



PUDO INC.

INTERIM MANAGEMENT'S DISCUSSION AND ANALYSIS

QUARTERLY HIGHLIGHTS

FOR THE THREE MONTH PERIOD ENDED

MAY 31, 2022 and 2021

(EXPRESSED IN CANADIAN DOLLARS)

Prepared by:

PUDO Inc.

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PUDO Inc.
Interim Management's Discussion & Analysis - Quarterly Highlights
Three Month Period Ended May 31, 2022
Discussion dated: July 18, 2022

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, 2022 (“Q1 FY 2023”), 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, 2022, the audited annual consolidated financial statements of the Company for the years ended February 28, 2022 and February 29, 2021, together with the notes thereto, and the Management's Discussion and Analysis (“Annual MD&A”) Report of the Company for the year ended February 28, 2022. 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 this MD&A are prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations of 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. PUDO deploys their technology to provide consumers with convenient locations to Pick-Up or Drop-Off (“PUDO” or “Network”) e-commerce parcels. Through collaboration with online retailers, third party logistics companies (“3PL”), Software as a Service (“SaaS”) providers 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™ (“PUDOpoint”). PUDOpoints are typically open extended hours, seven days a week to make it convenient for busy consumers to quickly and efficiently collect what they've ordered online or drop off what they need to return. The Company deploys its technology to provide consumers with convenient PUDOpoints (the “Network”) to pick-up and drop-off (“PUDO”) e-commerce parcels.

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

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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 May 26, 2021.

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

The World Health Organization declared a global emergency on January 30, 2020 as a result of the 2019 novel coronavirus ("COVID-19"), then characterized it as a pandemic on March 11, 2020. The outbreak spread globally causing companies and various jurisdictions, including Canada and the United States, to impose restrictions, such as quarantines, closures, cancellations, and travel restrictions including closing the Canada – United States border. While these effects were expected to be temporary, and although some vaccines are being approved and administered, the duration of the business disruptions and the related financial impact cannot be reasonably estimated at this time. PUDO's consolidated results in FY 2023 have been negatively impacted by this event. The impact and extent of the outbreak continues to be unknown and will depend on future developments. The Company's employees continue to work from home offices to manage the PUDO Network in support of its partners and customers.

Below are a few Company highlights during Q1 FY 2023:

- 📍 Revenue was up 69% compared to the same quarter in the prior fiscal year primarily as a result of increased returns and use of the PUDO Label service that was launched in Q4 of the prior fiscal year.
- 📍 Management continued to invest in ongoing software development to enhance PUDO's current software technology and database structure to better manage API integration of PUDO's existing and new service offerings with current and new partners. This included the ongoing enhancements to the PUDO Label returns service ("PUDO Label") that enables retailers' customers to print a return label for previously order products to drop off the return package at a PUDOpoint Counter location for an efficient and cost-effective consolidated pickup and returns process for the retailers. The PUDO Label service is expected to roll out in the United States in late Q3 FY 2023.

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- 📍 The Issuer's auditor, Clearhouse LLP, audited the consolidated financial statements for the fiscal year ended February 28, 2022, and the Company filed the audited statements along with the Management Discussion and Analysis on June 23, 2022, as required to the CSE and to SEDAR websites.

Capital Resources

During Q1 FY2023, the Company completed the following capital transactions:

- 📍 In March 2022, the Company granted 225,000 stock options to directors of the Company. The options were exercisable at a price of \$0.81 per common share and will expire on March 1, 2027. The options vest in 25% increments yearly with the first 25% having vested on March 1, 2022.
- 📍 In March 2022, the Company granted 344,445 stock options to the consultants of the Company. The options were exercisable at a price of \$0.81 per common share and will expire on March 1, 2027. 325,000 of the options vest in 25% increments yearly with the first 25% having vested on March 1, 2022. 19,445,000 of the options vest in 25% increments quarterly with the first 25% having vested on June 1, 2022.

Operations

PUDOpoint Network

The Company continued to focus on optimizing the PUDO Network to increase alignment with partner parcel volumes while leveraging the Network to develop new partner relationships and services that further enhance revenue opportunities. These focused efforts resulted in a new service being added and increased parcel volumes in PUDO's core revenue streams in the first quarter of this fiscal year from many of its current partners. IT integration and enhancements remain a strategic focus as the Company looks to increase efficiencies, add new partners, and grow revenue. Through strategic partnerships the Company is positioned well to add new PUDOpoint locations in Canada and the USA. This will provide new e-commerce retail partner locations for residential redirects, increased parcel volumes for direct to PUDOpoint deliveries, and add new revenue service offerings in the coming quarters. The Network remains uniquely positioned to offer cost effective convenient services for returns and to consumers who are looking for an alternative to home delivery.

Parcel Volume Analysis

Parcel volume and other factors within the e-commerce ecosystem can affect PUDO's goals and performance during its continued growth and evolution. During Q1 FY 2023 the COVID-19 pandemic impacted overall parcel volume being delivered within the PUDO Network. With many businesses shut down or working at reduced capacity and employees working from home, first time delivery failures decreased as someone was home to accept packages reducing the requirement for an alternative delivery location. PUDO's Network is comprised mainly of convenience stores that were deemed essential services. This allowed PUDO's partners to successfully utilize alternative delivery locations when they did require the Network. The PUDOpoints supported their local communities as a safe haven for parcel deliveries.

While the Company continued to strategically manage the growth and development of the Network throughout Q1 FY 2023, overall parcel volumes increased by 78.1% compared to the three month period ended May 31, 2021 ("Q1 FY 2022"). During this quarter, Q1 FY 2023, partner shipments increased 76% over the same quarter in the previous year. During the same three month period, member shipment volumes increased 118% relative to the year earlier quarter as a result of the Canada-USA border re-opening for all travellers. In Q1 FY 2023, partner shipments represented 93.9% of the Company's total volumes, down from 95% in the same quarter in the prior fiscal year.

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

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- 📍 **Returns and For Pickup ("RFPU"):** During Q1 FY 2023 RFPU parcels increased by 266.1% as compared to the prior year, Q1 FY 2022. In sequential quarters, RFPU parcel volume in Q1 FY 2023 as compared to period ended February 28, 2022 ("Q4 FY 2022") increased by 76.3%. These increases are a result of PUDO's partners increasing the integration of their own clients' return requirements for use of the PUDO service as the value of this service offering provided by PUDO reduces cost of return for their clients.
- 📍 **Failed First Attempts ("FFA"):** During Q1 FY 2023, total FFA parcel volumes decreased by 2.3% relative to Q1 FY 2022. In sequential quarters, parcel volumes in Q1 FY 2023 compared to Q4 FY 2022 decreased by 4.9%. These decreases may be a result of decreased online purchases along with the impact of COVID-19 and customers being home to accept their parcels, reducing the requirement of redirects to PUDO locations.
- 📍 **Third Party Logistics ("3PL"):** During Q1 FY 2023, 3PL parcel shipments decreased by 38.5% over the prior year, Q1 FY 2022. The decrease is a result of PUDO partners decreasing the volume of parcel shipments that utilize PUDO's preferred shipping rates. In sequential quarters, 3PL parcel shipments in Q1 FY 2023 as compared to Q4 FY 2022 decreased by 1.5%. This decrease is a result of decreased requirement to ship to remote locations.
- 📍 **Border Member:** During Q1 FY 2023 total member parcel volumes increased by 118.2% relative to Q1 FY 2022. In sequential quarters, parcel volumes in Q1 FY 2023 compared to Q4 FY 2022 increased by 64.4%. These increases are a direct result of the re-opening and lessening of restrictions at the Canada – USA border that had temporarily closed as a result of COVID-19 to non-essential travel effective April 2020.
- 📍 **Pickup Counters:** Over 700 PUDOpoint Counter locations are available as "Hub Counters" in the USA and Canada as alternative delivery options for online shopping customers of a large US and Canada e-commerce retailer. These Hub Counters provide a location for safe and secure storage for parcels for pickup by the customer. During Q1 FY 2023 total Pickup Counter parcel volumes increased 18% relative to Q1 FY 2022. The increase is a result PUDOpoint locations being now being fully utilized by the retailer's customers. In sequential quarters, Hub Counter parcel volumes in Q1 FY 2023 as compared to Q4 FY 2022 increased by 3.76%.

As PUDO continues to expand and maintain its services, a greater number of stakeholder partners and consumer members will minimize parcel losses and reduce dependence on specific carriers as PUDO provides a courier agnostic network of locations.

Outlook

PUDO continues to leverage its Canadian PUDOpoint network to meet the growing demand for the PUDO Label return services from its partners. The Company is doing this by making the drop off network available for multiple partners and their online retail customers. This is increasing PUDOpoint revenue per store and helping diversify the partners that utilize the services across network locations. With the success of the PUDO Label returns service in Canada, the Company is working with a current partner to expand the service in the United States by leveraging the available USA PUDOpoint Network currently being used for customers that want to ship directly to a PUDOpoint from their retailer's checkout process providing a safe and secure delivery location for online ecommerce purchases.

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Financial Condition and Performance

Financial Performance

A summary of selected financial information for the three month period ended May 31, 2022 and 2021 is included below:

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

	Three Months Ended May 31,	
	2022	2021
Revenue	\$ 872,665	\$ 516,247
Cost of sales	(548,246)	(359,887)
Gross profit	324,419	156,360
Administrative expenses	(346,352)	(449,688)
Share-based compensation*	(140,658)	(77,408)
Operating loss	(162,591)	(370,736)
Finance costs	-	(333)
Net loss and comprehensive loss for the period	(162,591)	(371,069)
Loss per share basic and diluted	\$ (0.01)	\$ (0.01)

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

During the three month period ended May 31, 2022, revenue was \$872,665 (May 31, 2021 - \$516,247), representing an increase of 69% over the same period last year due to new partner returns volumes and the successful increased use of PUDO services to current partners, offset by the decrease in Failed First Attempt packages to PUDOpoints and few 3PL shipments.

The Company reported a net loss of \$162,591 (\$0.01 basic and diluted loss per share), a decrease of \$208,145 compared with a net loss of \$371,069 (\$0.01 basic and diluted loss per share) in the corresponding quarter in the prior fiscal year. The majority of this decreased loss was attributable to an increase in revenue along with a decrease in administrative expenses as a result of the reduced salary costs due to changes in the customer support staff, offset with an increase in non-cash expense related to share-based compensation.

Gross profit for the three month period ended May 31, 2022, was \$324,419 (May 31, 2021 - \$156,360) representing an increase of \$168,059 or 107.5% over the same period last year. This is a result of increased parcel volumes utilizing the PUDO services including FPU and the PUDO Label returns service that increased revenue which was offset by reduced FFA and 3PL shipments.

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Financial Condition

As at May 31, 2022, the Company had total assets of \$671,948 (February 28, 2022 - \$661,714). This increase was primarily attributed to the related costs associated with operations.

As at May 31, 2022, the Company had a working capital deficit of \$148,621 (February 28, 2022 – \$142,575), had not yet achieved profitable operations, had received cash in operating activities of \$18,299 for the three month period ended May 31, 2022 (May 31, 2021 – (\$202,883)), had a deficit of \$11,373,699 as at May 31, 2022 (February 28, 2022 - \$11,211,108) and had shareholders' deficiency of \$73,740 (February 28, 2022 – \$51,807). The continuing operations of the Company are dependent upon its ability to commence profitable operations and raise adequate financing 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.

Cash Flows

During the three month period ended May 31, 2022, cash increased by \$12,438 to \$147,188 (February 28, 2022 – \$134,750) due to \$18,299 cash from operating activities, nil cash used in investing or financing activities.

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 through convertible debentures, promissory notes and equity financings. The Company's outstanding loans and borrowings as at May 31, 2022 are fully repaid.

Related Party Transactions

During the three month period ended May 31, 2022, the Company incurred accounting fees and office rental, which is included in accounting and office expense, of \$29,557 (May 31, 2021 - \$10,350), to a company with a common officer and director.

During the three period ended May 31, 2022 and 2021, the Company had the following transactions with shareholders, management and directors:

	Three Months Ended May 31,	
	2022	2021
Share-based compensation	\$ 140,658	\$ 77,408
Salaries and benefits	53,268	47,697
Consulting fees	9,486	10,072
	\$ 203,412	\$ 135,177

As at May 31, 2022, balances payable to the related parties noted above amounted to \$39,043 (May 31, 2021 - \$18,005) and are included in trade and other payables. These balances are unsecured, non-interest bearing and are due on demand.

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

Subsequent events

The Company evaluated subsequent events through July 18, 2022, the date these Interim Management's Discussion & Analysis - Quarterly Highlights were approved and authorized for issue. There were no material subsequent events that required recognition or additional disclosure in the Interim Management's Discussion & Analysis - Quarterly Highlights.

Risk Factors

The Annual MD&A for the year ended February 28, 2022, dated June 23, 2022 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 2023 fiscal year and to the date of this report, other than the impact of the COVID-19 pandemic on the general North American economy, and more specifically on PUDO's operations. This continues to be monitored by PUDO's management team as their customers, partners and members recover from the impact of the COVID-19 outbreak.