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# **PUDO INC.**

**CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED FEBRUARY 28, 2017  
(EXPRESSED IN CANADIAN DOLLARS)**

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## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of PUDO Inc.

We have audited the accompanying consolidated financial statements of PUDO Inc. and its subsidiaries, which comprise the consolidated statements of financial position as at February 28, 2017 and February 29, 2016, and the consolidated statements of loss and comprehensive loss, consolidated statements of changes in shareholders' equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Consolidated Financial Statements

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

### Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

### Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of PUDO Inc. and its subsidiaries as at February 28, 2017 and February 29, 2016, and their financial performance and cash flows for the years then ended in accordance with International Financial Reporting Standards.

### Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which indicates that PUDO Inc. had continuing losses during the year ended February 28, 2017 and a cumulative deficit and minimal working capital as at February 28, 2017. These conditions along with other matters set forth in Note 1 indicate the existence of material uncertainties which cast significant doubt about the ability of PUDO Inc. to continue as a going concern.

UHY McGovern Hurley LLP



Chartered Professional Accountants  
Licensed Public Accountants

Toronto, Canada  
June 27, 2017

**PUDO Inc.**  
**Consolidated Statements of Financial Position**  
**As at February 28, 2017 and February 29, 2016**  
**(Expressed in Canadian Dollars)**

As at	Notes	February 28, 2017	February 29, 2016
<b>Assets</b>			
Current assets			
Cash		\$ 445,723	\$ 891,301
Restricted short-term investment	3(m)	25,000	25,000
Trade and other receivables	4, 6	117,736	154,688
Prepaid expenses and deposits		21,096	91,475
<b>Total current assets</b>		<b>609,555</b>	1,162,464
<b>Non-current assets</b>			
Equipment	7	61,530	111,987
Intangible assets	8, 14	339,956	13,958
<b>Total assets</b>		<b>\$ 1,011,041</b>	\$ 1,288,409
<b>Liabilities</b>			
Current liabilities			
Trade and other payables	9, 20	\$ 406,612	\$ 360,470
Advances payable	10	15,025	15,025
Loans and borrowings	11	30,423	-
<b>Total current liabilities</b>		<b>452,060</b>	375,495
<b>Loans and borrowings</b>	11	<b>136,930</b>	-
<b>Total liabilities</b>		<b>588,990</b>	375,495
<b>Shareholders' equity</b>			
Share capital	12	3,971,811	3,366,283
Warrants	16	136,137	197,805
Stock options	17	333,427	277,508
Deficit		(4,019,324)	(2,928,682)
<b>Shareholders' equity</b>		<b>422,051</b>	912,914
<b>Total liabilities and shareholders' equity</b>		<b>\$ 1,011,041</b>	\$ 1,288,409

Nature of operations and going concern (note 1)

Commitments and contingencies (note 23)

Subsequent event (note 24)

Approved by the Board of Directors:

"Kurtis Arnold"

Director

"Richard Cooper"

Director

See accompanying notes to the consolidated financial statements

**PUDO Inc.****Consolidated Statements of Loss and Comprehensive Loss  
For the years ended February 28, 2017 and February 29, 2016  
(Expressed in Canadian Dollars)**

	February 28, 2017	February 29, 2016
Revenue (notes 4 and 14)	\$ 905,747	\$ 125,277
Cost of sales (notes 14 and 18)	(293,170)	(56,937)
<b>Gross profit</b>	<b>612,577</b>	<b>68,340</b>
Administrative expenses (note 18)	(1,817,946)	(1,040,096)
Share-based payment (note 17)	(66,254)	(283,150)
<b>Operating loss</b>	<b>(1,271,623)</b>	<b>(1,254,906)</b>
Finance costs (notes 11 and 19)	(27,159)	(14,557)
Reverse takeover transaction costs (note 13)	-	(1,307,958)
<b>Net loss and comprehensive loss for the year</b>	<b>\$ (1,298,782)</b>	<b>\$ (2,577,421)</b>
<b>Loss per share - basic and diluted</b> (note 3(l))	<b>\$ (0.08)</b>	<b>\$ (0.23)</b>
<b>Weighted average number of shares outstanding - basic and diluted</b>	<b>16,322,861</b>	<b>10,985,196</b>

See accompanying notes to the consolidated financial statements

## PUDO Inc.

### Consolidated Statements of Changes in Shareholders' Equity For the years ended February 28, 2017 and February 29, 2016 (Expressed in Canadian Dollars)

	# of common shares	Share capital	Warrants	Stock options	Deficit	Total
<b>Balance, February 28, 2015</b>	3,333,332	\$ 16,668	\$ -	\$ -	\$ (351,261)	\$ (334,593)
Issuance of common shares on conversion of borrowings (note 12(b)(iii))	1,883,465	470,867	-	-	-	470,867
Conversion of Class A preferred shares (note 13)	5,100,000	102,002	-	-	-	102,002
Conversion of PUDO shares and consideration for reverse takeover (note 13)	4,178,005	1,044,501	-	-	-	1,044,501
Issuance of common shares in private placement (note 12(b)(ii))	1,100,000	715,974	-	-	-	715,974
Valuation of broker warrants issued in private placement (note 12(b)(ii))	-	(25,869)	25,869	-	-	-
Transaction costs incurred for private placement (note 12(b)(ii))	-	(11,688)	-	-	-	(11,688)
Share-based payment (note 17)	-	-	-	283,150	-	283,150
Broker warrants exercised (note 16)	81,746	82,569	(25,869)	-	-	56,700
Stock options exercised (note 17(iii))	50,000	15,642	-	(5,642)	-	10,000
Issuance of common shares in private placement (note 12(b)(iv))	468,967	1,172,422	-	-	-	1,172,422
Valuation of warrants issued in private placement (note 12(b)(iv))	-	(201,063)	201,063	-	-	-
Transaction costs incurred for private placement (note 12(b)(iv))	-	(15,742)	(3,258)	-	-	(19,000)
Net loss for the year	-	-	-	-	(2,577,421)	(2,577,421)
<b>Balance, February 29, 2016</b>	16,195,515	\$ 3,366,283	\$ 197,805	\$ 277,508	\$ (2,928,682)	\$ 912,914
Issuance of common shares on acquisition of Kinek (note 12(b)(v))	116,745	350,235	-	-	-	350,235
Broker warrants exercised	8,254	-	-	-	-	-
Warrants expired (note 16)	-	-	(197,805)	-	197,805	-
Share-based payments (note 17)	-	-	-	66,254	-	66,254
Share-based payments forfeited (note 17)	-	-	-	(10,335)	10,335	-
Issuance of common shares in private placement (note 12(b)(vi))	211,234	401,345	-	-	-	401,345
Valuation of broker warrants A and B issued in private placement (note 12(b)(vi))	-	(136,137)	136,137	-	-	-
Transaction costs incurred for private placement (note 12(b)(vi))	-	(9,915)	-	-	-	(9,915)
Net loss for the year	-	-	-	-	(1,298,782)	(1,298,782)
<b>Balance, February 28, 2017</b>	16,531,748	\$ 3,971,811	\$ 136,137	\$ 333,427	\$ (4,019,324)	\$ 422,051

See accompanying notes to the consolidated financial statements

# PUDO Inc.

## Consolidated Statements of Cash Flows

For the years ended February 28, 2017 and February 29, 2016

(Expressed in Canadian Dollars)

	February 28, 2017	February 29, 2016
<b>Cash flows provided by (used in) operating activities</b>		
Net loss for the year	\$ (1,298,782)	\$ (2,577,421)
Adjustments for:		
Reverse takeover transaction costs (note 13)	-	1,307,958
Share-based payment (note 17)	66,254	283,150
Amortization (notes 7 and 8)	368,222	21,772
Accretion expense (note 11 and 19)	27,159	13,498
Loss on disposal of equipment	12,561	-
Foreign currency translation loss (gain)	5,500	(2,978)
Net change in non-cash working capital:		
Trade and other receivables	36,952	(122,514)
Prepaid expenses and deposits	70,379	(86,475)
Trade and other payables	46,142	3,031
<b>Cash flows provided by (used in) operating activities</b>	<b>(665,613)</b>	<b>(1,159,979)</b>
<b>Cash flows provided by (used in) investing activities</b>		
Cash obtained upon reverse takeover (note 13)	-	111,047
Advances to Grandview Gold Inc. prior to reverse takeover (note 13)	-	(123,008)
Restricted short-term investment	-	(25,000)
Purchase of equipment	(67,226)	(126,617)
Purchase of intangible assets	(64,047)	-
<b>Cash flows provided by (used in) investing activities</b>	<b>(131,273)</b>	<b>(163,578)</b>
<b>Cash flows provided by (used in) financing activities</b>		
Proceeds from issuance of shares and warrants (notes 12(b))	401,345	1,812,703
Share issue costs (notes 12(b))	(9,915)	(30,688)
Exercise of warrants and options	-	61,500
Proceeds from issuance of preferred shares (note 13)	-	102,002
Repayment of advances payable and borrowings	(40,122)	(50,284)
<b>Cash flows provided by (used in) financing activities</b>	<b>351,308</b>	<b>1,895,233</b>
<b>Change in cash during the year</b>	<b>(445,578)</b>	<b>571,676</b>
<b>Cash, beginning of year</b>	<b>891,301</b>	<b>319,625</b>
<b>Cash, end of year</b>	<b>\$ 445,723</b>	<b>\$ 891,301</b>
<b>Supplemental information:</b>		
Broker warrants issued for services (note 12(b)(ii))	-	25,869
Shares issued in acquisition of Kinek (note 14)	350,235	-
Conversion of borrowings into shares (note 12(b)(iii))	-	470,867
Conversion of Class A preferred shares to common shares (note 13)	-	102,002
Shares issued to effect reverse takeover (note 13)	-	1,044,501
Accrued share issue costs	9,915	19,000
Warrant exercise proceeds receivable	-	5,200
Shares issued in settlement of debt (note 13)	-	75,693

See accompanying notes to the financial statements

# **PUDO Inc.**

## **Notes to Consolidated Financial Statements**

**For the Years Ended February 28, 2017 and February 29, 2016**

**(Expressed in Canadian Dollars)**

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

My Courier Depot Inc. ("MCD") was incorporated under the Ontario Business Corporations Act on December 16, 2013 and domiciled in Canada. Its registered office is situated at 400 Brunel Road, Mississauga, Ontario, Canada, L4Z 2C2.

MCD's principal activity was providing E-commerce shipment services through collaboration with specific online retailers for delivery of their products, and working with national and international courier companies to provide alternate drop-off and pickup options of packages.

PUDO Inc. (formerly "Grandview Gold Inc.") ("PUDO" or the "Company") was a gold exploration company focused on exploring and developing gold properties in North and South America. The Company was incorporated under the laws of the Province of Ontario. To date, the Company has not earned significant revenues from gold exploration and was considered to be in the exploration and evaluation stage.

On March 18, 2015, the Company entered into a share exchange agreement (the "Share Exchange Agreement") to acquire all of the issued and outstanding securities of MCD. Pursuant to the Share Exchange Agreement, the Company's management was replaced with management appointed by MCD and the Company now carries on the business of MCD.

On July 13, 2015, the Company completed (i) the consolidation of the issued and outstanding common shares of the Company on the basis of one (1) post-consolidation common share for each twenty (20) pre-consolidation common shares and (ii) the change of the Company's name to "PUDO Inc."

On July 14, 2015, the Company acquired all of the issued and outstanding shares of MCD ("MCD shares") on the basis of 8,333.33 post-consolidation shares for 1 MCD share. Effective July 14, 2015, the Company issued an aggregate of 10,316,797 shares of the Company to former shareholders of MCD (the "Acquisition"). The Acquisition was accounted for as a reverse takeover ("RTO") whereby MCD was identified as the acquirer for accounting purposes and the comparative figures presented in the consolidated financial statements are those of MCD (see note 13).

The Company completed voluntary delisting of the Company's common shares from the NEX and received approval for the listing of all of its issued and outstanding securities on the Canadian Securities Exchange effective July 29, 2016.

On February 28, 2016, PUDO Inc. completed an amalgamation with its wholly owned subsidiary, MCD (see note 15).

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, 2017, the Company had working capital of \$157,495 (February 29, 2016 - \$786,969), had not yet achieved profitable operations, had used cash of \$665,613 for the year ended February 28, 2017 (February 29, 2016 - \$1,159,979) in operating activities, and had accumulated losses of \$4,019,324 as at February 28, 2017 (February 29, 2016 - \$2,928,682). 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.

# PUDO Inc.

## Notes to Consolidated Financial Statements

For the Years Ended February 28, 2017 and February 29, 2016

(Expressed in Canadian Dollars)

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### 2. Basis of preparation

#### (a) Statement of compliance

The Company applies International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations issued by the IFRS Interpretations Committee ("IFRIC").

The policies applied in these consolidated financial statements are based on IFRS issued and outstanding as of June 27, 2017, the date the Board of Directors approved the consolidated financial statements.

#### (b) Basis of presentation

The consolidated financial statements have been prepared on a historical cost basis, except for the restricted short-term investment, comprised of a guaranteed investment certificate, which is stated at its fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting except for cash flow information.

#### (c) Basis of consolidation

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

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

### 3. Significant accounting policies

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

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting years beginning on or after March 1, 2017 or later years. Many are not applicable or do not have a significant impact to the Company and have been excluded. The following have not yet been adopted and are being evaluated to determine their impact on the Company.

IFRS 9 – *Financial Instruments* ("IFRS 9") was issued by the IASB in November 2009 with additions in October 2010 and May 2013 and will replace 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. Earlier adoption is permitted.



# PUDO Inc.

## Notes to Consolidated Financial Statements

For the Years Ended February 28, 2017 and February 29, 2016

(Expressed in Canadian Dollars)

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### 3. Significant accounting policies (continued)

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

IFRS 2 – Share-based Payments (“IFRS 2”) was amended by the IASB in June 2016 to clarify the accounting for cash-settled share-based payment transactions that include a performance condition, the classification of share-based payment transactions with net settlement features and the accounting for modifications of share-based payment transactions from cash-settled to equity-settled. The amendments are effective for annual periods beginning on or after January 1, 2018, with earlier application permitted.

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

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

IFRIC 22 – Foreign Currency Transactions and Advance Consideration (“IFRIC 22”) was issued in December 2016 and addresses foreign currency transactions or parts of transactions where there is consideration that is denominated in a foreign currency; a prepaid asset or deferred income liability is recognized in respect of that consideration, in advance of the recognition of the related asset, expense or income; and the prepaid asset or deferred income liability is non-monetary. The interpretation committee concluded that the date of the transaction, for purposes of determining the exchange rate, is the date of initial recognition of the non-monetary prepaid asset or deferred income liability. IFRIC 22 is effective for annual periods beginning on or after January 1, 2018. Earlier adoption is permitted.

IFRS 15 - *Revenue From Contracts With Customers* (“IFRS 15”) proposes to replace IAS 18 - Revenue, IAS 11 - Construction Contracts, and some revenue-related interpretations. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. IFRS 15 is effective for annual years beginning on or after January 1, 2017.

#### (b) Changes in accounting standards

The Company has adopted the following amendment effective March 1, 2016.

IAS 24 *Related Party Disclosures* (“IAS 24”) was amended to clarify that an entity providing key management services to the reporting entity or the parent of the reporting entity is a related party of the reporting entity. The amendments also require an entity to disclose amounts incurred for key management personnel services provided by a separate management entity.

IAS 38 *Intangible Assets* (“IAS 38”) and IAS 16, *Property, Plant and Equipment* (“IAS 16”) were amended in May 2014 to introduce a rebuttable presumption that the use of revenue-based amortization methods for intangible assets is inappropriate. The amendment is effective for annual years beginning on or after January 1, 2016.

There was no material impact on the adoption of this amendment on the consolidated financial statements.

# PUDO Inc.

## Notes to Consolidated Financial Statements

For the Years Ended February 28, 2017 and February 29, 2016

(Expressed in Canadian Dollars)

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### 3. Significant accounting policies (continued)

#### (c) Foreign currencies

The functional currency of the Company and its subsidiaries is the Canadian dollar. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

#### (d) Revenue recognition

The Company recognizes revenue when the delivery of customer packages is complete and collectability is reasonably assured. Where the Company is the principal to the delivery transaction, revenue is recognized on a gross basis. Where the Company is an agent to the delivery transaction, revenue is recognized on a net basis.

#### (e) Equipment

Equipment, which consists primarily of computer tablets and scanners, is initially recorded at cost. Computer tablets and scanners are amortized using the straight-line method over their estimated useful life of 2 years. During the year ended February 28, 2017, based on a review of actual results, the Company revised its estimated useful life of computer tablets from 3 years to 2 years. Previously, scanners were depreciated using the declining balance method at 20%. Amortization on scanners was revised to the straight-line method over 2 years. As a result, the impact on amortization expense for the year ended February 28, 2017 was an increase of \$40,214.

#### (f) Intangible assets

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

#### (g) Impairment of non-financial assets

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

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

#### (h) Financial instruments

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

# PUDO Inc.

## Notes to Consolidated Financial Statements

For the Years Ended February 28, 2017 and February 29, 2016

(Expressed in Canadian Dollars)

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### 3. Significant accounting policies (continued)

#### *Financial assets*

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

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

The restricted short-term investment is classified at FVTPL. Subsequent to initial recognition, financial assets classified as FVTPL are measured at fair value with changes recognized in the statement of loss.

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

#### *Identification and measurement of impairment of financial assets*

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

Impairment losses on assets carried at amortized cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses are recognized in profit or loss and reflected in an allowance account 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 other financial liabilities. Trade and other payables, advances payable, loans and borrowings are recognized on the trade date at which the Company becomes a party to the contractual provisions of the instrument. Trade and other payables, advances payable, loans and borrowings are classified as other financial liabilities and are initially recognized at fair value. After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest rate method. Financial liabilities are derecognized when the contractual obligations are discharged, cancelled or expire.

#### *Fair value measurement*

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

# PUDO Inc.

## Notes to Consolidated Financial Statements

For the Years Ended February 28, 2017 and February 29, 2016

(Expressed in Canadian Dollars)

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### 3. Significant accounting policies (continued)

As of February 28, 2017 and February 29, 2016, the Company's restricted short-term investment was measured using Level 2 of the fair value hierarchy.

#### *Offsetting*

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

#### (i) Share-based compensation

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

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

Equity-settled share-based payment 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 options and warrants reserves is recorded to share capital with proceeds received. For those options and warrants that expire after vesting, the recorded value is transferred from stock options and warrants reserves to deficit.

#### (j) Share capital

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

#### (k) Income taxes

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

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

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

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

# PUDO Inc.

## Notes to Consolidated Financial Statements

For the Years Ended February 28, 2017 and February 29, 2016

(Expressed in Canadian Dollars)

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### 3. Significant accounting policies (continued)

related tax benefit will be realized.

#### (l) Loss per share

Basic loss per share is calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the year. Diluted loss per share is determined by adjusting the loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of dilutive instruments such as stock options and warrants. Stock options and warrants are dilutive when the Company has income from operations and the average market price of the common shares during the period exceeds the exercise price of the options and warrants. As the stock options and warrants would be anti-dilutive, they have been excluded from the diluted loss per share calculations for the years ended February 28, 2017 and February 29, 2016.

#### (m) Short-term investments

Short-term investments are comprised of guaranteed investment certificates with original maturities of greater than three months and less than one year. As at February 28, 2017 and February 29, 2016, the short-term investment was comprised of a cashable guaranteed investment certificate to be held as collateral for a corporate credit card for as long as the credit card is active and has been reflected as a restricted asset. The restricted short-term investment amount would change if there is any change in the credit limit on the card.

### 4. Financial risk management

#### (a) Fair values

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

#### (b) Financial risk factors

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

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

#### (i) Credit risk

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

During the year ended February 28, 2017, one customer represented \$583,497 of revenue (2016 - one customer represented \$116,956 of revenue). Accounts receivable from one customer represents approximately \$67,364 of trade and other receivables as of February 28, 2017 (2016 - \$33,391 from one customer). This one customer is comprised of three different businesses operated independently under common control.

# PUDO Inc.

## Notes to Consolidated Financial Statements

For the Years Ended February 28, 2017 and February 29, 2016

(Expressed in Canadian Dollars)

### 4. Financial risk management (continued)

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position. The maximum exposure to credit risk at the reporting date was:

	February 28, 2017	February 29, 2016
Trade and other receivables	\$ 117,736	\$ 154,688
Cash	445,723	891,301
Restricted short-term investment	25,000	25,000
	<b>\$ 588,459</b>	<b>\$ 1,070,989</b>

#### (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:

	February 28, 2017	February 29, 2016
Trade and other payables	\$ <u>&lt;1 year</u> 406,612	\$ <u>&lt;1 year</u> 360,470
Advances payable	15,025	15,025
	<b>\$ 421,637</b>	<b>\$ 375,495</b>
Loans and borrowings – 12 monthly instalments of \$4,458 < 1 year	\$ 53,496	\$ -
Loans and borrowings – 39 monthly instalments of \$4,458 > 1 year	\$ 173,862	\$ -

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:

	February 28, 2017	February 29, 2016
Canada	\$ 610,458	\$ 125,277
United States of America	295,289	-
	<b>\$ 905,747</b>	<b>\$ 125,277</b>

# **PUDO Inc.**

## **Notes to Consolidated Financial Statements**

**For the Years Ended February 28, 2017 and February 29, 2016**

**(Expressed in Canadian Dollars)**

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

#### Currency risk

Since the Company has a bank account denominated in US dollars, it is exposed to foreign currency risk due to fluctuations in the exchange rate. The Company purchases goods and services in Canadian dollars and US dollars. Since the Company reports its results in Canadian dollars, the functional currency of the Company, it is exposed to changes in the value of the US dollar relative to that of the Canadian dollar. The Company also entered into investment loan agreements which were denominated in US dollars which had exposed the Company to foreign currency risk due to fluctuations in the exchange rate. As at February 28, 2017, the Company had cash of US\$220,357 (\$288,690) (February 29, 2016 – US\$143,896 (\$194,590)) and accounts receivable of US\$30,558 (\$40,034) (February 29, 2016- US\$102 (\$139)).

#### 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.

#### (iv) Capital risk management

The Company reviews and manages its capital position from time to time to maintain a balance between its liability and equity levels. The Company uses the capital contributed by investors to finance its working capital requirements.

The Board of Directors does not establish quantitative return on capital criteria for management but rather relies on the expertise of the Company's management to sustain future developments of the business. The Company defines capital as equity and borrowings.

The Company's capital management objectives, policies and processes have remained materially unchanged during the years ended February 28, 2017 and February 29, 2016.

#### (v) Sensitivity analysis

Based on management's knowledge and experience in the financial markets, the Company believes the following movements are reasonably possible over the year. Sensitivity to a plus or minus 1% change in the US-Canadian dollar foreign exchange rate, based on the current US dollar denominated balances as at February 28, 2017, would affect the net loss by approximately plus or minus \$3,260 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.

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 the end of each reporting year.

# PUDO Inc.

## Notes to Consolidated Financial Statements

For the Years Ended February 28, 2017 and February 29, 2016

(Expressed in Canadian Dollars)

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

#### *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 and at objective evidence, significant or prolonged decline of fair value on assets indicating impairment. These determinations and their individual assumptions require that management make a decision based on the best available information at the end of each reporting year.

#### *Income, value added, withholding and other taxes*

The Company is subject to income, value added, withholding and other taxes. Significant judgment is required in determining the Company's provisions for taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. 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 payments*

The Company measures the cost of equity-settled transactions with employees and directors by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. Assumptions are made and judgment is used in applying valuation techniques. These assumptions and judgments include estimating the future volatility of the stock price, expected dividend yield, future employee turnover rates and future employee stock option exercise behaviors and corporate performance. Such judgments and assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates.

#### *Contingencies*

Refer to Note 22

#### *Valuation and allocation of assets acquired in a business combination*

Refer to Note 14

#### *Valuation of debt*

Refer to Note 11



# PUDO Inc.

## Notes to Consolidated Financial Statements

For the Years Ended February 28, 2017 and February 29, 2016

(Expressed in Canadian Dollars)

### 6. Trade and other receivables

	February 28, 2017	February 29, 2016
Trade receivables	\$ 107,691	\$ 49,498
HST receivable	2,030	99,990
Other receivables	8,015	5,200
	<b>\$ 117,736</b>	<b>\$ 154,688</b>

There were no allowances for doubtful accounts as at February 28, 2017 and February 29, 2016.

### 7. Equipment

	Scanners and Tablets
<b>Cost</b>	
Balance at February 28, 2015	\$ 2,208
Additions	126,617
Balance at February 29, 2016	\$ 128,825
Additions	67,226
Disposals	(46,053)
Balance at February 28, 2017	<b>\$ 149,998</b>
<b>Accumulated amortization</b>	
Balance at February 28, 2015	\$ 66
Amortization	16,772
Balance at February 29, 2016	\$ 16,838
Amortization	105,122
Disposals	(33,492)
Balance at February 28, 2017	<b>\$ 88,468</b>
<b>Carrying amounts</b>	
Balance at February 29, 2016	\$ 111,987
Balance at February 28, 2017	<b>\$ 61,530</b>

# PUDO Inc.

## Notes to Consolidated Financial Statements

For the Years Ended February 28, 2017 and February 29, 2016

(Expressed in Canadian Dollars)

### 8. Intangible assets

	<b>Computer Software</b>
<b>Cost</b>	
<b>Balance at February 29, 2016 and February 28, 2015</b>	\$ 25,000
Additions	589,098
<b>Balance at February 28, 2017</b>	<b>\$ 614,098</b>
<b>Accumulated amortization and impairment</b>	
<b>Balance at February 28, 2015</b>	\$ 6,042
Amortization	5,000
<b>Balance at February 29, 2016</b>	\$ 11,042
Amortization and impairment	263,100
<b>Balance at February 28, 2017</b>	<b>\$ 274,142</b>
<b>Carrying amounts</b>	
Balance at February 29, 2016	\$ 13,958
<b>Balance at February 28, 2017</b>	<b>\$ 339,956</b>

During the year ended February 28, 2017, an impairment of \$177,601 (2016- \$nil) was included in amortization expense. (See note 14)

### 9. Trade and other payables

	<b>February 28, 2017</b>	<b>February 29, 2016</b>
Trade payables	\$ 286,519	\$ 276,116
Other payables	31,418	20,716
Accrued liabilities	88,675	63,638
	<b>\$ 406,612</b>	<b>\$ 360,470</b>

### 10. Advances payable

At February 28, 2017, the Company had advances payable of \$15,025 (2016 - \$15,025) owing to a shareholder of the Company. These advances are unsecured, non-interest bearing and due on demand.

### 11. Loans and borrowings

On March 3, 2016, the Company assumed borrowings from 640624 N.B. Ltd. (o/a Kinek) (see note 14) 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 15.0%. The Company recorded accretion expense of \$27,159 (February 29, 2016 - \$nil) for the year ended February 28, 2017. The rate used in determining the appropriate present value of the borrowings was subject to significant management estimation.

# PUDO Inc.

## Notes to Consolidated Financial Statements

For the Years Ended February 28, 2017 and February 29, 2016

(Expressed in Canadian Dollars)

### 11. Loans and borrowings (continued)

	February 28, 2017	February 29, 2016
Loan payable (Atlantic Canada Opportunities Agency) 51 instalments repayable at \$4,458 per month	\$ 167,353	\$ -
Less: Current portion	<u>30,423</u>	<u>-</u>
	<u>\$ 136,930</u>	<u>\$ -</u>

Future repayments on the borrowings as at February 28, 2017 include the following:

March 1, 2017 to February 28, 2018	\$ 53,496
March 1, 2018 to February 28, 2019	53,496
March 1, 2019 to February 29, 2020	53,496
March 1, 2020 to February 28, 2021	53,496
March 1, 2021 to June 22, 2021	<u>13,374</u>
Principal amount	<u>\$ 227,358</u>

### 12. Share capital

#### (a) Authorized

Unlimited number of common shares with no par value.

Unlimited number of preference shares. The preference shares are without par value, redeemable, voting, non-participating, and are convertible into common shares at the rate of one common share for five preference shares (none currently issued and outstanding).

#### (b) Issued

Common Shares	Number	Amount
<b>Balance of common shares, February 28, 2015</b>	<b>3,333,332</b>	<b>\$ 16,668</b>
Issuance of common shares on conversion of borrowings (iii)	1,883,465	470,867
Conversion of Class A preferred shares (i)	5,100,000	102,002
Conversion of PUDO shares and consideration for RTO (i)	4,178,005	1,044,501
Issuance of common shares in first private placement (ii)	1,100,000	715,974
Valuation of broker warrants issued in first private placement (ii)	-	(25,869)
Transaction costs incurred for first private placement (ii)	-	(11,688)
Exercise of broker warrants (note 16)	81,746	82,569
Exercise of options (note 17)	50,000	15,642
Issuance of common shares in second private placement (iv)	468,967	971,359
Transaction costs incurred for second private placement (iv)	-	(15,742)
<b>Balance, February 29, 2016</b>	<b>16,195,515</b>	<b>\$ 3,366,283</b>
Exercise of broker warrants (note 16)	8,254	-
Issuance of common shares on acquisition of Kinek (v)	116,745	350,235
Issuance of common shares in private placement (vi)	211,234	265,208
Transaction costs incurred for private placement (vi)	-	(9,915)
<b>Balance, February 28, 2017</b>	<b>16,531,748</b>	<b>\$ 3,971,811</b>

# PUDO Inc.

## Notes to Consolidated Financial Statements

For the Years Ended February 28, 2017 and February 29, 2016

(Expressed in Canadian Dollars)

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### 12. Share capital (continued)

(i) On July 14, 2015, the Company acquired all of the issued and outstanding shares of MCD on the basis of 8,333.33 post-consolidation shares for 1 MCD common share. In addition, the Company also acquired all of the issued and outstanding Class A preferred shares of MCD on the basis of 8,333.33 post-consolidation shares for 1 MCD preferred share. Effective July 14, 2015, the Company issued an aggregate of 10,316,797 shares of the Company to former shareholders of MCD. The 400 MCD common shares and 612 MCD Class A preferred shares as at February 28, 2015 and the 226 MCD common shares issued on conversion of borrowings during the year ended February 29, 2016 had been restated on the basis of the ratio of 1: 8,333.33 to 3,333,332, 5,100,000 and 1,883,465 common shares of PUDO, respectively, to reflect the shares issued in the RTO. The Acquisition was accounted for as a RTO whereby MCD was identified as the acquirer for accounting purposes. See note 13.

(ii) On August 24, 2015, the Company closed a non-brokered private placement of 1,100,000 common shares at a price of \$0.63 or US\$0.50 per common share for total proceeds of \$715,974. A total of 90,000 broker warrants were issued in connection with the private placement, exercisable for one common share at a price of \$0.63. The broker warrants have an estimated fair value of \$25,869, using the Black-Scholes valuation model with the following assumptions: risk-free interest rate of 0.33%, expected life of two years, expected volatility of 100%, based on the historical volatility of comparable companies, and expected dividend yield of 0%. Two directors of the Company subscribed for an aggregate of 100,000 common shares for gross proceeds of \$63,000 pursuant to this private placement.

(iii) Borrowings and related interest were converted into 226 common shares of MCD at a price of US\$1,666.67 per common share, which has been restated to 1,883,465 common shares to reflect the number of shares of PUDO issued in the RTO.

(iv) On February 12, 2016, the Company closed a non-brokered private placement of 468,967 units at a price of \$2.50 per unit for total proceeds of \$1,172,422. Each unit is comprised of one common share and one-half of one common share purchase warrant. Each whole warrant is exercisable into one common share of the Company at \$4 per share for a period of one year. The warrants have an estimated grant date fair value of \$201,063, using the Black-Scholes valuation model with the following assumptions: risk-free interest rate of 0.47%, expected life of one year, expected volatility of 155% based on the historical volatility of the Company's shares, and expected dividend yield of 0%. The Company incurred share issue costs of \$19,000 in connection with the private placement. Directors of the Company, and corporations controlled by them, subscribed for an aggregate of 36,320 units for gross proceeds of \$90,800 pursuant to this private placement. A family member of one of the directors of the Company subscribed for 30,277 units in settlement of \$75,693 in payables owed to him, as well as 163,000 units for gross proceeds of \$407,500.

(v) On March 3, 2016, the Company acquired certain assets and assumed certain liabilities from 640624 N.B. Ltd. (o/a Kinek). In consideration for the business acquisition, the Company issued 116,745 common shares to Kinek with a value of \$3.00 per share. See note 14.

(vi) On February 27, 2017, the Company closed a non-brokered private placement of 211,234 units at a price of \$1.90 per unit for total proceeds of \$401,345. Each unit is comprised of one common share and one-half of one common share purchase warrant A and one-half of one common share purchase warrant B. Each whole warrant A is exercisable into one common share of the Company at \$1.75 per share up to March 29, 2019. Each whole warrant B is exercisable into one common share of the Company at \$2.50 per share up to March 29, 2019. The warrants have an estimated grant date fair value of \$136,137 (comprised of \$72,908 related to Warrant A and \$63,229 related to Warrant B), using the Black-Scholes valuation model with the following assumptions: risk-free interest rate of 0.76%, expected life of 2.08 years, expected volatility of 120% based on the historical volatility of the Company's shares, and expected dividend yield of 0%. The Company incurred share issue costs of \$9,915 in connection with the private placement.

# PUDO Inc.

## Notes to Consolidated Financial Statements

For the Years Ended February 28, 2017 and February 29, 2016

(Expressed in Canadian Dollars)

### 13. Reverse takeover

The share capital of each company before the RTO was as follows:

#### PUDO

	Number of Common Shares	Amount
<b>Balance, February 28, 2014 and 2015</b>	<b>81,163,032</b>	<b>\$ 16,533,842</b>
Consolidation of common shares (note 1)	(77,105,027)	-
Common shares issued in settlement of advances from shareholder	120,000	30,000
<b>Balance, July 14, 2015 prior to the RTO</b>	<b>4,178,005</b>	<b>\$ 16,563,842</b>

#### MCD

	Number of Common Shares	Amount
<b>Balance, February 28, 2014 and 2015</b>	<b>400</b>	<b>\$ 16,668</b>
Shares issued in settlement of borrowings (note 12(b)(iii))	226	470,867
<b>Balance, July 14, 2015 prior to the RTO <sup>(1)</sup></b>	<b>626</b>	<b>\$ 487,535</b>

<sup>(1)</sup> MCD issued 612 Class A preferred shares on March 5, 2015, prior to the RTO, which were issued to existing shareholders of MCD for cash consideration of \$102,002.

On July 14, 2015, the Company acquired all of the issued and outstanding shares of MCD on the basis of 8,333.33 post-consolidation shares for 1 MCD share. In addition, the Company also acquired all of the issued and outstanding Class A preferred shares of MCD on the basis of 8,333.33 post-consolidation shares for 1 MCD preferred share. Effective July 14, 2015, the Company issued an aggregate of 10,316,797 shares of the Company to former shareholders of MCD.

In accordance with IFRS 3, *Business Combinations*, the substance of the transaction is a reverse takeover of a non-operating company. The transaction did not constitute a business combination as PUDO did not meet the definition of a business under the standard. As a result, the transaction was accounted for as a capital transaction with MCD being identified as the acquirer and the equity consideration being measured at fair value. The resulting consolidated financial statements are presented as a continuance of MCD and comparative figures presented in the consolidated financial statements after the reverse takeover are those of MCD.

The fair value of the consideration is determined based on the percentage of ownership the legal parent's shareholders had in the consolidated entity after the transaction. This represents the fair value of the shares that MCD would have had to issue for the ratio of ownership interest in the combined entity to be the same, if the transaction had taken the legal form of MCD acquiring 100% of the shares in PUDO. The percentage of ownership PUDO shareholders had in the combined entity is 29% after the issue of 10,316,797 PUDO shares. The fair value of the consideration in the RTO is equivalent to the fair value of the 4,178,005 PUDO shares controlled by original PUDO shareholders. The fair value of the shares controlled by original PUDO shareholders was estimated to be \$1,044,501 based on the estimated fair market value of \$0.25 per share on the date of July 14, 2015. The amount assigned to the transaction cost of \$1,307,958 is the difference between the fair value of the consideration and the net identifiable net liabilities of PUDO acquired by MCD is included in the consolidated statements of loss and comprehensive loss.

# PUDO Inc.

## Notes to Consolidated Financial Statements

For the Years Ended February 28, 2017 and February 29, 2016

(Expressed in Canadian Dollars)

### 13. Reverse takeover (continued)

#### Consideration

Common shares	\$	1,044,501
<b>Identifiable assets (liabilities) acquired</b>		
Cash	\$	111,047
HST receivable		11,646
Accounts payable and accrued liabilities		(248,117)
Advances payable		(15,025)
Intercompany payable to MCD		(123,008)
<b>Unidentifiable assets acquired - Transaction cost</b>		<b>1,307,958</b>
<b>Total identifiable net liabilities and transaction cost</b>	<b>\$</b>	<b>1,044,501</b>

### 14. Acquisition

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

In accordance with IFRS 3, Business Combinations, the substance of the transaction constitutes a business combination as Kinek meets the definition of a business under the standard. The acquisition of Kinek was accounted for as a business combination and, accordingly, the assets acquired and the liabilities assumed have been recorded at their respective estimated fair values as of the acquisition date. The purchase price allocation is based on the Company's management's best estimates. The carrying amounts of the acquired net assets were reviewed and tested as at February 28, 2017 to determine whether they were impaired. As the fair value of the net assets acquired was estimated to be less than its carrying amount, additional amortization of \$177,601 relating to the software acquired was taken and has been recognized in the consolidated statements of loss for the year ended February 28, 2017.

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

#### Consideration paid

Common shares	\$	350,235
<b>Identifiable assets (liabilities) acquired</b>		
Intangible assets – web based software	\$	537,605
Loans and borrowings (note 11)		(187,370)
<b>Total identifiable net assets</b>	<b>\$</b>	<b>350,235</b>

# PUDO Inc.

## Notes to Consolidated Financial Statements

For the Years Ended February 28, 2017 and February 29, 2016

(Expressed in Canadian Dollars)

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### 14. Acquisition (continued)

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

The acquisition of certain assets and liabilities of Kinek on March 3, 2016 resulted in an increase in revenues, cost of sales and gross margin in the amounts of \$295,288, \$10,746 and \$284,542, respectively, in the year ended February 28, 2017. The following table reflects the revenue, gross profit of each entity for the year ended February 28, 2017:

The following table reflects the revenue, gross profit and net loss for the year ended February 28, 2017:

	Kinek Border Points	PUDOPoint Sites	Total
Revenue	\$ 295,288	\$ 610,459	\$ 905,747
Cost of sales	(10,746)	(282,424)	(293,170)
Gross profit	\$ 284,542	\$ 328,035	\$ 612,577
Administrative expenses	(448,447)	(1,369,499)	(1,817,946)
Share-based payment	(20,669)	(45,585)	(66,254)
Finance costs	(27,159)	-	(27,159)
Net loss	\$ (211,733)	\$ (1,087,049)	\$ (1,298,782)

The allocation of costs to the Kinek Border Points and the PUDOPoint sites is based on management's best estimates. All revenue and cost of sales for the comparative periods ended February 29, 2016 related to PUDOPoint sites.

### 15. Amalgamation

On February 28, 2016, PUDO completed a vertical short-form amalgamation pursuant to *the Business Corporations Act* (Ontario) with its wholly-owned subsidiary, MCD. No securities of PUDO were issued in connection with the amalgamation and the share capital of PUDO was unchanged. The amalgamation of PUDO and MCD has been undertaken in order to simplify the corporate structure of PUDO and to reduce administrative costs. The amalgamation will not have any significant effect on the business and operations of PUDO.

# PUDO Inc.

## Notes to Consolidated Financial Statements

For the Years Ended February 28, 2017 and February 29, 2016

(Expressed in Canadian Dollars)

### 16. Warrants

The following table reflects the continuity of warrants for the years ended February 28, 2017 and February 29, 2016:

	Number of Warrants	Exercise price
<b>Balance, February 28, 2015</b>	-	\$ -
Broker warrants issued in private placement (note 12(b)(ii))	90,000	0.63
Broker warrants exercised	(81,746)	0.63
Warrants issued in private placement (note 12(b)(iv))	234,483	4.00
<b>Balance, February 29, 2016</b>	<b>242,737</b>	<b>\$ 4.00</b>
Broker warrants exercised	(8,254)	0.63
Warrants expired	(234,483)	4.00
Warrants A issued in private placement (note 12(b)(vi))	105,617	1.75
Warrants B issued in private placement (note 12(b)(vi))	105,617	2.50
<b>Balance, February 28, 2017</b>	<b>211,234</b>	<b>\$ 2.12</b>

The following table reflects the warrants issued and outstanding as of February 28, 2017:

Expiry Date	Exercise price (\$)	Estimated grant date fair value (\$)	Number of warrants outstanding
March 29, 2019	1.75	72,908	105,617
March 29, 2019	2.50	63,229	105,617
		136,137	211,234

On December 22, 2015 and February 10, 2016, the Company issued 50,000 and 31,746 common shares, respectively, upon the exercise of 81,746 and 8,254 broker warrants for total consideration of \$56,700.

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

### 17. Stock options

The Company maintains an employee stock option plan under which the Board of Directors, or a committee appointed for such purpose, 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 such committee.

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 Consolidated Financial Statements

For the Years Ended February 28, 2017 and February 29, 2016

(Expressed in Canadian Dollars)

### 17. Stock options (continued)

The following table reflects the continuity of stock options for the years ended February 28, 2017 and February 29, 2016:

	Number of stock options	Exercise price
<b>Balance, February 28, 2015</b>	-	\$ -
Granted (i)(ii)	1,469,000	0.30
Exercised (iii)	(50,000)	0.20
<b>Balance, February 29, 2016</b>	<b>1,419,000</b>	<b>\$ 0.30</b>
Granted (iv)	15,000	3.00
Options forfeited	(5,000)	3.00
<b>Balance, February 28, 2017</b>	<b>1,429,000</b>	<b>\$ 0.30</b>

The following table reflects the actual stock options issued and outstanding as at February 28, 2017:

Expiry date	Exercise price (\$)	Remaining contractual life (years)	Weighted average number of options outstanding	Options vested (exercisable)	Estimated grant date fair value
July 14, 2017 (i)	0.20	0.37	1,350,000	1,350,000	\$ 195,958
December 1, 2017 (ii)	2.25	0.75	17,250	17,250	27,700
March 1, 2018 (ii)	2.25	1.00	17,250	17,250	28,800
June 1, 2018 (ii)	2.25	1.25	17,250	17,250	29,700
September 1, 2018 (ii)	2.25	1.50	17,250	17,250	30,600
March 3, 2018 (iv)	3.00	1.00	10,000	10,000	20,669
	0.23	0.98	1,429,000	1,429,000	\$ 333,427

(i) On July 14, 2015, the Company granted 1,400,000 stock options to an officer and a director of the Company. The stock options are exercisable at \$0.20 per share until July 14, 2017 and vested immediately at the time of grant. The grant date fair value of the stock options was estimated to be \$201,600 using the Black-Scholes valuation model on the following assumptions: expected dividend yield of 0%; expected volatility of 100%, risk-free interest rate of 0.39%; and expected life of two years.

(ii) On December 1, 2015, the Company granted an aggregate of 69,000 options to directors of the Company. The options are exercisable at a price of \$2.25 per common share and vest in 25% increments quarterly with the first 25% vesting on the date of grant. The stock options expire two years following the vesting date. The grant date fair value of the stock options was estimated to be \$116,800 using the Black-Scholes valuation model on the following weighted average assumptions: expected dividend yield of 0%; expected volatility of 150%, risk-free interest rate of 0.62%; and expected life of 2.38 years. For the year ended February 28, 2017, \$35,250 (February 29, 2016 – 81,550) was recorded as share-based compensation in the consolidated statements of loss.

(iii) On February 10, 2016, the Company issued 50,000 common shares upon the exercise of 50,000 stock options with an exercise price of \$0.20 for total cash consideration of \$10,000.

# PUDO Inc.

## Notes to Consolidated Financial Statements

For the Years Ended February 28, 2017 and February 29, 2016

(Expressed in Canadian Dollars)

### 17. Stock options (continued)

(iv) On March 3, 2016, the Company granted an aggregate of 15,000 options to employees of the Company, of which 5,000 were subsequently forfeited. The options are exercisable at a price of \$3.00 per common share and vested immediately on the grant date. The stock options expire two years following the vesting date. The grant date fair value of the stock options was estimated to be \$31,004 using the Black-Scholes valuation model on the following weighted average assumptions: expected dividend yield of 0%; expected volatility of 143%, risk-free interest rate of 0.51%; and expected life of 2 years. For year ended February 28, 2017, \$31,004 was recorded as share-based compensation in the consolidated statements of loss.

### 18. Expenses categorized by nature

	February 28, 2017	February 29, 2016
<b>Cost of sales</b>		
External processing charges	\$ 282,524	\$ 56,937
Computer and web access charges	10,646	-
	<b>\$ 293,170</b>	<b>\$ 56,937</b>
<b>Administrative expenses</b>		
Salaries and benefits	\$ 416,393	\$ 188,949
General and administrative expenses	170,731	96,168
Advertising and promotion	38,642	74,768
Travel and business development	87,094	75,466
Consulting fees	239,339	133,466
Professional fees	161,972	140,224
Sales and services	102,247	28,820
Investor relations	94,735	147,962
Accounting and office	72,000	74,500
Agent and filing fees	46,094	42,777
Foreign exchange loss	7,916	15,224
Amortization expense (notes 7 and 8)	368,222	21,772
Loss on disposal of equipment	12,561	-
	<b>\$ 1,817,946</b>	<b>\$ 1,040,096</b>

### 19. Finance costs

	February 28, 2017	February 29, 2016
Accretion interest on debt acquired (note 11)	\$ 27,159	\$ -
Interest expense on investment loans (a)	-	13,498
Interest expense on amounts due to related company (b)	-	1,059
	<b>\$ 27,159</b>	<b>\$ 14,557</b>

# PUDO Inc.

## Notes to Consolidated Financial Statements

For the Years Ended February 28, 2017 and February 29, 2016

(Expressed in Canadian Dollars)

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### 19. Finance costs (continued)

(a) Interest expense was charged on amounts due to Courier Cardinal Ltée, for the year ended February 29, 2016, a company under common control. Interest was charged at 5% per annum. During the year ended February 29, 2016, Courier Cardinal Ltée advanced a further \$72,259 to the Company and the Company repaid the amount owing in full during the year ended February 29, 2016.

(b) During the year ended February 28, 2015, the Company entered into investment loans with arm's length parties. The investment loans were subsequently converted into common shares of the Company (note 12(b)(iii)). The loans bore interest at 8% per annum.

### 20. Related party transactions

(a) Related party balances and transactions:

During the years ended February 28, 2017 and February 29, 2016, the Company had the following transactions with shareholders and companies under common control and management and directors:

- incurred bookkeeping fees, included in professional fees of \$72,000 (2016 - \$74,500) to Cardinal Couriers Ltd., a company with common officers and directors;
- incurred interest expense of \$nil (2016 - \$1,059) payable to Courier Cardinal Ltée;
- incurred consulting fees of \$nil (2016 - \$31,500) to Courier Depot Network Inc., a significant shareholder of the Company;
- incurred share-based payments of \$66,254 (2016 - \$283,150) in relation to stock options granted to an officer, directors and employees of the Company (note 17); and
- paid salary and consulting fees to Francesco Coccia, Chief Executive Officer of the Corporation in the amount of \$144,000 (2016 - \$150,208) and to Douglas P. Baker, Chief Financial Officer of the Corporation in the amount of \$39,498 (2016 - \$19,483) and to Matthew McDonough, Vice-President of the Corporation in the amount of \$118,214 (2016 - \$33,835).

As at February 28, 2017, balances payable to the related parties noted above amounted to \$135,806 (February 29, 2016 - \$89,671) and is included in trade and other payables. These balances are unsecured, non-interest bearing and due on demand.

See also notes 10, 12 and 19.

(b) Major shareholders:

As at February 28, 2017, no person or corporation beneficially owns or exercises control or direction over common shares of the Company carrying more than 10% of the voting rights attached to all of the common shares of the Company other than Palm Holding Inc. which owns or controls, directly or indirectly, 45% of the issued and outstanding shares of the Company. These shareholdings can change at any time at the discretion of the owner.

None of the Company's major shareholders have different voting rights from other holders of the Company's common shares.

The Company is not currently aware of any arrangements, the operation of which may at a subsequent date result in a change in control of the Company.

# PUDO Inc.

## Notes to Consolidated Financial Statements

For the Years Ended February 28, 2017 and February 29, 2016

(Expressed in Canadian Dollars)

### 21. Income taxes

#### a) Provision for income taxes

Major items causing the Company's effective income tax rate to differ from the combined Canadian federal and provincial statutory rate of 27.3% (2016 – 26.5%) were as follows:

	<b>February 28, 2017</b>	<b>February 29, 2016</b>
(Loss) before income taxes	\$ (1,298,782)	\$ (2,577,421)
Expected income tax recovery based on statutory rate	(355,000)	(683,000)
Adjustment to expected income tax benefit:		
Share-based compensation	18,000	75,000
Expenses not deductible for tax purposes	8,000	350,000
Other	-	19,000
Deferred tax assets acquired on acquisition	-	(6,154,000)
Change in expected tax rates	(150,000)	-
Change in benefit of tax assets not recognized	479,000	6,393,000
Deferred income tax provision (recovery)	\$ -	\$ -

#### b) Temporary differences

	<b>February 28, 2017</b>	<b>February 29, 2016</b>
	<b>\$</b>	<b>\$</b>
Non-capital loss carry-forwards	2,066,000	1,249,000
Other temporary differences	358,000	28,000
	<u>2,424,000</u>	<u>1,277,000</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.

# PUDO Inc.

## Notes to Consolidated Financial Statements

For the Years Ended February 28, 2017 and February 29, 2016

(Expressed in Canadian Dollars)

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### 21. Income taxes (continued)

As at February 28, 2017, the Company had approximately \$2,066,000 (2016 - \$1,249,000) of non-capital losses in Canada. The non-capital losses expire as follows:

2033	\$ 26,000
2034	245,000
2035	36,000
2036	942,000
2037	817,000
	<u>\$ 2,066,000</u>

### 22. Shares held in escrow

Pursuant to an escrow agreement dated July 14, 2015, 10,037,897 common shares held by directors and officers of the Company were placed in escrow. Pursuant to the agreement, upon the listing date of the common shares on the CSE, 10% of the shares subject to the escrow agreement were released, and every 6 months thereafter, 15% of the original shares taken to escrow are to be released.

### 23. Commitments and contingencies

The Company has entered into various agreements for services, which if terminated by the Company would require payments of approximately \$165,000. As the triggering events have not occurred, these amounts have not been accrued in the consolidated financial statements as at February 28, 2017.

The Company has committed to issue 20,000 stock options to certain key employees in the course of negotiating their employment arrangements.

### 24. Subsequent event

On May 2, 2017, a director and officer of the Company exercised 150,000 options at \$0.20 per share. Of the 150,000 common shares received on exercise, 90,000 are held in escrow to be released every 6 months thereafter, at a rate of 15% of the original shares taken to escrow.