



PUDO INC.

INTERIM MANAGEMENT'S DISCUSSION AND ANALYSIS

QUARTERLY HIGHLIGHTS

FOR THE THREE MONTH PERIOD ENDED

MAY 31, 2019

(EXPRESSED IN CANADIAN DOLLARS)

Prepared by:

PUDO Inc.

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Interim Management's Discussion & Analysis - Quarterly Highlights
Three Month Period Ended May 31, 2019
Discussion dated: July 9, 2019

Introduction

The following interim Management's Discussion and Analysis – Quarterly Highlights (the “Quarterly Highlights”) of the financial condition and results of the operations of PUDO Inc. (“PUDO” or the “Company”) constitutes management's review of the factors that affected the Company's financial and operating performance for the three month period ended May 31, 2019 (“Q1 FY 2020”), together with certain trends and factors that are expected to have an impact in the future.

These Quarterly Highlights have been prepared in compliance with the requirements of section 2.2.1 of Form 51-102F1, in accordance with National Instrument 51-102 - Continuous Disclosure Obligations. This discussion should be read in conjunction with the Company's unaudited condensed interim consolidated financial statements for the three months ended May 31, 2019, the audited annual consolidated financial statements of the Company for the years ended February 28, 2019 and 2018, together with the notes thereto, and Management's Discussion and Analysis (“Annual MD&A”) of the Company for the year ended February 28, 2019. All dollar amounts are expressed in Canadian dollars unless otherwise noted.

The Company's unaudited condensed interim consolidated financial statements and financial information contained in these Quarterly Highlights were prepared in compliance 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 consolidated financial statements as at and for the year ended February 28, 2019, except as for the adoption of new standards effective as of March 1, 2019 and interpretations issued by the IFRS Interpretations Committee (“IFRIC”).

The Company's fiscal year end is February 28.

Further information regarding the Company and its operations are available on the Company's website at www.pudopoint.com and under the Company's SEDAR issuer profile at www.sedar.com, or upon request to the Company at 6600 Goreway Drive Unit D, Mississauga, Ontario, Canada, L4V 1S6.

Description of Business

PUDO is listed on the Canadian Securities Exchange (“CSE”) under the symbol “PDO” and on the OTCQB exchange under the symbol “PDPTF”.

PUDO's purpose is to improve the connection between e-commerce and consumers. 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, and when, it's convenient for them.

Existing businesses, such as convenience stores or gas stations, provide services as a PUDOpoint™ (a “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 or drop-off (“PUDO”) e-commerce parcels.

PUDO'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.

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Cautionary Note Regarding Forward-Looking Information

These Quarterly Highlights contain certain forward-looking information and forward-looking statements, as defined in applicable securities laws (collectively referred to herein as "forward-looking statements"). These statements related to future events or the Company's future performance. All statements other than statements of historical fact are forward-looking statements. Often, but not always, forward-looking statements can be identified by the use of words such as "plans", "expects", "is expected", "budget", "scheduled", "estimates", "continues", "forecasts", "projects", "predicts", "intends", "anticipates" or "believes", or variations of, or the negatives of, such words and phrases, or state that certain actions, events or results "may", "could", "would", "should", "might" or "will" be taken, occur or be achieved. Forward-looking statements address possible future events, conditions and financial performance based upon management's current expectations, estimates, projections and assumptions.

Management of the Company considers the assumptions on which the forward-looking information contained herein are based to be reasonable. However, by its very nature, forward-looking statements inherently involve known and unknown risks and uncertainties that may cause actual results to differ materially from those expressed or implied by such forward-looking statements. Such risks include, without limitation those risks discussed in the "Risk Factors" section of PUDO's Annual MD&A dated June 19, 2019.

All forward-looking statements herein are expressly qualified by this cautionary statement. Accordingly, readers should not place undue reliance on forward-looking statements. The forward-looking statements in these Quarterly Highlights are made only as of the date of these Quarterly Highlights or as of the date specified in such statement. The Company undertakes no obligation to update publicly or otherwise revise any forward-looking statements whether as a result of new information or future events or otherwise, except as may be required by law. If the Company does update one or more forward-looking statements, no inference should be drawn that it will make additional updates with respect to those or other forward-looking statements, unless required by law.

Highlights

During Q1 of Fiscal Year 2020, PUDO continued to show strong revenue growth associated with growing demand for partner services which continues to reinforce the potential of the Company's vision and corporate priorities. In this quarter, overall revenue was up 14.8% compared to the same quarter in the previous year. Strong growth in partner shipments was tempered by continued softness in member shipments. The Company continues to see an overall reduction in demand for member shipments sent to the Company's associated US border points. This weakness is in the context of overall reduced demand for cross border shopping influenced by factors that include the lower value of the Canadian dollar.

During this quarter, the Company continued to build parcel volume through the expansion of services to Canadian shipping partners. This quarter also provided indications of interest for PUDO to integrate with other partners in the coming quarters of this year. The Company continues to conduct pilot programs with new partners/services showing increasing traction. This interest is being reinforced as discussions are underway that would further expand these services.

As e-commerce continues to gain traction, large shippers and marketplaces are seeking out PUDO directly to help reduce friction in the fulfillment of orders to consumers as well as harnessing the potential of the Network when consumers/shippers need to drop parcels off at a convenient counter location.

The Company continues to work with its investment bankers who are leveraging these new opportunities in discussions with parties who are interested in funding the Company's growth through contributions towards Network expansion as well as technology to enable new value based fulfilment and returns solutions.

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Operations

Parcel Volume Analysis

Parcel volume and other factors within the e-commerce ecosystem can affect PUDO's goals and performance during its continued growth phase.

While the Company continued to strategically manage the growth and development of the Network throughout Q1 FY 2020, overall parcel volume increased by 10.3% compared to the three month period ended May 31, 2018 ("Q1 FY 2019"). During this quarter, Q1 FY 2020, partner shipments increased 56.6% over the same quarter in the previous year. During the same three month period, member shipment volumes were down 20.5%, as a result of continued reduced cross border shopping demand. In Q1 FY 2020, partner shipments represented 56.8% of the Company's total volumes, up from 40.9% in the prior fiscal year.

Below is a summary of PUDO's current parcel services being utilized by partners and customers:

- ***Failed First Attempts ("FFA") Parcels:*** During Q1 FY 2020 total FFA parcel volume increased by 44.7% over Q1 FY 2019, while during Q1 FY 2019 FFA parcel volume slightly decreased 2.5% as compared to FFA volume for three month period ended May 31, 2018 ("Q1 FY 2018"). In sequential quarters, parcel volumes in Q1 FY 2020 compared to Q4 FY 2019 decreased by 9.4%. This decrease during sequential quarters is related to normal retail fluctuations, with a portion of PUDO's previous quarter containing holiday shopping volumes.
- ***Member Shipments:*** During Q1 FY 2020 total consumer parcel volume decreased by 20.5% over Q1 FY 2019. This decrease is related to decreased cross border shipping demand associated with continued weakness of the Canadian dollar impacting Canadian consumers' desire for online ordering and shipping to a US KinekPoint location. In sequential quarters, parcel volumes in Q1 FY 2020 compared to Q4 FY 2019 increased by 2.7%. This compares to a parcel increase of 0.6% in the prior year in comparing Q1 FY 2019 and Q4 FY 2018.
- ***Courier Pickup Parcels:*** During Q1 FY 2020, PUDO continued to see growth within the courier pickup service with parcel volume increase of 2.6% compared to Q4 FY 2019. This trend is expected to continue as PUDO partners extend this service to their customers in targeted locations. Although the volumes are relatively modest, these parcels are an important benefit for partner couriers to access the marketplace and other small office / home office business shipping demand.
- ***Returns Parcels:*** During Q1 FY 2020, the recently added PUDO's returns logistics service, from across Canada with a SaaS partner, increased nine times as compared to Q3 FY 2019 returns. Adding the PUDOpoints to this retailer's return choices allowed new convenient options for consumers drop-off returns with minimal effort. The Network parcel PUDOpoints are located close to where people live, work and play, streamlining the returns process.

As PUDO realizes its growth plan, a greater number of stakeholder partners and consumer members will minimize parcel volume losses and reduce dependence on specific carriers.

Operations

The Company expanded its product offerings this quarter through work with existing and new partners. One of PUDO's major partners has obtained new business from large shippers, in part, by offering a convenient option in cases where delivery cannot be completed. Major shippers in the marketplace sought out couriers who had access to a network of counters similar to postal counters across Canada and PUDO gave these partners an edge. Consumers expect to be able to quickly collect parcels when they cannot meet the delivery at home. Analysis this quarter reinforced that PUDO's Network, while still being expanded, is

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already less than 5 km from more than 75% of consumers who are purchasing from the Company's potential partners online.

The Company's Network and growing parcel volumes are creating opportunities for further growth. Larger recognizable shippers are in discussions with and conducting pilot testing of PUDO's services to become part of their networks. Discussions remain underway, and currently are focused on expanding the number of PUDO points where these services are available to these new partners in time for the peak holiday shopping season. These trials and discussions are governed by non-disclosure agreements and the Company is looking forward to being able to soon make more substantive announcements about the opportunity and growing demand for its services.

At the same time, the Company is engaged with new SaaS partners that can support new innovative revenue streams that PUDO is uniquely positioned to offer. By matching up the capabilities of courier neutral counters as the connection point with companies that are not currently in the e-commerce ecosystem, the Company can offer substantive value to both consumers and shippers. These opportunities are in keeping with the Company's vision and areas of core focus. The IT enhancements necessary to make these revenue streams available are being finalized for production.

Overall, the Company's in a better position than ever to leverage the unique capabilities that it can bring to consumers and shippers, as friction in the marketplace is driving incumbents to find new, innovative and cost effective solutions to the multiple system failures that the marketplace currently has no choice but to accept and cope with.

Financial Condition and Performance

Financial Performance

A summary of selected financial information for the three month period ended May 31, 2019 and 2018 are included below:

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

	Three Months Ended	
	May 31,	
	2019	2018
Revenue	\$ 214,979	\$ 187,264
Cost of sales	(70,377)	(49,848)
Gross profit	144,602	137,416
Administrative expenses	(559,935)	(549,567)
Share-based compensation*	(153,789)	(26,714)
Operating loss	(569,122)	(438,865)
Finance costs	(30,488)	(5,131)
Net loss and comprehensive loss for the period	(599,610)	\$ (443,996)
Loss per share basic and diluted	\$ (0.03)	\$ (0.02)

*non-cash IFRS expense related to the amortization of performance options for management and directors.

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During the three month period ended May 31, 2019 revenue was \$214,979 (May 31, 2018 - \$187,264), representing an increase of 14.8% over the same period last year due to new partner volumes and uptake of additional PUDO services by other partners. The Company reported a net loss of \$599,610 (\$0.03 basic and diluted loss per share), an increase of \$155,164 compared with a net loss of \$443,996 (\$0.02 basic and diluted loss per share) in the corresponding quarter in the prior fiscal year. The majority of this increased loss was attributable to the non-cash expense related to share-based compensation which is designed to maintain alignment between the objectives of Company leadership and shareholders.

Gross profit for the three month period ended May 31, 2019 was \$144,602 (May 31, 2018 - \$137,416) representing an increase of \$7,186 or 5.2% over the same period last year. This corresponds to an increase in the number of Failed First Attempt, Courier Pickup, and Returns parcels flowing through the PUDO services.

Financial Condition

As at May 31, 2019, the Company had total assets of \$450,265 (February 28, 2019 - \$480,633). This decrease was primarily attributed to the related costs associated with operations offset by an advance from a company with a common officer and director.

As at May 31, 2019, the Company had a working capital deficiency (defined as current assets less current liabilities) of \$1,247,995 (February 28, 2019 – \$815,134), had not yet achieved profitable operations, had used cash in operating activities of \$308,664 for the three month period ended May 31, 2019 (May 31, 2018 - \$396,395), had a deficit of \$9,762,359 as at May 31, 2019 (February 28, 2019 - \$9,248,236) and had shareholders' deficiency of \$1,102,822 (February 28, 2019 – \$657,000). 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. The Company is seeking to fund its planned expansion of the PUDO Network through equity financings. See "Liquidity" below.

Cash Flows

During the three month period ended May 31, 2019 cash decreased by \$38,075 to \$12,564 (February 28, 2019 – \$50,639) due to \$308,664 cash used in operating activities and \$15,782 cash used in investing activities with a total of \$286,627 cash provided by financing activities including the issuance of a note payable of \$300,000 provided by a company with a common officer and director.

Liquidity and Capital Resources

As noted in the Annual MD&A and previous Quarterly Highlights, the Company generates limited cash from operations. The Company's primary source of cash to date has been equity financings and more recently through convertible debentures and a promissory note. The Company's outstanding loans and borrowings as at May 31, 2019 consist of the following:

	May 31, 2019	February 28, 2019
Loan payable (Atlantic Canada Opportunities Agency)		
24 instalments repayable at \$4,458 per month	\$ 106,992	\$ 120,366
Less: Discount future contractual cash flows	15,057	18,750
	91,935	101,616
Less: Current portion	42,548	40,991
	\$ 49,387	\$ 60,625

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During the three month period ended May 31, 2019, the Company raised \$300,000 via a promissory note from a company with a common officer and director. This note carries an interest rate of 20.0% per annum, payable on demand.

Opening balance – February 28, 2019	\$	-
Promissory note		300,000
Interest expense		7,259
Interest payment		-
Balance – May 31, 2019	\$	307,259

As indicated in the Annual MD&A, the Company had convertible debentures with the following amounts as of February 28 and May 31, 2019.

Opening balance – February 28, 2019	\$	488,087
Convertible debentures		-
Accretion expense		11,878
Interest expense		7,661
Interest payment		-
Balance – May 31, 2019	\$	507,626

PUDO intends to raise equity capital to fund its planned expansion as well as increase its revenue at existing locations to eliminate operating losses. The Company has a history of successfully raising the capital needed to operate and believes it can continue to raise any necessary capital. However, the history of losses reflect material uncertainty which may cast significant doubt on the ability of the Company to continue to operate as a going concern.

The unaudited condensed interim consolidated financial statements for the three month period ended May 31, 2019 have been prepared with the assumption that the Company will continue operations for the foreseeable future and will be able to realize its assets and discharge its liabilities in the course of operations. They do not include any adjustments that may be required if it were not able to continue as a going concern. The Company's financial statements for the year ended February 28, 2019 contain an emphasis of matter paragraph in its audit opinion related to its ability to continue as a going concern. Management believes that actions currently being taken, which primarily involve increasing revenues, controlling expenses, and raising additional capital will allow the Company to achieve profitability and allow the Company to continue as a going concern.

Related Party Transactions

During the three month period ended May 31, 2019, the Company incurred accounting fees and office rental, which is included in accounting and office expense, of \$41,850 (May 31, 2018 - \$41,850), to a company with a common officer and director.

During the three period ended May 31, 2019 and 2018, the Company had the following transactions with shareholders, management and directors:

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	Three Months Ended May 31,	
	2019	2018
Share-based compensation	\$ 153,789	\$ 26,714
Salaries and benefits	\$ 173,786	\$ 162,079
Consulting fees	10,028	9,750
	\$ 337,603	\$ 198,543

As at May 31, 2019, balances payable to the related parties noted above amounted to \$315,099 (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.

During the three month period ended May 31, 2019, operating working capital financing has been provided by a company with a common officer and director through a demand promissory note for \$300,000, at an interest rate of 20% per annum, payable on demand.

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

Subsequent events

PUDO is actively pursuing financing opportunities to support its business growth and future Network expansion. In the interim, since May 31, 2019 operating working capital financing has been provided by a company with a common officer and director through a demand promissory note for \$80,000, at an interest rate of 20% per annum.

Risk Factors

The Annual MD&A for the year ended February 28, 2019, dated June 19, 2019 and filed on SEDAR (www.sedar.com), sets out a brief summary of certain risk factors for which adverse occurrences may have a material impact on the Company's future financial performance. We draw our readers' attention to that disclosure of risk factors. No significant changes to those risk factors have occurred in the 2020 fiscal year and to the date of this report.