance of private placement	11, 12	150,000	-
Proceeds from issuance of note payable	10	591,000	-
Repayment of advances payable and borrowings	10	(40,118)	(40,118)
<b>Cash flows provided by financing activities</b>		<b>750,882</b>	<b>1,060,825</b>
<b>Change in cash during the period</b>		<b>13,526</b>	<b>31,560</b>
<b>Cash, beginning of period</b>		<b>50,639</b>	<b>373,827</b>
Effect of translation of foreign currency		(8,027)	7,795
<b>Cash, end of period</b>		<b>\$ 56,138</b>	<b>\$ 413,182</b>
<b>Supplemental information:</b>			
Issuance of common shares in lieu of debt (noted 12)		558,731	-
Options granted in settlement of debt (note 13)		363,269	-
Finance costs paid on borrowings (note 10)		772,000	-
<b>See accompanying notes to the unaudited condensed interim consolidated financial statements</b>			

# **PUDO Inc.**

## **Notes to Condensed Interim Consolidated Financial Statements**

**Nine Months Ended November 30, 2019 and 2018**

**(Expressed in Canadian Dollars)**

**(Unaudited)**

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### **1. Nature of operations and going concern**

The principal activity of PUDO Inc. (the “Company”) is using technology to improve the connection between e-commerce and consumers. The Company deploys 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 November 30, 2019, the Company had a working capital deficiency of \$1,017,090 (February 28, 2019 – \$815,134), had not yet achieved profitable operations, had used cash in operating activities of \$685,444 for the nine month period ended November 30, 2019 (November 30, 2018 - \$965,666), had a deficit of \$10,752,085 as at November 30, 2019 (February 28, 2019 - \$9,248,236) and had a shareholders’ deficiency of \$891,108 (February 28, 2019 – \$657,000). 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 audited consolidated financial statements as at and for the year ended February 28, 2019, except for the adoption of new standards effective as of March 1, 2019 and interpretations issued by the IFRS Interpretations Committee (“IFRIC”).

The condensed interim consolidated financial statements of the Company for the three and nine month periods ended November 30, 2019 were approved and authorized for issue by the Board of Directors on January 14, 2020.

#### (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

Nine Months Ended November 30, 2019 and 2018

(Expressed in Canadian Dollars)

(Unaudited)

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### 3. Significant accounting policies

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.

#### (a) Changes in accounting standards

The Company has adopted the following standard effective March 1, 2019.

IFRS 16 – *Leases* (“IFRS 16”) was amended in January 2016 which replaces IAS 17 - *Leases* and addresses the accounting for leases. IFRS 16 eliminates the classification as an operating lease and requires lessees to recognize a right-of-use asset and a lease liability in the statement of financial position for all leases with exemptions permitted for short-term leases and leases of low value assets. In addition, IFRS 16 changes the definition of a lease, sets the requirement on how to account for the asset and liability, including complexities such as non-lease elements, variable lease payments and options periods. IFRS 16 is effective for annual years beginning on or after January 1, 2019. As at November 30, 2019 the Company does not hold any material operating leases and any leases held prior to November 30, 2019 were immaterial for purposes of IFRS 16 therefore this standard does not materially impact the condensed interim consolidated financial statements.

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

**Nine Months Ended November 30, 2019 and 2018**

**(Expressed in Canadian Dollars)**

**(Unaudited)**

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### **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.

#### (b) Foreign currencies

The functional currency of the Company and its subsidiaries, Grandview Gold (USA) Inc., and Recuperacion Realzada, S.A.C., is the Canadian dollar (“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 generated 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 of 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

Nine Months Ended November 30, 2019 and 2018

(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 November 30,		Nine Months Ended November 30,	
	2019	2018	2019	2018
Revenue from one customer	\$ 155,563	\$ 162,947	\$ 403,537	\$ 351,446
% of total revenue	56%	67%	56%	58%
			<b>November 30, 2019</b>	<b>February 28, 2019</b>
Accounts Receivable from one customer			95,663	55,722
% of total accounts receivable			58%	54%

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

	November 30, 2019		February 28, 2019	
Cash	\$	56,138	\$	50,639
Restricted short-term investment		25,251		25,251
Trade and other receivables		178,138		110,698
	\$	259,527	\$	186,588

# PUDO Inc.

## Notes to Condensed Interim Consolidated Financial Statements Nine Months Ended November 30, 2019 and 2018 (Expressed in Canadian Dollars) (Unaudited)

### 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:

<b>November 30, 2019</b>	<b>1 Year or Less</b>	<b>Greater than 1 year</b>	<b>Total</b>
Trade and other payables	\$ 493,459	\$ -	\$ 493,459
Loans and borrowings	786,323	26,748	813,071
	<b>\$ 1,279,782</b>	<b>\$ 26,748</b>	<b>\$ 1,306,530</b>

<b>February 28, 2019</b>	<b>1 Year or Less</b>	<b>Greater than 1 year</b>	<b>Total</b>
Trade and other payables	\$ 547,930	\$ -	\$ 547,930
Loans and borrowings	541,583	66,870	608,453
	<b>\$ 1,089,513</b>	<b>\$ 66,870</b>	<b>\$ 1,156,383</b>

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 nine month periods is as follows:

	<b>Three Months Ended November 30</b>		<b>Nine Months Ended November 30</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Canada	\$ 210,673	\$ 170,746	\$ 510,292	\$ 369,017
United States of America	66,893	73,219	212,225	240,497
	<b>\$ 277,567</b>	<b>\$ 243,965</b>	<b>\$ 722,518</b>	<b>\$ 609,514</b>

#### (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.

# PUDO Inc.

## Notes to Condensed Interim Consolidated Financial Statements Nine Months Ended November 30, 2019 and 2018 (Expressed in Canadian Dollars) (Unaudited)

### 4. Financial risk management (continued)

As at November 30, 2019 and February 28, 2019, the Company and its subsidiaries had cash, trade and other receivables and trade and other payables denominated in US dollars as follows:

<b>As at November 30, 2019</b>	<b>USD</b>	<b>CAD Equivalent</b>
Cash	\$ 4,612	\$ 6,137
Trade and other receivables	37,030	49,275
Trade and other payables	(41,949)	(55,821)
	<b>\$ (307)</b>	<b>\$ (409)</b>

  

<b>As at February 28, 2019</b>	<b>USD</b>	<b>CAD Equivalent</b>
Cash	\$ 18,409	\$ 24,252
Trade and other receivables	29,225	38,502
Trade and other payables	(27,642)	(36,416)
	<b>\$ 19,992</b>	<b>\$ 26,338</b>

#### (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 shareholder's equity, loans and borrowings. As at November 30, 2019, the Company had a shareholders' deficiency of \$891,108 (February 28, 2019 – \$657,000) and loans and borrowings of \$854,280 (February 28, 2019 - \$589,703).

The Company's capital management objectives, policies and processes have remained materially unchanged during the nine month period ended November 30, 2019 and year ended February 28, 2019.

#### (vii) Sensitivity analysis

Based on management's knowledge and experience in the financial markets, the Company believes the following movements are reasonably possible over the year. Sensitivity to a plus or minus 5% change in the US-Canadian dollar foreign exchange rate, based on the current US dollar denominated balances as at November 30, 2019, would affect the net loss by approximately plus or minus \$1,000 during a year.

# PUDO Inc.

## Notes to Condensed Interim Consolidated Financial Statements

Nine Months Ended November 30, 2019 and 2018

(Expressed in Canadian Dollars)

(Unaudited)

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### 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, consultants, officers and directors by reference to the fair value of the equity instruments at the date on which they are granted. Estimating fair value for share-based compensation transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. Assumptions are made and judgment is used in applying valuation techniques.

These assumptions and judgments include estimating the future volatility of the stock price, expected dividend yield, future employee turnover rates and future employee stock option exercise behaviours and corporate performance. Such judgments and assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates.

### 6. Trade and other receivables

	November 30, 2019	February 28, 2019
Trade receivables	\$ 153,464	\$ 91,950
HST receivable	10,719	14,908
Other receivables	13,955	3,840
	<b>\$ 178,138</b>	<b>\$ 110,698</b>

Allowance for doubtful accounts as at November 30, 2019 was \$11,533 (February 28, 2019 – \$11,138).

# PUDO Inc.

## Notes to Condensed Interim Consolidated Financial Statements Nine Months Ended November 30, 2019 and 2018 (Expressed in Canadian Dollars) (Unaudited)

### 7. Equipment

Scanners and Tablets	Cost	Accumulated Amortization	Net Book Value
Balance at February 28, 2018	\$ 175,714	\$ 149,027	\$ 26,687
Additions / amortization	46,156	25,404	20,752
Balance at February 28, 2019	221,870	174,431	47,439
Additions / amortization	26,787	26,589	199
Balance at November 30, 2019	\$ 248,567	\$ 201,020	\$ 47,638

### 8. Intangible assets

Computer Software	Cost	Accumulated Amortization	Net Book Value
Balance at February 28, 2018	\$ 649,210	\$ 379,486	\$ 269,724
Additions / amortization	27,713	126,117	(98,404)
Balance at February 28, 2019	676,923	505,603	171,320
Additions / amortization	25,125	92,487	(67,362)
Balance at November 30, 2019	\$ 702,048	\$ 598,090	\$ 103,958

### 9. Trade and other payables

	As at November 30, 2019	As at February 28, 2019
Trade payables	\$ 316,636	\$ 347,002
Other payables	73,444	119,796
Accrued liabilities	103,369	81,132
	\$ 493,449	\$ 547,930

### 10. Loans and borrowings

#### (a) Loans

On March 3, 2016, the Company assumed borrowings from 640624 N.B. Ltd. (o/a Kinek) payable to Atlantic Canada Opportunities Agency. The loan is unsecured and non-interest bearing. Interest equal to 3% higher than the average Bank of Canada discount rate for the previous month is charged on any overdue balances. The present value of non-current borrowings was estimated using the effective interest rate method by discounting the future contractual cash flows at the estimated current market estimated interest rates for an equivalent instrument. The discount rate applied was 15%. The Company recorded accretion expense of \$9,955 (November 30, 2018 - \$9,746) for the nine month period ended November 30, 2019. 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

Nine Months Ended November 30, 2019 and 2018

(Expressed in Canadian Dollars)

(Unaudited)

### 10. Loans and borrowings (continued)

	November 30, 2019	February 28, 2019
Loan payable (Atlantic Canada Opportunities Agency) 18 instalments repayable at \$4,458 per month	\$ 80,244	\$ 120,366
Less: Discount future contractual cash flows	8,791	18,750
	<u>71,453</u>	101,616
Less: Current portion	45,840	40,991
	<u>\$ 25,613</u>	<u>\$ 60,625</u>

Future repayments on the loan as at November 30, 2019 include the following:

December 1, 2019 to February 29, 2020	\$ 13,374
March 1, 2020 to February 28, 2021	53,496
March 1, 2021 to June 22, 2021	13,374
	<u>\$ 80,244</u>

#### (b) Promissory Note

During the nine month period ended November 30, 2019, the Company raised \$591,000 via a promissory note from a company with a common officer and director. This note carries an interest rate of 20% per annum, payable on demand. On November 7, 2019, \$425,000 of the promissory note was settled by the issuance of 944,445 units of the Company. Each unit entitles the holder to receive one common share of the Company and one warrant with a strike price of \$0.54 and expiration date of November 7, 2020.

<b>Opening balance – February 28, 2019</b>	<b>\$ -</b>
Promissory note	591,000
Interest expense	52,390
Interest payment	-
Partial settlement of promissory note	(425,000)
<b>Balance – November 30, 2019</b>	<b>\$ 218,390</b>

#### (c) Convertible Debentures

On November 8, 2018, the Company completed a non-brokered private placement of an unsecured convertible debenture in the amount of \$100,000. The debenture carried an interest rate of 12% payable annually with an initial maturity date of November 8, 2019. On November 8, 2019, the maturity date of the debenture was extended to November 8, 2020. At the option of the holder, the principal and the interest may be converted to common shares of the Company at a conversion price of \$0.95 per share and market price, respectively, at any time up to and including the maturity date of the debenture (with a vesting period of four months plus one day). The fair value of the liability component of this convertible debenture was estimated to be \$108,249 by calculating the present value of the principal and interest payments, discounted at a rate of 17%, being management's best estimate of the rate that a non-convertible debenture would bear. The fair value of the option component of this convertible debenture at issuance was estimated to be \$4,786 using the residual method. The effective interest rate on this convertible debenture was estimated to be 17% per annum. The proceeds of the convertible debenture are being used for general corporate purposes.

# PUDO Inc.

## Notes to Condensed Interim Consolidated Financial Statements

Nine Months Ended November 30, 2019 and 2018

(Expressed in Canadian Dollars)

(Unaudited)

### 10. Loans and borrowings (continued)

On November 30, 2018, the Company completed a non-brokered private placement of an unsecured convertible debenture in the amount of \$400,000. The debenture carried an interest rate of 9% payable annually with an initial maturity date of November 30, 2019. On November 30, 2019, the maturity date of the debenture was extended to November 30, 2020. At the option of the holder, the principal and the interest may be converted to common shares of the Company at a conversion price of \$0.95 per share and market price, respectively, at any time up to and including the maturity date of the debenture (with a vesting period of four months plus one day). The fair value of the liability component of this convertible debenture was estimated to be \$406,188 by calculating the present value of the principal and interest payments, discounted at a rate of 17%, being management's best estimate of the rate that a non-convertible debenture would bear. The fair value of the option component of this convertible debenture at issuance was estimated to be \$29,812 using the residual method. The effective interest rate on this convertible debenture was estimated to be 17% per annum. The proceeds of the convertible debenture are being used for general corporate purposes.

<b>Opening balance – February 28, 2018</b>	-
Convertible debenture	468,376
Accretion expense	7,410
Interest expense	12,301
Interest payment	-
<b>Balance – February 28, 2019</b>	<b>\$ 488,087</b>
Convertible debentures	-
Accretion expense	10,525
Interest expense	15,825
Interest payment	-
<b>Balance – November 30, 2019</b>	<b>\$ 514,437</b>

(d) Advance from Director

On November 29, 2019, the Company received \$50,000 advance from a director. These funds were advanced in anticipation of a future private placement that closed subsequent to the period ended November 30, 2019.

### 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 Nine Months Ended November 30, 2019 and 2018 (Expressed in Canadian Dollars) (Unaudited)

### 11. Share capital (continued)

(b) Issued

Common Shares	Number	Amount
<b>Balance, February 28, 2018</b>	<b>18,995,634</b>	<b>\$ 5,148,042</b>
Exercise of broker warrants (note 12)	577,190	853,643
<b>Balance, February 28, 2019</b>	<b>19,572,824</b>	<b>\$ 6,001,685</b>
Common shares issued (i) (ii)	2,048,888	558,731
<b>Balance, November 30, 2019</b>	<b>21,621,712</b>	<b>\$ 6,560,416</b>

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

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

### 12. Warrant reserve

The following table reflects the continuity of warrants for the nine month period ended November 30, 2019 and the year ended February 28, 2019:

	Number of Warrants	Average Exercise Price
<b>Balance, February 28, 2018</b>	<b>1,258,394</b>	<b>\$ 1.19</b>
Broker warrants exercised (i)	(75,608)	1.75
Broker warrants exercised (ii)	(501,582)	1.00
Warrants expired (iii)	(545,578)	1.00
<b>Balance, February 28, 2019</b>	<b>135,626</b>	<b>\$ 2.33</b>
Warrants expired (iv)	(135,626)	2.33
Warrants issued (v)	333,333	0.57
Warrants issued (vi)	1,715,555	0.57
<b>Balance, November 30, 2019</b>	<b>2,048,888</b>	<b>\$ 0.57</b>

(i) On April 3, 2018, 75,608 common shares of the Company were issued upon the exercise of 75,608 warrants at \$1.75 per share for total cash proceeds of \$132,314.

(ii) On April 3, 2018, 52,518 common shares of the Company were issued upon the exercise of 52,518 warrants at \$1.00 per share for total cash proceeds of \$52,518.

# PUDO Inc.

## Notes to Condensed Interim Consolidated Financial Statements

Nine Months Ended November 30, 2019 and 2018

(Expressed in Canadian Dollars)

(Unaudited)

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### 12. Warrant reserve (continued)

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 \$221,210 and the remaining \$27,854 was used to settle debt owing to an officer of the Company.

- (iii) On August 24, 2018, 545,578 warrants expired. The estimated grant date fair value of the warrants that expired of \$180,079 was reclassified to the deficit.
- (iv) On March 29, 2019, 135,626 warrants expired. The estimated grant date fair value of the warrants that expired of \$83,944 was reclassified to the deficit.
- (v) On November 7, 2019, the Company closed a non-brokered private placement financing where the company issued 333,333 units of the Company for proceeds of \$150,000. Each unit consists of one common share and one warrant of the Company. The warrants carry an exercise price of \$0.54 and an expiration date of November 7, 2020. The Company used Black Scholes Model to appraise the warrant, where the risk free rate of return was determined to be 1.66% and annualized volatility of the stock to be 164.59%.
- (vi) On November 7, 2019, the Company settled \$772,000 of debt owing to a company with a common director or officer by issuing 1,715,555 units of the Company. Each unit consists of one common share and one warrant of the Company. The warrants carry an exercise price of \$0.54 and an expiration date of November 7, 2020. The Company used Black Scholes Model to appraise the warrant, where the risk free rate of return was determined to be 1.66% and annualized volatility of the stock to be 164.59%. The debt that was settled consisted of \$425,000 of a promissory note payable and \$347,000 of accounts payable.

### 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.

# PUDO Inc.

## Notes to Condensed Interim Consolidated Financial Statements Nine Months Ended November 30, 2019 and 2018 (Expressed in Canadian Dollars) (Unaudited)

### 13. Stock option reserve (continued)

The following table reflects the continuity of stock options for the nine month period ended November 30, 2019 and the year ended February 28, 2019:

	Number of stock options	Exercise Price
<b>Balance, February 28, 2018</b>	<b>3,166,750</b>	<b>\$ 1.35</b>
Options forfeited (ii)	(5,000)	1.20
Options expired (vi)	(51,750)	2.25
<b>Balance, February 28, 2019</b>	<b>3,110,000</b>	<b>\$ 1.33</b>
Options forfeited (ii)	(10,000)	1.20
Options expired (i)	(102,000)	1.20
<b>Balance, November 30, 2019</b>	<b>2,998,000</b>	<b>\$ 1.34</b>

The following table reflects the actual stock options issued and outstanding as at November 30, 2019:

	Exercise Price (\$)	Remaining contractual life (years)	Weighted average number of options outstanding	Options vested (exercisable)	Estimated grant date fair value (\$)
August 31, 2020 (ii)	1.20	0.75	180,000	180,000	55,561
August 31, 2020 (iii)	1.20	0.75	20,000	20,000	20,000
January 28, 2021 (v)	2.47	2.92	108,000	15,000	192,342
October 26, 2022 (iv)	1.30	1.17	2,690,000	616,250	3,005,537
	1.33	1.40	2,998,000	831,250	3,273,440

(i) In July 2017, the Company granted an aggregate of 102,000 options to directors of the Company. The options were exercisable at a price of \$1.20 per common share and vested in 25% increments quarterly with the first 25% having vested on the date of grant. 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. On August 16, 2019, 102,000 options expired and \$25,198 was reclassified to the deficit for the nine month period ended November 30, 2019.

(ii) 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 on August 31, 2020. The grant date fair value of the stock options was estimated to be \$61,818 using the Black-Scholes valuation model with the following weighted average assumptions: expected dividend yield of 0%, expected volatility of 130%, risk-free interest rate of 1.32%, and expected life of 3.14 years. 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 \$1,584 was reclassified to the deficit for the year ended February 28, 2018.

# PUDO Inc.

## Notes to Condensed Interim Consolidated Financial Statements

Nine Months Ended November 30, 2019 and 2018

(Expressed in Canadian Dollars)

(Unaudited)

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### 13. Stock option reserve (continued)

On November 5, 2018, 5,000 options to an employee of the Company were forfeited and \$1,584 was reclassified to the deficit for the year ended February 28, 2019. On April 25, 2019, 5,000 options to an employee of the Company were forfeited and \$1,544 was classified to the deficit for the nine month period ended November 30, 2019. On June 21, 2019, 5,000 options to an employee of the Company were forfeited and \$1,544 was classified to the deficit for the nine month period ended November 30, 2019.

(iii) In July 2017, the Company granted 20,000 options to an officer of the Company in lieu of debt of \$20,000. The vesting date was October 1, 2017. The options are exercisable at a price of \$1.20 per common share. The stock options will expire on November 30, 2020. For the nine month period ended November 30, 2019, \$nil was recorded as share-based compensation in the consolidated statement of loss.

(iv) In October 2017, the Company granted 2,690,000 stock options to employees, consultants, officers and directors of the Company. The options are exercisable at a price of \$1.30 per common share and will expire on October 26, 2022. Of the total issued, 225,000 were issued to directors and vest in 33.33% increments yearly with the first 33.33% having vested on February 28, 2019. 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 nine month period ended November 30, 2019, \$nil was recorded as share-based compensation in the consolidated statement of loss.

(v) 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% having vested 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 nine month period ended November 30, 2019, \$nil was recorded as share-based compensation in the consolidated statement of loss.

(vi) On February 1, 2018, 17,250 options of the Company expired and \$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 and \$28,800 was reclassified to the deficit for the year ended February 28, 2019. On June 1, 2018, 17,250 options of the Company expired and \$29,700 was reclassified to the deficit for the year ended February 28, 2019. On September 1, 2018, 17,250 options of the Company expired and \$30,600 was reclassified to the deficit for the year ended February 28, 2019.

# PUDO Inc.

## Notes to Condensed Interim Consolidated Financial Statements

Nine Months Ended November 30, 2019 and 2018

(Expressed in Canadian Dollars)

(Unaudited)

### 14. Expenses categorized by nature

Cost of sales	Three Months Ended November 30		Nine Months Ended November 30	
	2019	2018	2019	2018
External processing charges	\$ 120,359	\$ 85,160	\$ 270,530	\$ 180,213
Computer and web access charges	2,507	2,778	8,936	10,771
	\$ 122,866	\$ 87,938	\$ 279,466	\$ 190,984

Administrative expenses	Three Months Ended November 30		Nine Months Ended November 30	
	2019	2018	2019	2018
Salaries and benefits	\$ 142,592	\$ 280,682	\$ 713,893	\$ 858,302
Consulting fees	65,704	43,860	148,820	131,321
Travel promotion and business development	53,118	36,944	117,674	94,007
General and administrative expenses	43,267	64,317	134,588	150,719
Accounting and office	29,850	41,850	113,550	125,550
Investor relations	26,436	4,025	40,689	11,070
Agent and filing fees	8,588	9,824	32,177	37,203
Foreign exchange loss (gain)	1,585	306	(71)	12,016
Professional fees	58	29,489	56,772	86,194
Amortization (notes 7 and 8)	38,225	34,941	119,069	116,264
	\$ 409,423	\$ 546,238	\$ 1,477,161	\$ 1,622,646

### 15. Related party balances and transactions

During the three and nine month periods ended November 30, 2019 and 2018, the Company incurred accounting fees and office rental, which is included in accounting and office expense, of \$29,850 and \$113,550 (November 30, 2018 - \$41,850 and 125,550), respectively, to a company with a common officer and director.

During the three and nine month periods ended November 30, 2019 and 2018, the Company had the following transactions with shareholders, management and directors:

	Three Months Ended November 30		Nine Months Ended November 30	
	2019	2018	2019	2018
Salaries and benefits	\$ 60,310	\$ 160,608	\$ 407,034	\$ 486,201
Consulting fees	9,903	9,850	29,820	29,386
	\$ 70,213	\$ 170,458	\$ 436,855	\$ 515,588

As at November 30, 2019, balances payable to the related parties noted above amounted to \$89,122 (February 28, 2019 - \$243,436) and are included in trade and other payables. These balances are unsecured, non-interest bearing and are due on demand.

# **PUDO Inc.**

## **Notes to Condensed Interim Consolidated Financial Statements**

**Nine Months Ended November 30, 2019 and 2018**

**(Expressed in Canadian Dollars)**

**(Unaudited)**

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### **15. Related party balances and transactions (continued)**

As described in the loans and borrowings note 10, as at November 30, 2019 a promissory note in the amount of \$218,390 at an annual interest rate of 20% was issued to a company with a common director and officer of the Company.

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

See also note 9, 10 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 November 30, 2019.

### **17. Subsequent events**

On December 20, 2019, the Company closed a non-brokered private placement financing of \$104,955. The Company settled a total of \$72,000 in debt through the issuance to a company with a common director or officer of 124,138 units at \$0.58 per unit. The Company also issued 56,819 units for gross proceeds of \$32,955 at \$0.58 per unit. Each unit will entitle the holder to receive one common share and one warrant of the Company with an exercise price of \$0.69 per warrant with an expiration date of December 20, 2020.

On January 6, 2020, the Company closed a non-brokered private placement financing where the company issued 172,414 units at \$0.58 per unit for gross proceeds of \$100,000. Each unit will entitle the holder to receive one common share and one warrant of the Company with an exercise price of \$0.69 per warrant with an expiration date of January 6, 2021.

On January 9, 2020, the Company closed a non-brokered private placement financing where the company issued 633,044 units at \$0.58 per unit for gross proceeds of \$367,166. Each unit will entitle the holder to receive one common share and one warrant of the Company with an exercise price of \$0.69 per warrant with an expiration date of January 9, 2021.