
PUDO INC.

CONSOLIDATED FINANCIAL STATEMENTS

**FOR THE YEARS ENDED FEBRUARY 28, 2021 AND
FEBRUARY 29, 2020**

(EXPRESSED IN CANADIAN DOLLARS)

Independent auditor's report

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To the Shareholders of
PUDO Inc.

Opinion

We have audited the accompanying consolidated financial statements of PUDO Inc. and its subsidiaries (the "Group"), which comprise the consolidated statements of financial position as at February 28, 2021 and February 29, 2020, and the statements of loss and comprehensive loss, statements of changes in shareholders' equity and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly in all material respects, the financial position of the Group as at February 28, 2021 and February 29, 2020, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

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

Information Other than the Consolidated Financial Statements and Auditor's Report Thereon

Management is responsible for the other information. The other information comprises the Management Discussion and Analysis but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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



PUDO Inc.
Consolidated Statements of Financial Position
As at February 28, 2021 and February 29, 2020

(Expressed in Canadian Dollars)

As at	Notes	2021	2020
Assets			
Current assets			
Cash		\$ 749,708	\$ 2,038,493
Restricted short-term investment	3(l)	25,504	25,378
Trade and other receivables	4, 6	377,962	213,701
Prepaid expenses and deposits		74,390	53,121
Total current assets		1,227,564	2,330,693
Non-current assets			
Equipment	7	60,340	52,942
Intangible assets	8	105,544	84,686
Total assets		\$ 1,393,448	\$ 2,468,321
Liabilities			
Current liabilities			
Trade and other payables	4, 9, 15	\$ 464,652	\$ 507,683
Loans and borrowings	4, 10	13,045	277,041
Total current liabilities		477,697	784,724
Non-current liabilities			
Loans and borrowings	4, 10	-	13,045
Total liabilities		477,697	797,769
Shareholders' equity			
Share capital	11	9,060,580	8,260,886
Warrant reserve	12	-	1,499,079
Stock option reserve	13	2,204,607	2,069,620
Deficit		(10,349,436)	(10,159,033)
Shareholders' equity		915,751	1,670,552
Total liabilities and shareholders' equity		\$ 1,393,448	\$ 2,468,321

Nature of operations and going concern (note 1)

Commitments and contingencies (note 17)

Subsequent events (note 18)

Approved by the Board of Directors:

"Thomas Bijou"

Director

"Richard Cooper"

Director

See accompanying notes to the consolidated financial statements

PUDO Inc.**Consolidated Statements of Loss and Comprehensive Loss
For the years ended February 28, 2021 and February 29, 2020***(Expressed in Canadian Dollars)*

	Notes	2021	2020
Revenue	4	\$ 1,671,171	\$ 1,121,430
Cost of sales	14	(1,166,924)	(515,011)
Gross profit		504,247	606,419
Administrative expenses	14	(1,810,415)	(1,864,807)
Share-based compensation	13, 15	(506,913)	(597,672)
Operating loss		(1,813,081)	(1,856,060)
Finance costs		(11,054)	(148,126)
Net loss and comprehensive loss for the year		\$ (1,824,135)	\$ (2,004,186)
Loss per share			
basic and diluted	3(k)	\$ (0.07)	\$ (0.08)
Weighted average number of shares			
outstanding – basic and diluted	3(k)	27,162,028	26,511,849

See accompanying notes to the consolidated financial statements

PUDO Inc.

Consolidated Statements of Changes in Shareholders' Equity For the years ended February 28, 2021 and February 29, 2020

(Expressed in Canadian Dollars)

	# of Common Shares	Share Capital	Warrant Reserve	Stock Option Reserve	Equity Component of Convertible Debentures	Deficit	Total
Balance, February 28, 2019	19,572,823	\$ 6,001,685	\$ 83,944	\$ 2,473,983	\$ 31,624	\$ (9,248,236)	\$ (657,000)
Share-based compensation (note 13)	-	-	-	597,672	-	-	597,672
Broker warrants expired (note 12)	-	-	(83,944)	-	-	83,944	-
Issuance of common shares in private placement (note 11)	5,223,470	1,791,370	1,194,910	-	-	-	2,986,280
Issuance of common shares in lieu of debt (note 11)	1,715,555	467,831	304,169	-	-	-	772,000
Renewal of convertible debentures (note 10)	-	-	-	-	2,974	7,410	10,384
Partial repayment of convertible debentures (note 10)	-	-	-	-	(34,598)	-	(34,598)
Options forfeited (note 13)	-	-	-	(1,002,035)	-	1,002,035	-
Net loss for the year	-	-	-	-	-	(2,004,186)	(2,004,186)
Balance, February 29, 2020	26,511,848	\$ 8,260,886	\$1,499,079	\$ 2,069,620	\$ -	\$ (10,159,033)	\$ 1,670,552
Share-based compensation (note 13)	-	-	-	506,913	-	-	506,913
Stock options exercised (note 13)	135,083	270,325	-	(118,938)	-	-	151,387
Warrants exercised	470,653	441,371	(102,075)	(16,261)	-	-	323,035
Broker warrants expired (note 12)	-	-	(1,397,004)	-	-	1,397,004	-
Options forfeited (note 13)	-	-	-	(236,727)	-	236,728	1
Issuance of common shares to settle payable to vendor (note 11(x))	44,444	87,998	-	-	-	-	87,998
Net loss for the year	-	-	-	-	-	(1,824,135)	(1,824,135)
Balance, February 28, 2021	27,162,028	\$ 9,060,580	\$ -	\$ 2,204,607	\$ -	\$ (10,349,436)	\$ 915,751

See accompanying notes to the consolidated financial statements

PUDO Inc.
Consolidated Statements of Cash Flows
For the years ended February 28, 2021 and February 29, 2020

(Expressed in Canadian Dollars)

	Notes	2021	2020
Cash flows (used in) provided by operating activities			
Net loss for the year		\$ (1,824,135)	\$ (2,004,186)
Adjustments for:			
Share-based compensation	13, 15	506,913	597,672
Amortization	7, 8	91,703	153,628
Finance costs	10	11,054	148,126
Provision for bad debts	6	363	-
Net change in non-cash working capital:			
Restricted short-term investment		(126)	(127)
Trade and other receivables		(164,261)	(103,003)
Prepaid expenses and deposits		(21,269)	22,165
Trade and other payables		145,450	306,754
Cash flows used in operating activities		(1,254,308)	(878,971)
Cash flows used in investing activities			
Purchase of equipment	7	(54,965)	(40,022)
Purchase of intangible assets	8	(64,994)	(32,475)
Cash flows used in investing activities		(119,959)	(72,497)
Cash flows provided by (used in) financing activities			
Proceeds from exercise of warrants and options	12, 13	375,248	-
Repayment of convertible debentures	10(c)	-	(555,842)
Proceeds from issuance of private placements	12	-	2,986,280
Proceeds from issuance of promissory note	10(b)	-	591,000
Repayment of loan	10(a)	(252,364)	(53,496)
Cash flows provided by financing activities		122,884	2,967,942
Change in cash during the year		(1,251,383)	2,016,474
Cash, beginning of year		2,038,493	50,639
Effect of translation of foreign currency		(37,402)	(28,620)
Cash, end of year		\$ 749,708	\$ 2,038,493
Supplemental information:			
Exercised option payment settled against accounts payable		100,483	-
Issuance of common shares in lieu of accounts payable		87,998	-
Issuance of common shares in settlement of debt (note 11(ii), 12(ii))		-	467,831
Trade payable converted into equity (note 11(ii))		-	347,000
Warrants granted in settlement of debt (notes 12, 13, 15)		-	304,169

See accompanying notes to the consolidated financial statements

PUDO Inc.

Notes to Consolidated Financial Statements

For the Years Ended February 28, 2021 and February 29, 2020

(Expressed in Canadian Dollars)

1. Nature of operations and going concern

The principal activity of PUDO Inc. (the “Company”) is using technology to improve the connection between e-commerce and consumers. The Company deploys its’ technology to provide consumers with convenient locations to pick-up or drop-off e-commerce parcels. Through collaboration with online retailers, third party logistics companies (“3PL”), Software as a Service (“SaaS”) and courier companies, consumers can take secure delivery of their parcels or drop-off returns where it’s convenient, when it’s convenient for them.

Existing businesses, such as convenience stores or gas stations, provide services as a PUDOpoint™ (“PUDOpoint”). PUDOpoints are typically open extended hours, seven days a week to make it convenient for busy consumers to quickly and efficiently collect what they’ve ordered online or drop off what they need to return. The Company deploys its technology to provide consumers with convenient PUDOpoints (the “Network”) to pick-up and drop-off (“PUDO”) e-commerce parcels.

The Company’s services provide courier companies and retailers with a presence in a broad variety of locations to better serve their customers. Not only convenient, these services can also save money. Couriers don’t have to attempt delivery a second or third time or make other arrangements with customers who aren’t home. Retailers can ship directly to PUDOpoints saving residential delivery costs and reducing the risk of theft or spoilage. PUDO also helps retailers reduce the cost and increase the convenience of their returns program. Consumers can drop off pre-labeled parcels at any PUDOpoint for processing back to the retailer.

Going Concern

These consolidated financial statements have been prepared with the assumption that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. As at February 28, 2021, the Company had a working capital surplus of \$749,867 (2020 – \$1,545,969), had not yet achieved profitable operations, had used cash in operating activities of \$1,254,308 for the year ended February 28, 2021 (2020 - \$878,971), had a deficit of \$10,349,436 as at February 28, 2021 (2020 - \$10,159,033) and had shareholders’ equity of \$915,751 (2020 – \$1,670,552). These conditions reflect material uncertainties which cast significant doubt about the Company’s ability to continue as a going concern. The continuing operations of the Company are dependent upon its ability to continue to raise adequate financing and to commence profitable operations in the future. While the Company has been successful in raising the necessary funding to continue operations in the past, there is no assurance that it will be able to do so in the future. These consolidated financial statements do not include the adjustments that would be necessary should the Company be unable to continue as a going concern. Such adjustments could be material.

2. Basis of preparation

(a) Statement of compliance

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”), effective as of March 1, 2020, and interpretations issued by the IFRS Interpretations Committee (“IFRIC”).

The consolidated financial statements of the Company for the year ended February 28, 2021 were approved and authorized for issue by the Board of Directors on May 26, 2021.

(b) Basis of presentation

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

PUDO Inc.

Notes to Consolidated Financial Statements

For the Years Ended February 28, 2021 and February 29, 2020

(Expressed in Canadian Dollars)

2. Basis of preparation (continued)

(c) Basis of consolidation

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

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

3. Significant accounting policies

(a) Changes in accounting standards

There were no new accounting standards that effected current year's consolidated financial statements.

(b) Foreign currencies

The functional currency of the Company and two of its subsidiaries, Grandview Gold (USA) Inc., and Recuperacion Realzada, S.A.C, is the Canadian dollar. The functional currency of PUDOpoint Inc. is the United States dollar ("USD"). 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.

In situations where the functional currency is not the same as the presentation currency, foreign currency denominated assets and liabilities are translated to their presentation currency equivalents using foreign exchange rates in effect at the consolidated statement of financial position date. Revenues and expenses are translated at average rates of exchange during the period. Exchange gains or losses arising on the consolidation of the Canadian subsidiary are included in accumulated other comprehensive income.

(c) Revenue recognition

To determine the amount and timing of revenue to be recognized, the Company follows a 5-step process:

1. Identifying the contract with a customer;
2. Identifying the performance obligations;
3. Determining the transaction price;
4. Allocating the transaction price to the performance obligations; and
5. Recognizing revenue when/as performance obligation(s) are satisfied.

The Company provides technology and a network of third-party locations where consumers can pick up or drop off parcels and revenue is generated in two ways when (i) a courier cannot deliver a parcel to a residential customer, they may choose to drop the parcel off at a PUDOpoint; and (ii) consumers choose to have their parcels delivered directly to a Kinekpoint or PUDOpoint.

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

PUDO Inc.

Notes to Consolidated Financial Statements

For the Years Ended February 28, 2021 and February 29, 2020

(Expressed in Canadian Dollars)

3. Significant accounting policies (continued)

(d) Equipment

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

(e) Intangible assets

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

(f) Impairment of non-financial assets

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

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

(g) Financial instruments

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

Financial assets

Recognition and Initial Measurement

Financial assets and financial liabilities are recognised in the consolidated financial statements when the Company becomes party to the contractual provision of a financial instrument. Trade receivables are initially measured at the transaction price. Cash, restricted short-term investments and other amounts receivable are initially measured at fair value.

Classification and Subsequent Measurement

The Company classifies financial assets, at the time of initial recognition, according to the instruments attributes and the contractual terms of the cash flows. They are classified to be subsequently measured at amortized cost or fair value through profit or loss ("FVTPL"). The objective of the financial assets is to hold them and contractual cash flows are solely payments of principal and interest on the outstanding principal amount. Therefore, subsequent measurements are made at amortized cost.

PUDO Inc.

Notes to Consolidated Financial Statements

For the Years Ended February 28, 2021 and February 29, 2020

(Expressed in Canadian Dollars)

3. Significant accounting policies (continued)

A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is recorded in profit or loss.

At each reporting date, the Company assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. A financial asset or a group of financial assets is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s), and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

Impairment losses on assets carried at amortized cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses are recognized in profit or loss and reflected in an allowance against loans and receivables. Interest on impaired assets continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Financial liabilities

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

Fair value measurement

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

Offsetting

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

(h) Share-based compensation

Equity-settled share-based compensation to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in the stock option reserve note 13.

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

PUDO Inc.

Notes to Consolidated Financial Statements

For the Years Ended February 28, 2021 and February 29, 2020

(Expressed in Canadian Dollars)

3. Significant accounting policies (continued)

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

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

(i) Share capital

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

(j) Income taxes

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

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

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

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

(k) Loss per share

Basic loss per share is calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the year. Diluted loss per share is determined by adjusting the loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of dilutive instruments such as stock options and warrants. Stock options and warrants are dilutive when the Company has income from operations and the average market price of the common shares during the period exceeds the exercise price of the options and warrants. Since the stock options held at the year ended February 28, 2021 and February 29, 2020 were anti-dilutive, they have been excluded from the diluted loss per share calculation.

PUDO Inc.

Notes to Consolidated Financial Statements

For the Years Ended February 28, 2021 and February 29, 2020

(Expressed in Canadian Dollars)

3. Significant accounting policies (continued)

(l) Short-term investments

Short-term investments are comprised of guaranteed investment certificates with original maturities of greater than three months and up to one year. As at February 28, 2021 and February 29, 2020, the restricted short-term investment was comprised of a cashable guaranteed investment certificate to be held as collateral for a corporate credit card for as long as the credit card is active and has been reflected as a restricted asset. The restricted short-term investment amount would change if there is any change in the credit limit on the credit card.

(m) Segment information

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

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

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

(n) Accounting for government grants and assistance

The Canada Emergency Wage Subsidy (“CEWS”) program became effective for periods beginning on March 15, 2020 to support organizations that have been significantly impacted by the COVID-19 pandemic. Under this program, the Company received a subsidy of up to 75% of qualified employees’ wages in each qualifying four-week period that it met certain tests for revenue reduction. Through February 28, 2021, the Company qualified for and received \$125,182 in grants under the program. There are no obligations, commitments or conditions associated with this program that could create a requirement to repay all or a part of the grant. The grant has been recognized by the Company within the statement of operations as a reduction in Salaries and Benefits expense.

4. Financial risk management

(a) Fair values

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

(b) Financial risk factors

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

PUDO Inc.

Notes to Consolidated Financial Statements

For the Years Ended February 28, 2021 and February 29, 2020

(Expressed in Canadian Dollars)

4. Financial risk management (continued)

The Board of Directors of the Company (the "Board") has the overall responsibility for the establishment and oversight of the Company's risk management framework. The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities.

(i) Credit risk

Credit risk is the risk that an issuer or counterparty will be unable or unwilling to meet commitments it has entered into with the Company. The financial assets that potentially expose the Company to credit risk consist principally of cash or trade and other receivables. The extent of the Company's exposure to credit risk is approximated by the carrying values recorded in the Company's consolidated statement of financial position. The Company has one customer with significant revenues. This customer is comprised of three different businesses operated independently under common control.

	2021	2020
Revenue from one customer	\$ 935,704	\$ 611,780
% of total revenue	56%	55%
Account receivable from one customer	\$ 125,485	\$ 107,189
% of total accounts receivable	33%	60%

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

	2021	2020
Cash	\$ 749,708	\$ 2,038,493
Restricted short-term investment	25,504	25,378
Trade and other receivables	377,962	213,701
	\$ 1,153,174	\$ 2,277,572

(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 Consolidated Financial Statements

For the Years Ended February 28, 2021 and February 29, 2020

(Expressed in Canadian Dollars)

4. Financial risk management (continued)

The following are the contractual maturities of financial liabilities, including interest, where applicable:

As at February 28, 2021	1 Year or Less	Greater than 1 year	Total
Trade and other payables	\$ 463,992	\$ -	\$ 463,992
Loans and borrowings	13,373	-	13,373
	\$ 477,365	\$ -	\$ 477,365

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

In order to meet such cash commitments, the Company will be required to generate sufficient cash inflows from operating and financing activities.

(iii) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return. All of the Company's equipment and intangible assets are located in Canada.

Revenue by geographic region is as follows:

	2021	2020
Canada	\$ 1,404,830	\$ 833,558
United States of America	266,341	287,872
	\$ 1,671,171	\$ 1,121,430

(iv) Currency risk

Since the Company has a bank account denominated in US dollars, it is exposed to foreign currency risk due to fluctuations in the foreign exchange rate. The Company also has revenue and expenses in both Canadian and US dollars. Since the Company reports its results in Canadian dollars, the functional currency of the Company, it is exposed to changes in the value of the US dollar relative to that of the Canadian dollar. As at February 28, 2021 and February 29, 2020, the Company had cash, trade and other receivables and trade and other payables denominated in US dollars as follows:

PUDO Inc.

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4. Financial risk management (continued)

As at February 28, 2021	USD		CAD	
Cash	\$	35,524	\$	45,062
Trade and other receivables		120,257		152,546
Trade and other payables		(66,522)		(84,383)
	\$	89,259	\$	113,225

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

(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 shareholders' equity and loans and borrowings. As at February 28, 2021, the Company had shareholders' equity of \$915,751 (2020 – \$1,670,552) and loans and borrowings of \$13,705 (2020 - \$290,086).

The Company's capital management objectives, policies and processes have remained materially unchanged during the years ended February 28, 2021 and February 29, 2020.

(vii) Sensitivity analysis

Based on management's knowledge and experience in the financial markets, the Company believes the following movements are reasonably possible over the year. Sensitivity to a plus or minus 1% change in the US–Canadian dollar foreign exchange rate, based on the US dollar denominated balances as at February 28, 2021, would affect the net loss by approximately \$1,200 during the year.

5. Critical accounting estimates and judgments

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

Intangible assets and equipment

The useful life of intangible assets and equipment is determined by management at the time the software and equipment is acquired and brought into use and is regularly reviewed for appropriateness. For unique software products controlled by the Company, the estimated life is based on management's historical experience with

PUDO Inc.

Notes to Consolidated Financial Statements

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5. Critical accounting estimates and judgments (continued)

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 non-financial assets) and at objective evidence, for a 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. The Company reviews property and equipment and intangible assets for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

Impairment of financial assets

All financial assets except for those at FVTPL are reviewed for impairment at least at each reporting date to identify whether there is any objective evidence that a financial asset or group of financial assets is impaired.

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, including the recognition and measurement of any potential deferred tax assets. 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.

Impairment of financial assets

All financial assets except for those at FVTPL are reviewed for impairment at least at each reporting date to identify whether there is any objective evidence that a financial asset or group of financial assets is impaired.

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.

PUDO Inc.

Notes to Consolidated Financial Statements

For the Years Ended February 28, 2021 and February 29, 2020

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6. Trade and other receivables

	2021	2020
Trade receivables	\$ 316,655	\$ 179,603
HST/QST receivable	13,795	9,361
Other receivables	47,512	24,737
	\$ 377,962	\$ 213,701

Allowance for doubtful accounts as at February 28, 2021 was \$363 (2020 – \$nil).

7. Equipment

Scanners and Tablets	Cost	Accumulated Amortization	Net Book Value
Balance at February 28, 2019	\$ 221,870	\$ 174,431	\$ 47,439
Additions / amortization	40,022	34,519	5,503
Balance at February 29, 2020	\$ 261,892	\$ 208,950	\$ 52,942
Additions / amortization	54,965	47,567	7,398
Balance at February 28, 2021	\$ 316,857	\$ 256,518	\$ 60,340

8. Intangible assets

Computer Software	Cost	Accumulated Amortization and Impairment	Net Book Value
Balance at February 28, 2019	\$ 676,923	\$ 505,603	\$ 171,320
Additions / amortization	32,475	119,109	(86,634)
Balance at February 29, 2020	\$ 709,398	\$ 624,712	\$ 84,686
Additions / amortization	64,994	44,136	20,858
Balance at February 28, 2021	\$ 774,392	\$ 668,848	\$ 105,544

9. Trade and other payables

	2021	2020
Trade payables	\$ 133,995	\$ 311,246
QST payable	6,796	6,610
Other payables	146,399	93,738
Accrued liabilities	177,462	96,089
	\$ 464,652	\$ 507,683

PUDO Inc.

Notes to Consolidated Financial Statements

For the Years Ended February 28, 2021 and February 29, 2020

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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 \$5,910 (2020 - \$12,500) for the year ended February 28, 2021. The rate used in determining the appropriate present value of the borrowings was subject to management estimation.

	2021		2020
Loan payable (Atlantic Canada Opportunities Agency) 3 instalments repayable at \$4,458 per month	\$ 13,374	\$	66,870
Less: Discount on future contractual cash flows	329		6,244
	<u>13,045</u>		<u>60,626</u>
Less: Current portion	13,045		47,581
	<u>\$ -</u>	\$	<u>13,045</u>

Future repayments on the borrowings as at February 28, 2021 include the following:

March 1, 2021 to June 22, 2021	13,045
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(b) Promissory Note

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

Opening balance – February 28, 2019	\$ -
Promissory note	591,000
Interest expense	63,460
Interest payment	-
Partial settlement of promissory note	(425,000)
Balance – February 29, 2020	\$ 229,460
Repayment of promissory note	(229,460)
Balance – February 28, 2021	\$ -

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

PUDO Inc.

Notes to Consolidated Financial Statements

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11. Share capital

(a) Authorized

Unlimited number of common shares with no par value.

Unlimited number of preference shares. The preference shares are without par value, redeemable, non-voting and non-participating (none currently issued and outstanding).

(b) Issued

Common Shares	Number	Amount
Balance, February 28, 2019	19,572,824	\$ 6,001,685
Common shares issued (i) (ii) (iii) (iv)	6,939,025	2,259,201
Balance, February 29, 2020	26,511,849	\$ 8,260,886
Common shares issued (v) (vi) (vii) (viii) (ix) (x) (xi) (xii) (xiii)	650,180	799,694
Balance, February 28, 2021	27,162,029	\$ 9,060,580

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

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

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

(iv) In January 2020, the Company closed several non-brokered private placements where 4,709,180 units were issued for total proceeds of \$2,731,324. Each unit issued consisted of one common share and one warrant of the Company. Based on the Black Scholes valuation model, the Company valued the common shares at \$1,631,037 and the warrants at \$1,100,287.

(v) In August 2020, number of the Company's employees and consultants exercised their stock options. As a result, 120,529 shares at the exercise value of \$151,388 were issued. The common shares were valued at \$270,325.

(vi) In September 2020, a warrant holder exercised 8,620 warrants. As a result, 8,620 shares at the exercise value of \$5,948 were issued. The common shares and warrants were valued at \$7,930 and \$1,983, respectively.

(vii) In October 2020, a warrant holder exercised 23,000 warrants. As a result, 23,000 shares at the exercise value of \$15,870 were issued. The common shares and warrants were valued at \$21,160 and \$5,289, respectively.

(viii) In November 2020, a warrant holder exercised 48,685 warrants while allowing 84,648 remaining warrants to expire. As a result, 48,685 shares at the exercise value of \$26,290 were issued. The common shares were valued at \$35,053. The warrants that expired had a fair market value of \$14,991.

PUDO Inc.

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For the Years Ended February 28, 2021 and February 29, 2020

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11. Share capital (continued)

(ix) In November 2020, a number of companies with a common director or officer exercised 88,889 warrants while allowing 1,826,666 remaining warrants to expire. As a result, 88,889 shares at the exercise value of \$48,000 were issued. The common shares were valued at \$64,000. The warrants that expired had a fair market value of \$338,506.

(x) In November 2020, the Company issued 44,444 common shares to pay for an \$87,998 liability owing to a vendor. This payment arrangement was part of the agreement between the Company and the vendor, signed prior to engaging the vendor.

(xi) In December 2020, warrant holders exercised 229,233 warrants while allowing 124,138 remaining warrants to expire. As a result, 229,233 shares at the exercise value of \$158,171 were issued. The common shares and warrants were valued at \$210,824 and \$52,624, respectively. The warrants that expired had a fair market value of \$24,368.

(xii) In January 2021, warrant holders exercised 72,226 warrants while allowing 4,432,920 remaining warrants to expire. As a result, 72,226 shares at the exercise value of \$49,836 were issued. The common shares and warrants were valued at \$67,221 and \$17,385, respectively. The warrants that expired had a fair market value of \$1,034,130.

(xiii) In February 2021, the Company's consultants exercised 14,554 stock options. As a result, 14,554 common shares at an exercise price of \$18,920 were issued. The exercise value was settled against the amount payable owing to a consultant. The common shares were valued at \$35,181.

12. Warrant reserve

The following table reflects the continuity of warrants for the years ended February 28, 2021 and February 29, 2020:

	Number of Warrants	Average Exercise Price
Balance, February 28, 2019	135,626	\$ 2.33
Warrants expired (i)	(135,626)	2.33
Warrants issued (note 11 (b) (i))	333,333	0.54
Warrants issued (note 11 (b) (ii))	1,715,555	0.54
Warrants issued (note 11 (b) (iii))	180,957	0.69
Warrants issued (note 11 (b) (vi))	4,709,180	0.69
Balance, February 29, 2020	6,939,025	\$ 0.65
Warrants exercised (note 11 (b) (vi) (vii) (xi) (xii))	(333,079)	0.69
Warrants exercised (note 11 (b) (viii) (ix))	(137,574)	0.54
Warrants expired (note 11 (b) (viii) (ix))	(1,911,314)	0.54
Warrants expired (note 11 (b) (xi) (xii))	(4,557,058)	0.69
Balance, February 28, 2021	-	\$ -

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13. Stock option reserve

The Company maintains an employee stock option plan under which the Board of Directors, or the compensation committee of the Board of Directors, may from time to time grant to employees, officers, directors or consultants of the Company, options to acquire common shares in such numbers, for such terms and at such exercise prices, as may be determined by the Board of Directors or the compensation committee of the Board of Directors.

The stock option plan provides that the maximum number of common shares in the capital of the Company that may be reserved for issuance for all purposes under the stock option plan shall not exceed 20% of the total issued and outstanding common shares.

The following table reflects the continuity of stock options for the years ended February 28, 2021 and February 29, 2020:

	Number of stock options	Exercise Price
Balance, February 28, 2019	3,110,000	\$ 1.33
Options expired (i)	(102,000)	1.20
Options forfeited (ii)	(10,000)	1.20
Options forfeited (ii)	(25,000)	1.30
Options forfeited (iii)	(862,500)	1.30
Balance, February 29, 2020	2,110,500	\$ 1.35
Options issued (v)	225,000	1.14
Options issued (vi)	135,000	1.75
Options issued (vii)	325,000	1.20
Options exercised (ii)	(35,000)	1.20
Options exercised (iii)	(74,279)	1.30
Options exercised (v)	(11,250)	1.14
Options expired (ii)	(140,000)	1.30
Options expired (iv)	(108,000)	2.47
Options exercised (note 11 (b) (xiii))	(14,554)	1.30
Balance, February 28, 2021	2,412,417	\$ 1.35

PUDO Inc.

Notes to Consolidated Financial Statements

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13. Stock option reserve (continued)

The following table reflects the actual stock options issued and outstanding as at February 28, 2021:

Expiration date	Exercise Price (\$)	Remaining contractual life (years)	Number of options outstanding	Options vested (exercisable)	Estimated grant date fair value (\$)
October 26, 2022 (iii)	1.30	1.67	1,738,667	1,738,667	1,942,613
July 17, 2025 (v)	1.14	4.33	213,750	45,000	212,602
July 17, 2025 (vi)	1.75	4.33	135,000	33,750	129,739
July 17, 2025 (vii)	1.20	4.33	325,000	81,250	322,030
	1.35	3.67	2,412,417	1,898,667	2,606,984

(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 expired on August 16, 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 170,000 having vested on October 1, 2017 and 30,000 having vested on December 1, 2017. The grant date fair value of the stock options was estimated to be \$61,818 using the Black-Scholes valuation model with the following weighted average assumptions: expected dividend yield of 0%, expected volatility of 130%, risk-free interest rate of 1.32%, and expected life of 3.14 years.

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

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

On August 27, 2020, 35,000 options granted to employees and consultants were exercised at the exercise price of \$1.20. The option exercise payment for 20,000 options, was settled against accounts payable that was owed to an option holder. The cash value of accounts payable settled was \$24,000. For the remaining 15,000 options, the exercise payment was received in cash. In the same period, 140,000 of the options granted employees, directors and consultants expired.

(iii) 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 vested in 33.33% increments yearly with the first 33.33% having vested on February 28, 2019 and the remaining 66.67% of the options outstanding having vested by February 28, 2021. The balance of 2,465,000 options issued to officers have vested in 25% increments yearly with the first 25% having vested on February 28, 2018 and 75% of the options outstanding having vested by February 28, 2021. The grant date fair value of the stock options was estimated to be \$3,005,537 using the Black-Scholes valuation model with the following weighted average assumptions: expected dividend yield of 0%, expected volatility of 130%, risk-free interest rate of 1.76% and expected life of 5 years. On February 29, 2020, 862,500 options granted to a former officer of the Company were forfeited and \$966,000 was classified to the deficit for the year ended February 29, 2020.

PUDO Inc.

Notes to Consolidated Financial Statements

For the Years Ended February 28, 2021 and February 29, 2020

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13. Stock option reserve (continued)

On August 27, 2020, 74,279 options granted to directors and consultants were exercised at the exercise price of \$1.30. The option exercise payment for 44,279 options, was settled against accounts payable that was owed to an option holder. The cash value of accounts payable settled was \$57,563. For remaining 41,250 options, the exercise payment was received in cash.

(iv) In January 2018, the Company granted 108,000 stock options to consultants of the Company. The options were exercisable at a price of \$2.47 per common share and expired on January 28, 2021 and \$192,343 was classified to the deficit for the year ended February 28, 2021.

(v) In July 2020, the Company granted 225,000 stock options to directors of the Company. The options were exercisable at a price of \$1.14 per common share and will expire on July 17, 2025. The options vest in 25% increments yearly with the first 25% having vested on July 17, 2020. The grant date fair value of the stock options was estimated to be \$ 223,792 using the Black-Scholes valuation model with the following weighted average assumptions: expected dividend yield of 0%, expected volatility of 152%, risk-free interest rate of 0.18%, and expected life of 4 years. In August 2020, 11,250 of options these options were exercised.

(vi) In July 2020, the Company granted 135,000 stock options to employees and consultants of the Company. The options were exercisable at a price of \$1.75 per common share and will expire on July 17, 2025. The options vest in 25% increments yearly with the first 25% having vested on July 17, 2020. The grant date fair value of the stock options was estimated to be \$129,739 using the Black-Scholes valuation model with the following weighted average assumptions: expected dividend yield of 0%, expected volatility of 152%, risk-free interest rate of 0.18%, and expected life of 4 years.

(vii) In July 2020, the Company granted 325,000 stock options to a consultant of the Company. The options were exercisable at a price of \$1.20 per common share and will expire on July 17, 2025. The options vest in 25% increments yearly with the first 25% having vested on July 17, 2020. The grant date fair value of the stock options was estimated to be \$322,030 using the Black-Scholes valuation model with the following weighted average assumptions: expected dividend yield of 0%, expected volatility of 152%, risk-free interest rate of 0.18%, and expected life of 4 years.

PUDO Inc.

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14. Expenses categorized by nature

Cost of sales	2021	2020
External processing charges	\$ 1,157,549	\$ 503,713
Computer and web access charges	9,375	11,298
	\$ 1,166,924	\$ 515,011

Administrative expenses	2021	2020
Salaries and benefits	\$ 875,565	\$ 875,207
General and administrative expenses	243,209	179,603
Investor relations	187,377	54,380
Travel, promotion and business development	182,657	147,425
Accounting and office	116,248	144,240
Consulting fees	115,460	192,010
Amortization (notes 7 and 8)	91,703	153,628
Professional fees	81,022	79,196
Agent and filing fees	51,704	42,636
Foreign exchange gain	(9,347)	(3,518)
Canada emergency wage subsidy (note 3(n))	(125,182)	-
	\$ 1,810,416	\$ 1,864,807

15. Related party balances and transactions

During the year ended February 28, 2021, the Company incurred bookkeeping fees and office rental, which is included in accounting and office expense, of \$116,248 (2020 - \$144,240) to a company with a common officer and director.

During the years ended February 28, 2021 and February 29, 2020, the Company had the following transactions with shareholders, management and directors:

	2021	2020
Share-based compensation	\$ 506,913	\$ 597,672
Salaries and benefits	175,735	448,828
Consulting fees	44,892	67,210
	\$ 727,541	\$ 1,113,710

As at February 28, 2021, balances payable to the related parties noted above amounted to \$3,899 (2020 - \$140,313) and are included in trade and other payables. These balances are unsecured, non-interest bearing and due on demand.

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

PUDO Inc.

Notes to Consolidated Financial Statements

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(Expressed in Canadian Dollars)

15. Related party balances and transactions (continued)

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

See also notes 9, 10, and 13.

16. Income taxes

a) Provision for income taxes

The Company's effective income tax rate differs from the combined Canadian federal and provincial statutory rate of 26.5% (2020 – 26.5%) as follows:

	<u>2021</u>	<u>2020</u>
(Loss) before income taxes	\$ (1,824,135)	\$ (2,004,186)
Expected income tax recovery based on statutory rate	(484,000)	(531,000)
Adjustment to expected income tax benefit:		
Share-based compensation	134,000	158,000
Non-taxable items	17,000	6,000
Change in benefit of tax assets not recognized	333,000	367,000
Deferred income tax provision (recovery)	<u>\$ -</u>	<u>\$ -</u>

b) Temporary differences

	<u>2021</u>	<u>2020</u>
Change in non-capital loss carry-forwards	315,000	334,000
Change in other temporary differences	18,000	33,000
	<u>333,000</u>	<u>367,000</u>

Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Company can use the benefits.

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Notes to Consolidated Financial Statements

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(Expressed in Canadian Dollars)

16. Income taxes (continued)

As at February 28, 2021, the Company had non-capital losses for Canadian tax purposes of \$6,715,000 available to reduce future taxable income in Canada, and non-capital losses for United States tax purposes of \$446,000 available to reduce future taxable income in the United States. The non-capital losses expire as follows:

Year	Canada	US	Totals
2034	\$ 26,000		\$ 26,000
2035	281,000		281,000
2036	942,000		942,000
2037	842,000		842,000
2038	1,177,000		1,177,000
2039	1,133,000	294,000	1,427,000
2040	1,098,000	154,000	1,252,000
2041	1,216,000	(2,000)	1,214,000
	\$ 6,715,000	\$ 446,000	\$ 7,161,000

17. Commitments and contingencies

The Company has entered into various agreements for services, which if terminated by the Company would not have any significant impact on the Company's financial statements. These amounts have not been accrued in the consolidated financial statements as at February 28, 2021.

18. Subsequent events

During the year ended February 28, 2021, the Company entered into an agreement with a vendor for advertising and marketing services and the resultant liability owing was settled via issuance of 44,444 common shares of the Company (see note 11(x)). Subsequent to the year end, all parties, including the vendor, agreed that the vendor was not able to fulfill their commitment. As a result, the vendor voluntarily returned all 44,444 common shares issued to them. These shares were subsequently cancelled by the Company.